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24 March 2010

THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

POST OFFICE LIMITED

ROYAL MAIL HOLDINGS PLC

ROYAL MAIL GROUP LIMITED

FUNDING AGREEMENT

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THIS AGREEMENT is made on 24 March 2010

BETWEEN:

- (1) **THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS** of 1 Victoria Street, London SW1H 0ET (the *Secretary of State*);
- (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*);
- (3) **ROYAL MAIL HOLDINGS PLC**, a company incorporated in England and Wales (registered number 4074919) and whose registered address is 100 Victoria Embankment, London EC4Y 0HQ (*Holdings*); and
- (4) **ROYAL MAIL GROUP LIMITED**, a company incorporated in England and Wales (registered number 4138203) and whose registered address is 100 Victoria Embankment, London EC4Y 0HQ (*Mails*).

WHEREAS:

(A) All of the issued share capital of Holdings is beneficially owned by Government, all of the issued share capital of Mails is beneficially owned by Holdings and all of the issued share capital of POL is beneficially owned by Mails.

(B) The Secretary of State has requested POL to continue to provide a national network of post office Branches across the United Kingdom and wishes to entrust to POL the provision of certain services of general economic interest over that network.

(C) The Secretary of State has agreed to enter into this Agreement, which shall supersede the 2007 Funding Agreement, in order to provide funding to POL to enable it to continue to provide services of general economic interest across that national network.

(D) It is acknowledged by the Parties that POL requires a long term funding solution to restore its solvency and that the funding implemented by this Agreement does not complete that process.

NOW THIS AGREEMENT WITNESSES as follows:

1. INTERPRETATION

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

2007 Funding Agreement means the funding agreement dated 16 May 2007 between the Secretary of State, POL, Holdings and Mails.

Act means the Postal Services Act 2000.

Branch means any retail outlet of POL, including any post office counter at a retail outlet 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.

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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 introduced on 1 April 2009.

Community Network means those post office Branches providing the services described in clause 12.1(a) (*Access Criteria*), which Branches are from time to time loss-making to POL.

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.

Discussion Period has the meaning given to it in clause 8.5 (*POL Working Capital Facility*).

Effective Date has the meaning given to it in clause 8.1 (*POL Working Capital Facility*).

Entrustment Letter means the letter dated on or around the date of this Agreement in the form set out at Appendix B (*POL Entrustment Letter*) from the Secretary of State to POL and countersigned by POL.

Existing Entrustment Letter means the letter dated 8 November 2007 entitled "Entrustment of Post Office Limited with the Delivery of certain Public Services" 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 1 (*Fundamental Change*).

Funding Period means the period from the date of this Agreement until 30 March, 2012.

GCA Contract means the agreement dated 5 March 2009 between POL and the Secretary of State for Work and Pensions for the provision of Government Card Account Services.

Government means Her Majesty's Government.

Network Subsidy Order has the meaning given to it in clause 7.3(a)(i) (*Government funding for the Community Network*).

Network Subsidy Payment means a payment by the Secretary of State in a Financial Year of an amount calculated in accordance with Schedule 3 (*Calculation of Network Subsidy Payment*) to compensate POL for the cost of providing services of general economic interest over the Community Network during that Financial Year.

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NSP Statement has the meaning given to it in clause 7.10 (*Government funding for the Community Network*).

Parties means the parties to this Agreement.

POL Banking Consultation means the consultation launched on 2 December 2009 into the development of banking and financial services provided by POL.

POL Investment Case means the document dated 20 December, 2006 and entitled "Transforming Post Office Limited: The Investment Case" as amended in May, 2007 to take into account certain factors as described therein.

POL Working Capital Facility means the £1,150,000,000 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 and restated on 16 May 2007 and further amended on 18 April, 2008.

Potential Fundamental Change has the meaning given to it in Part B of Schedule 1 (*Potential Fundamental Change*).

Relevant Payment has the meaning given to it in clause 5 (*Delayed payment*).

Remedy Period has the meaning given to it in clause 5 (*Delayed payment*).

Required Payment Date has the meaning given to it in clause 5 (*Delayed payment*).

Restated POL Working Capital Facility Agreement means the POL Working Capital Facility, as amended by this Agreement, the terms of which are set out in Appendix A (*Restated POL Working Capital Facility Agreement*).

Royal Mail Group means Holdings and each of its Subsidiaries.

Rural Areas means those communities which are not Urban Areas.

State Aid Clearance means, in respect of any payment to be made to POL under this Agreement, or any amendment to the POL Working Capital Facility, confirmation by the European Commission that such payment or amendment is compatible with the requirements on state aid of the Treaty on the functioning of the European Union.

Subsidiary means, in relation to a person, an entity of which that person owns directly or indirectly more than fifty per cent. (50%) of the share capital or whose management and policies that person directly or indirectly has the power to direct whether through the ownership of shares, contract or otherwise.

Supporting Statement has the meaning given to it in clause 7.10 (*Government funding for the Community Network*).

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 7.13 (*Government funding for the Community Network*).

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

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- (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 or Schedule shall be a reference to a clause of, or Schedule 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. 2007 FUNDING AGREEMENT

With effect from the date of this Agreement, and subject to clause 3 (*POCA adjustment*) below, the Parties irrevocably and unconditionally release and discharge one another from their respective obligations and liabilities (actual or contingent) arising under, or pursuant to, the terms of the 2007 Funding Agreement (including, for the avoidance of doubt, the obligation of the Secretary of State to make any payments to POL for the 2010/11 Financial Year but excluding the provisions of clause 22 (*Confidentiality*) therein).

3. POCA ADJUSTMENT

3.1 It is acknowledged that State Aid Clearance for payments pursuant to clause 6 of the 2007 Funding Agreement has been obtained.

3.2 The Secretary of State agrees to make a payment of six million, seven hundred thousand pounds (£6,700,000) (the *Final POCA Adjustment*) on 1 April, 2010 pursuant to clause 6 of the 2007 Funding Agreement.

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3.3 The Parties hereby acknowledge that payment of the Final POCA Adjustment represents the final payment from the Secretary of State pursuant to clause 6 of the 2007 Funding Agreement.

4. CONDITIONS

4.1 The obligation of the Secretary of State under this Agreement to make any Network Subsidy Payment is conditional on all necessary State Aid Clearances having been obtained for the making of that payment.

4.2 It is acknowledged that State Aid Clearance for the payment of the Network Subsidy Payment in respect of the Financial Year 2010/11 has been obtained.

4.3 Each of the amendments made to the POL Working Capital Facility pursuant to this Agreement is conditional on State Aid Clearance having been obtained for that amendment.

4.4 Each obligation of POL, Holdings and Mails under clauses 7.1(b) (*Government funding for the Community Network*), 9 (*POL Banking Consultation*), 10 (*Mails' acknowledgement*), 11 (*Holdings' acknowledgement*), 12 (*Access criteria*) and 13 (*Public consultation, communication and equality*) of this Agreement, and the obligations of POL under the Entrustment Letter, in each case in the Financial Year 2011/12, is conditional on the conditions referred to in clause 4.1 having been met in respect of the Network Subsidy Payment for that Financial Year.

Deliverables

4.5 On the date of this Agreement, POL, Mails and Holdings 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).

4.6 Within five (5) Business Days of the date of this Agreement, POL agrees to deliver to the Secretary of State its forecast cashflow statements for the Financial Years 2010/11 and 2011/12, as calculated at the date of this Agreement.

Fundamental Change

4.7 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, Holdings and Mails under clauses 7.1 (*Government funding for the Community Network*), 9 (*POL Banking Consultation*), 10 (*Mails' acknowledgement*), 11 (*Holdings' acknowledgement*), 12 (*Access criteria*) and 13 (*Public consultation, communication and equality*) of this Agreement and the obligations of POL under the Existing Entrustment Letter or the Entrustment Letter (as applicable), shall immediately terminate upon the occurrence of a Fundamental Change.

4.8 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 4.7 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

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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).

4.9 Until the date on which the last 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.

5. DELAYED PAYMENT

If any Network Subsidy 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 7.8 (*Government funding for the Community Network*) 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.

6. STATE AID CLEARANCES

6.1 The Secretary of State agrees to:

- (a) prepare as soon as reasonably practicable, in consultation with Mails and POL, an application for State Aid Clearance for:
 - (i) all arrangements under this Agreement requiring such State Aid Clearance (to the extent not already obtained) including any payments to POL under clause 7 (*Government funding for the Community Network*) in respect of the Financial Year 2011/12 and any amendments to the POL Working Capital Facility; and
 - (ii) the extension of the POL Working Capital Facility to 31 March 2016;
- (b) pursue such State Aid Clearance application in good faith and expeditiously;
- (c) keep Mails and 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.

6.2 As at the date of this Agreement the Secretary of State is targeting the obtaining of the State Aid Clearance referred to in clause 6.1 by 31 March, 2011 and the Parties shall use their reasonable endeavours to obtain the State Aid Clearance by such date, it being

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acknowledged that a mere failure to achieve that target is not of itself a breach of this clause 6.2.

7. GOVERNMENT FUNDING FOR THE COMMUNITY NETWORK

7.1 POL undertakes to the Secretary of State to provide:

- (a) from the date of this Agreement until the Effective Date, the services of general economic interest entrusted to it by the Existing Entrustment Letter; and
- (b) from the Effective Date until the expiry of the Funding Period, the services of general economic interest entrusted to it by the Entrustment Letter.

7.2 Subject to clause 4.1 (*Conditions*) the Secretary of State agrees to make to POL in each of the Financial Years 2010/11 and 2011/12 a Network Subsidy Payment in the amount specified in clause 7.8 to enable POL to maintain the Community Network and to provide services of general economic interest over the Community Network.

7.3 The Network Subsidy Payment for each of the Financial Years 2010/11 and 2011/12 shall be made in one or more of the following ways to be determined by the Secretary of State in his absolute discretion (but having consulted with Holdings, Mails and POL as to the impact thereof on the profit and loss account of Holdings, Mails and POL respectively and the tax treatment of such payments):

- (a) a payment under a subsidy scheme introduced under section 103 of the Act by means of:
 - (i) the Post Office Network Subsidy Scheme Order 2007 (SI 2007/962) (the *Network Subsidy Order*); or
 - (ii) a new order, amending the subsidy scheme to increase the maximum amount payable under it in any twelve (12) month period,provided that:
 - (iii) the necessary statutory instrument to permit such payment has been approved by an affirmative resolution of each House of Parliament; and
 - (iv) any necessary consent to the making of such statutory instrument has been given by the Lords Commissioners of Her Majesty's Treasury;
- (b) a payment in cash by the Secretary of State to Mails under section 8 of the Industrial Development Act 1982 on the basis that immediately upon receipt of that payment Mails shall use those funds to subscribe for shares in POL, provided that:
 - (i) an affirmative resolution of the House of Commons in respect of that payment has been passed; and
 - (ii) any necessary consent to the making of such payment has been obtained from Her Majesty's Treasury;
- (c) a payment in cash by the Secretary of State to Holdings under section 8 of the Industrial Development Act 1982 on the basis that immediately upon receipt of that payment, Holdings shall use those funds to subscribe for shares in Mails and

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immediately thereafter Mails shall use those funds to subscribe for shares in POL, provided that:

- (i) an affirmative resolution of the House of Commons in respect of that payment has been passed; and
 - (ii) any necessary consent to the making of such payment has been obtained from Her Majesty's Treasury;
- (d) a payment in cash by the Secretary of State to POL under section 8 of the Industrial Development Act 1982, provided that:
- (i) an affirmative resolution of the House of Commons in respect of that payment has been passed; and
 - (ii) any necessary consent to the making of such payment has been obtained from Her Majesty's Treasury; or
- (e) the payment of such amount by the Secretary of State under section 64 of the Act by way of subscription for shares in Holdings on the basis that immediately upon receipt of that payment, Holdings shall use those funds to subscribe for shares in Mails and immediately thereafter Mails shall use those funds to subscribe for shares in POL.

7.4 The Secretary of State acknowledges that, without prejudicing his discretion to determine the method of payment of the Network Subsidy Payment referred to in clause 7.3 above, it is his current expectation that:

- (a) the Network Subsidy Payment for Financial Year 2010/11 will be made in the manner described in clause 7.3(a)(i) above; and
- (b) the Network Subsidy Payment for Financial Year 2011/12 will be made in the manner described in clause 7.3(a)(ii) above.

However, if, having determined in his discretion to make either or both of the Network Subsidy Payments pursuant to either of the mechanics described in clause 7.3(a) above the Secretary of State fails to obtain a necessary approval to make either or both of the Network Subsidy Payments by such means, then the relevant Network Subsidy Payment(s) shall be made by some other mechanism described in clause 7.3.

7.5 It is acknowledged by the Parties that Network Subsidy Payments received by POL under a network subsidy scheme under section 103 of the Act would be treated as revenue in POL's accounts, which has an impact on POL's operating profit. Should any Network Subsidy 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 Royal Mail Group as a whole in such Financial Year shall be reduced by the amount of any Network Subsidy Payment (or part thereof) received in any such manner in that Financial Year.

7.6 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 Network Subsidy Order to increase the maximum amount payable under the Network Subsidy Order in any period of twelve (12) months in order to make any payment under this Agreement which it is

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determined by the Secretary of State in accordance with clause 7.3 will be made pursuant to section 103 of the Act;

- (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 7.3 will be made pursuant to section 8 of the Industrial Development Act 1982;
- (c) to keep Mails and POL informed as to the progress of such approval(s); and
- (d) to notify Mails and POL in writing as soon as reasonably practicable after such approval(s) have been obtained.

7.7 Any payment to Mails or Holdings under any sub-clause of clause 7.3 shall be held by Mails or Holdings, as applicable, upon trust to apply it immediately in the manner required by that sub-clause and for no other purpose.

7.8 The amount of the Network Subsidy Payment payable in each of the Financial Years 2010/11 and 2011/12 shall be calculated in accordance with Schedule 3 (*Calculation of Network Subsidy Payment*) but subject always to the maximum amount specified in clause 7.9. The Network Subsidy Payments shall be made by way of payment on 1 April of each relevant Financial Year of the maximum amount payable for that Financial Year as specified in clause 7.9 (subject to reimbursement in accordance with clause 7.11).

7.9 The maximum amount of the Network Subsidy Payment in the Financial Year 2010/11 shall be one hundred and fifty million pounds (£150,000,000) and in the Financial Year 2011/12 shall be one hundred and eighty million pounds (£180,000,000). In ascertaining for any purpose of this clause 7 the amount or maximum amount of any Network Subsidy Payment no account shall be taken of: (i) any VAT Amount which may be payable under clause 7.13; or (ii) the benefit of any interest receivable on any amount held by POL prior to its expenditure.

7.10 Within three months following the signature of POL's accounts in respect of each of the Financial Years 2009/10, 2010/11 and 2011/12, POL shall provide to the Secretary of State a statement (the *NSP Statement*) setting out in writing the actual amount of the Network Subsidy Payment for that Financial Year, the supporting calculation and a clear explanation of how the actual amount of the Network Subsidy Payment has been calculated. Each NSP Statement shall be accompanied by a statement (the *Supporting Statement*) from an independent firm of auditors confirming:

- (a) that the NSP Statement has been properly prepared in accordance with the requirements of Schedule 3 (*Calculation of Network Subsidy Payment*) and any additional conditions imposed by any relevant State Aid Clearance; and
- (b) that while carrying out its audit 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 Network Subsidy Payments as against the terms of this Agreement or of any applicable State Aid Clearance.

For the avoidance of doubt the independent firm of auditors will not be responsible for determining whether the allocation of costs in paragraph 3 of Schedule 3 (*Calculation of Network Subsidy Payment*) is appropriate or whether the profit in paragraph 4 of Schedule 3 (*Calculation of Network Subsidy Payment*) is reasonable. POL agrees to use reasonable

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endeavours to engage such independent firm of auditors on the basis that, if requested by the Secretary of State and on such terms as the auditors may agree:

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

7.11 If:

- (a) in respect of Financial Year 2011/12 the actual amount of the Network Subsidy Payment as set out in the NSP Statement for the relevant Financial Year is less than one hundred and eighty million pounds (£180,000,000); and/or
- (b) in respect of Financial Year 2009/10 or 2010/11 the actual amount of the Network Subsidy Payment as set out in the NSP Statement for the relevant Financial Year is less than one hundred and fifty million pounds (£150,000,000),

POL shall, within ten (10) Business Days of receipt of the NSP Statement referred to in clause 7.10, reimburse to the Secretary of State, without deduction, an amount equal to the difference.

7.12 POL shall use each Network Subsidy Payment only to meet the direct and indirect costs associated with the provision by POL of services of general economic interest over the Community Network, as described in Schedule 3 (*Calculation of Network Subsidy Payment*) (or to make any reimbursement required to be made by POL pursuant to clause 7.11) and only for purposes permitted by any State Aid Clearance applicable to it.

7.13 It is the mutual opinion of the Parties that the Network Subsidy Payments do 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 the Network Subsidy Payments should not give rise to any liability of POL (or any other member of the Royal Mail 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 the Network Subsidy 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 Royal Mail Group) and that in consequence POL (or such other member of the Royal Mail Group) is liable to account for VAT in respect of the receipt of any of the Network Subsidy 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.

7.14 If Her Majesty's Revenue and Customs issues a determination as referred to in clause 7.13, 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 Party) to obtain a review by Her Majesty's Revenue

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and Customs of that determination; and POL (or such other Party, 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 7.13, POL shall promptly refund to the Secretary of State the amount of such corresponding payment.

7.15 Upon the payment of the Network Subsidy Payment for the Financial Year 2011/12, the Parties irrevocably and unconditionally release and discharge one another from their respective obligations and liabilities (actual or contingent) arising under, or pursuant to, the terms of clause 6 of the 2007 Funding Agreement.

7.16 The Secretary of State acknowledges the expectation of the Parties that ongoing Network Subsidy Payments will 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 maintain a loss-making Branch network following the Funding Period.

8. POL WORKING CAPITAL FACILITY

8.1 With effect from the date on which State Aid Clearance is granted by the European Commission in respect of the changes to be made to the POL Working Capital Facility (the *Effective Date*), the POL Working Capital Facility shall be amended and restated so that it shall be read and construed for all purposes as set out in Appendix A (*Restated POL Working Capital Facility Agreement*).

8.2 In connection with the amendments made to the POL Working Capital Facility, the Repeating Representations (as defined in the POL Working Capital Facility) are deemed to be made by POL (by reference to the facts and circumstances then existing) on the date of this Agreement and on the Effective Date, in each case, as if references to the POL Working Capital Facility are references to this Agreement and the Restated POL Working Capital Facility Agreement.

8.3 Notwithstanding the execution of this Agreement, in respect of the period prior to the Effective Date, the existing rights and obligations under the POL Working Capital Facility shall continue in full force and effect and the provisions of this Agreement shall be without prejudice to any rights, remedies, obligations or liabilities of any party accrued under the POL Working Capital Facility.

8.4 The Parties hereby confirm that the other Finance Documents (as defined in the POL Working Capital Facility) shall remain in full force and effect notwithstanding the amendments to the POL Working Capital Facility effected pursuant to this Agreement from the Effective Date.

8.5 During the thirty (30) Business Day period after each anniversary of this Agreement (each, a *Discussion Period*), the Parties shall, in consultation with Her Majesty's Treasury, engage in discussions in good faith about whether it is appropriate to reduce the maximum overall size of the POL Working Capital Facility (as amended from time to time) and the Parties shall implement any reduction that is agreed during a Discussion Period as soon as reasonably practicable after the expiry of that Discussion Period.

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9. POL BANKING CONSULTATION

POL agrees to comply with the obligations set out in Schedule 4 (*POL Banking Consultation*).

10. MAILS' ACKNOWLEDGMENT

10.1 Mails agrees that it shall (insofar as is lawful and consistent with the fiduciary duties of the directors of Mails in the context of Mails' insolvency and appropriate for a parent company in its position) take all necessary steps, including minimising any downside for POL, and take responsibility for requiring that POL takes all necessary steps, to execute the strategy agreed upon for POL wholly within the financial resources made available to POL by this Agreement.

10.2 In the context of this clause 10, Mails agrees that it will consider in good faith any request to make available to POL inter-company debt facilities, where such request is received from POL or the Government during the Funding Period.

11. HOLDINGS' ACKNOWLEDGMENT

Holdings acknowledges the steps required to be taken by Mails under clause 9 (*Mails' acknowledgement*) and agrees to take all necessary steps appropriate for a parent company in its position (and acknowledging that Mails is the principal material asset of Holdings) to procure that Mails takes those steps.

12. ACCESS CRITERIA

12.1 Without prejudice to its obligations pursuant to clause 7.1 (*Government funding for the Community Network*), 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 services offered in accordance with the GCA Contract;
 - (iii) bill payment facilities; and
 - (iv) information about other services which may be available from POL outlets from time to time; 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 per cent. (99%) of the UK population are within three (3) miles of the nearest Branch;

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- (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;
 - (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.

12.2 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.

12.3 Reference to "Branch" in this clause 12 shall mean a Branch providing the services described in clause 12.1(a).

13. PUBLIC CONSULTATION, COMMUNICATION AND EQUALITY

13.1 POL shall at all times comply with the Code of Practice as amended, varied, supplemented or substituted from time to time.

13.2 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.

14. CONSENTS

The Secretary of State hereby consents, for all purposes of the articles of association of Holdings and any other document or arrangement under which its consent or approval is required, and Holdings hereby consents, for all purposes of the articles of association of Mails, to the execution and performance by Holdings, Mails and POL of this Agreement and the documents and arrangements to be entered into pursuant to, or otherwise contemplated by, this Agreement. Each of the Secretary of State and Holdings 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.

15. CONFIDENTIALITY

15.1 Each Party undertakes to each other Party that, subject to clause 15.2, it shall treat as strictly confidential all confidential information. For the purposes of this clause 15, *confidential information* shall mean:

- (a) the provisions of this Agreement; and

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(b) the negotiations relating to this Agreement.

15.2 Clause 15.1 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 15;
- (b) to its professional advisers who are bound to such Party by a duty of confidence which applies to the confidential information disclosed;
- (c) 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;
- (d) 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 15;
- (e) 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;
- (f) as such Party, acting reasonably, considers necessary in connection with any investigations, inquiries, or actual or threatened proceedings in connection with Holdings, Mails or POL or any of their respective directors;
- (g) in the case of Holdings, Mails or POL, to the extent that its board of directors acting reasonably, considers disclosure necessary from time to time in its statutory accounts;
- (h) 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;
- (i) to the extent required by any Parliamentary obligation;
- (j) 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;
- (k) to the European Commission for the purposes of obtaining State Aid Clearance; or
- (l) with the prior written consent of the other Parties.

15.3 If a Party becomes required, in circumstances contemplated by clause 15.2(c), (f) or (g) to disclose any confidential information, such Party shall, to the extent permitted by law, give to each 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 Parties as to the extent of such disclosure.

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16. NOTICES

16.1 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 Parties and marked for the attention of the person or department therein specified.

16.2 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	0207 215 3221
Holdings	Company Secretary	100 Victoria Embankment, London EC4Y 0HQ	020 7530 7104
Mails	Company Secretary	100 Victoria Embankment, London EC4Y 0HQ	020 7530 7104
POL	Company Secretary	148 Old Street, London EC1V 9HQ	020 7751 6150

16.3 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.

16.4 Each Party undertakes to notify all of the other Parties 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 16.2.

16.5 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

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- (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 16.2.

17. ENTIRE AGREEMENT

17.1 This Agreement and any documents referred to in it or annexed to it constitute the whole and only agreement among the Parties or any of them relating to its subject matter and, for the avoidance of doubt, supersedes the 2007 Funding Agreement and any other prior arrangement, understanding or agreement between the Parties or any of them relating to the subject matter of this Agreement.

17.2 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.

17.3 Except in the case of fraud, no Party shall have any right of action against any 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.

17.4 For the purposes of this clause 17, *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.

18. GENERAL

Secretary of State

18.1 Nothing in this Agreement fetters the powers conferred on the Secretary of State by the Act.

Costs

18.2 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

18.3 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 save for the rights of Her Majesty's Treasury pursuant to clause 8.5 (*POL Working Capital Facility*).

Counterparts

18.4 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.

Partial invalidity

18.5 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

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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

18.6 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 any 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.

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

18.8 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

18.9 Without prejudice to any other rights or remedies that any 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

18.10 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.

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

EXECUTED by the Parties on the date first written above.

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

GRO

Signature:.....
Name: OLIVER GRIFITHS
Title: DEPUTY DIRECTOR, SHAREHOLDER EXECUTIVE

SIGNED by
for and on behalf of
POST OFFICE LIMITED

GRO

Signature:.....
Name: MIKE MOORES
Title: FINANCE DIRECTOR

SIGNED by
for and on behalf of
ROYAL MAIL HOLDINGS PLC

GRO

Signature:.....
Name: SUE WHALLEY
Title: GROUP STRATEGY DIRECTOR

SIGNED by
for and on behalf of
ROYAL MAIL GROUP LIMITED

GRO

Signature:.....
Name: SUE WHALLEY
Title: GROUP STRATEGY DIRECTOR

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SCHEDULE 1

DELIVERABLES

1. A certified copy of the resolution of the board of POL:
 - (a) approving the terms of, and the transactions contemplated by, this Agreement and the Restated POL Working Capital Facility Agreement and resolving that it execute and perform this Agreement and, from the Effective Date, the Restated POL Working Capital Facility Agreement;
 - (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 Restated POL Working Capital Facility Agreement.
- 1.2 A certified copy of the resolution of the board of Mails and the board of Holdings:
 - (a) approving the terms of, and the transactions contemplated by, this Agreement and resolving that it execute and perform this Agreement;
 - (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.

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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.

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SCHEDULE 3

CALCULATION OF NETWORK SUBSIDY PAYMENT

The amount of the Network Subsidy Payment shall (subject to clause 7.9 (*Government funding for the Community Network*)) be equal to all the direct and indirect costs associated with the provision by POL of services of general economic interest (*SGEI*) over the Community Network, including:

1. all variable costs of sustaining the Community Network and providing the SGEI and non-SGEI services over it; plus
2. all fixed costs incurred solely in providing the Community Network; plus
3. such proportion of fixed costs common to both the Community Network and other activities of POL as is appropriate to be allocated to the Community Network (based on generally accepted cost accounting principles); plus
4. a reasonable profit in providing the SGEI activities over the Community Network; less
5. the revenues received from the SGEI and non-SGEI activities attributable to the Community Network.

For the purposes of paragraph 3 of this definition the fixed costs common to both the Community Network and other activities of POL shall include, without limitation, contributions to the Royal Mail Group pension funds, interest costs, group central cost allocations, capital expenditure and contributions to the cost of any employee share scheme or other incentivisation arrangements in which staff and/or agents of POL participate.

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SCHEDULE 4

POL BANKING CONSULTATION: NEW PRODUCTS AND SERVICES

References to "Branch" in this Schedule 4 shall mean a Branch providing the services described in clause 12.1(a) (*Access criteria*).

References to "financial institutions" in this Schedule 4 shall include Her Majesty's Treasury.

Access to bank accounts

1. POL agrees to continue discussions, in good faith, with Santander UK plc in relation to allowing customers to access their Santander current accounts at POL Branches.
2. POL agrees to continue discussions, in good faith, with The Royal Bank of Scotland in relation to allowing customers to access their current and business accounts (including NatWest accounts) at POL Branches.

Children's savings account

3. POL agrees to procure the launch of a children's savings account through the Post Office within the next twelve months, subject to:
 - (a) any necessary consents and approvals being granted for the provision of the children's savings account;
 - (b) the co-operation of any financial institution to the extent necessary to enable the children's savings account to be provided; and
 - (c) POL being able to make an appropriate commercial return from the children's savings account.

Saving gateway account

4. POL agrees to procure the launch of a saving gateway account through the Post Office in 2010, subject to:
 - (a) Government funding of sixteen million pounds (£16,000,000) (or such other amount as agreed by Government and POL) being made available to POL as follows:
 - (i) ten million pounds (£10,000,000) upon State Aid Clearance being granted for the funding referred to in paragraph (a) above;
 - (ii) three million pounds (£3,000,000) during the Financial Year 2011/12; and
 - (iii) three million pounds (£3,000,000) during the Financial Year 2012/13,

subject to any adjustments that may be required to the above instalments should the Government and POL agree that funding for the saving gateway account will be greater or less than sixteen million pounds (£16,000,000);

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- (b) State Aid Clearance being granted for the funding referred to in paragraph (a) above and the saving gateway account being accepted as an SGEI for the purpose of the POL Working Capital Facility and Entrustment Letter;
- (c) any necessary consents and approvals being granted for the implementation of the saving gateway account; and
- (d) the co-operation of any financial institution to the extent necessary to enable the saving gateway account to be provided.

Current account

5. POL agrees to procure the launch of a current account through the Post Office as soon as the directors of POL consider, acting reasonably, that market conditions are appropriate, subject to:

- (a) any necessary consents and approvals being granted for the implementation of the current account;
- (b) the co-operation of any financial institution to the extent necessary to enable the current account to be provided; and
- (c) POL being able to make an appropriate commercial return from such current account.

Mortgages

6. POL agrees to procure the offer of mortgages, with a 90 per cent. loan-to-value ratio, specifically targeted at first-time buyers and priced according to risk, subject to:

- (a) any necessary consents and approvals being granted for the provision of such mortgages;
- (b) the co-operation of any financial institution to the extent necessary to enable such mortgages to be provided; and
- (c) POL being able to make an appropriate commercial return from such mortgages.

7. POL agrees to use such rights and influence as it has to seek a substantial increase in lending secured by such mortgages, aiming to double the value of that mortgage book in the Financial Year 2010/11.

Weekly budgeting account

8. POL agrees to work with the Government to determine the features of a weekly budgeting account that could help people on low incomes to manage their household budgets and take advantage of discounts for using direct debit to pay their utility bills. Following agreement as to its features, terms and conditions POL will procure the launch of such an account through the Post Office, subject to:

- (a) such external funding as may be required to provide an appropriate commercial return being made available for the weekly budgeting accounts (such amount to be agreed between Government and POL);

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- (b) any necessary State Aid Clearance being granted for the funding referred to in paragraph (a) above;
- (c) the account being accepted as an SGEI for the purpose of the POL Working Capital Facility and Entrustment Letter;
- (d) any necessary consents and approvals being granted for the provision of the weekly budgeting account; and
- (e) the co-operation of any third party to the extent necessary to enable the weekly budgeting account to be provided.

Credit unions

9. POL agrees to take steps to strengthen the relationship with credit unions, building on local arrangements to create a "Best Practice Guide" for Sub postmasters on developing closer working links with credit unions.

10. POL agrees to make a link available between credit unions and POL Branches allowing people to access credit union loans, current accounts and saving accounts through POL Branches, subject to:

- (a) such funding as may be required to provide an appropriate commercial return being made available for such link (by way of a community finance levy or alternative funding) such amount to be agreed between Government and POL);
- (b) any necessary State Aid Clearance being granted for the funding referred to in paragraph (a) above;
- (c) the account being accepted as an SGEI for the purpose of the POL Working Capital Facility and Entrustment Letter;
- (d) a single compatible platform being made available to POL to enable such link to be provided;
- (e) any necessary consents and approvals being granted for the implementation and operation of such link; and
- (f) the co-operation of ABCUL and of any credit union or financial institution to the extent necessary to establish and operate such link.

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APPENDIX A
RESTATED POL WORKING CAPITAL FACILITY AGREEMENT

EXECUTION VERSION

DATED 17TH OCTOBER 2003

as amended and restated on 16 May 2007, amended on 18 April 2008
and further amended and restated on 24 March 2010

POST OFFICE LIMITED

and

SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

CREDIT FACILITIES AGREEMENT

EXECUTION VERSION

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THIS AGREEMENT is dated 17th October 2003, was amended and restated on 16 May 2007 and further amended on 18 April 2008 and is further amended and restated on 24 March 2010 and made between:

- (1) **POST OFFICE LIMITED** (company number 02154540) (the "**Company**"); and
- (2) **THE SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS (FORMERLY THE SECRETARY OF STATE FOR TRADE AND INDUSTRY)** (the "**Lender**").

WHEREAS:

- (A) The Company requires funds in order to meet its requirements relating to Cash Items and Near-Cash Items (in each case to the extent that they are connected with the provision of SGEI).
- (B) The Lender intends, pursuant to section 64 of the Postal Services Act 2000, to purchase certain debt securities issued by the Company.

IT IS AGREED as follows:

INTERPRETATION

1. DEFINITIONS AND INTERPRETATION

1.1 Definitions

In this Agreement:

"Additional Borrower" means a company which becomes an Additional Borrower in accordance with Clause 19 (*Changes to the Obligors*).

"Advance" means an advance made or to be made under the Facility (by way of purchase of Debt Securities) or the principal amount outstanding for the time being of that advance.

"A&L" means Alliance & Leicester plc (company number 03263713).

"ALCB" means Alliance & Leicester Commercial Bank plc (company number 01950000).

"Authorisation" means an authorisation, consent, approval, resolution, licence, exemption, filing, notarisisation or registration.

"Authorised Investment" has the meaning given to it in Clause 16.12 (*Authorised investments*).

"Availability Period" means the period to and including 31 March 2016.

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"Available Commitment" means the Commitment minus:

- (A) the amount of any outstanding Advances other than, in relation to any proposed Utilisation, the amount of any Advances that are due to be repaid or prepaid on or before the proposed Utilisation Date; and
- (B) in relation to any proposed Utilisation, the amount of any Advances that are due to be made on or before the proposed Utilisation Date.

"Borrower" means the Company or an Additional Borrower unless it has ceased to be a Borrower in accordance with Clause 19 (*Changes to the Obligors*).

"Business Day" means a day (other than a Saturday or Sunday) on which banks are open for general business in London.

"Cancellation of Utilisation Request" means a Full Cancellation of Utilisation Request or a Part Cancellation of Utilisation Request.

"Cash Items" means each of:

- (A) Cash-on-hand;
- (B) Foreign Currency-on-hand;
- (C) Cash-in-transit; and
- (D) Cash-at-bank,

but excluding any Note Circulation Scheme Cash provided that, for the purposes of calculating the amount of Cash Items at any time, any amount included as a Cash Item under paragraph (A), (B), (C) or, as the case may be, (D) above shall not be included (i) as a Cash Item under the other paragraphs above and/or (ii) as a Near-Cash Item.

"Cash Centre" means a centre or warehouse, including the secure stock centre used as a distribution centre for foreign currency and excluding any secure locations designated (for the purposes of the Note Circulation Scheme) as qualifying cash centres by the Bank of England and the Company, established by the Company for the purpose of secure storage of the cash and other similar resources of the Company and/or any of its Subsidiaries.

"Cash-at-bank" means the net amount (the **"relevant net amount"**) of the balance(s) of all the Client Bank Account(s) provided that, for the purposes of calculating the aggregate amount of Cash Items at any time, (1) the relevant net amount shall be deducted from the other elements of Cash Items if the relevant net amount is a debit balance and (2) the relevant net amount shall be added to the other elements of Cash Items if the relevant net amount is a credit balance.

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"Cash-on-hand" means bank notes and coins (denominated in sterling) which are held by or on behalf of the Company and/or any of its Subsidiaries in any Post Office or Cash Centre but excluding any bank notes (denominated in sterling) contained in any automated teller machine owned and operated by a person other than the Company or any of its Subsidiaries.

"Cash-in-transit" means bank notes and coins (whether denominated in sterling or any other currency) which are being transported (by whatever means) between Post Offices, Cash Centres or, as the case may be, any Post Office and any Cash Centre.

"Cheques-in-clearing" means Relevant Cheques held by a supplier of cheque-processing services or any bank.

"Cheques-in-transit" means Relevant Cheques which are being transported (by whatever means) between any of the following: any Post Office, any Cash Centre, any processing centre or any bank.

"Cheques-on-hand" means Relevant Cheques which are held by or on behalf of the Company and/or any of its Subsidiaries in any Post Office or Cash Centre.

"Client Bank Account" means each account (held with a bank or otherwise) utilised by the Company and/or its Subsidiaries for the purposes of making or receiving payments in relation to any Intermediary Transaction.

"Commitment" means:

- (A) in relation to the first Relevant Period, the amount notified by the Lender to the Company pursuant to Clause 3.1 (Initial conditions precedent) (as the same may be increased in accordance with Clause 4.5 (*Re-setting Commitment*)); and
- (B) in relation to each Relevant Period (other than the first Relevant Period), the amount determined in accordance with Clause 4.5 (*Re-setting Commitment*),

in each case, to the extent not cancelled or reduced under this Agreement.

"Debt Security" means any debt security substantially in the form set out in Schedule 3 (*Form of Debt Security*) issued or to be issued in respect of any Advance or the principal amount outstanding for the time being of such Advance.

"Default" means an Event of Default or any event or circumstance specified in Clause 17 (*Events of Default*) which would (with the expiry of a grace period, the giving of notice, the making of any determination under the Finance Documents or any combination of any of the foregoing) be an Event of Default.

"Deposit Agreement" means the deposit agreement to be entered into between the Company, the Lender and DMO.

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"**Disclosure Letter**" means the letter dated the same date as this Agreement delivered by or on behalf of the Company disclosing certain matters for the purposes of this Agreement.

"**DMO**" means the Debt Management Office of Her Majesty's Treasury.

"**DWP**" means the Department for Work and Pensions.

"**Estimating Debtor Receivables**" means:

- (A) in relation to each Intermediary Transaction under which the Company or any of its Subsidiaries (the "**relevant intermediary**") receives sums from any governmental agency or other person (a "**client**") in advance, and for the purposes, of disbursing the same to any person(s) entitled to be paid such sums ("**customer(s)**") who visit(s) a Post Office for the purposes of receiving the same (where the sums received by the relevant intermediary from the client are based on estimates of the amounts to be disbursed to the relevant customer(s) in respect of such sums), the amount payable by the client which is equal to the amount by which (a) the aggregate amount paid to relevant customer(s) by the relevant intermediary exceeds (b) the amounts received by the relevant intermediary from the client in advance, and for the purposes, of those payments to the customer(s); and
- (B) in relation to each Intermediary Transaction under which the Company or any of its Subsidiaries (the "**relevant intermediary**") disburses sums to any governmental agency or other person (a "**client**") in circumstances where (i) the relevant intermediary receives sums from another person or other persons ("**customer(s)**") for the purposes of paying the same to the client and (ii) the sums disbursed to the relevant client are based on estimates of the amounts received or to be received by the relevant intermediary from the relevant customer(s), the amount payable by the client which is equal to the amount by which (a) the aggregate amount disbursed to the client by the relevant intermediary exceeds (b) the aggregate amount received by the relevant intermediary from the relevant customer(s) for the purposes of making the relevant disbursements to the client.

"**Event of Default**" means any event or circumstance specified as such in Clause 17 (*Events of Default*).

"**Facility**" means the debt securities facility made available under this Agreement as described in Clause 2.1 (*Facility*).

"**Final Maturity Date**" means 31 March 2016.

"**Finance Document**" means this Agreement, each Debt Security, the Deposit Agreement, the Security Documents, the Intercreditor Agreement and any other document designated as such by the Lender and the Borrower in writing.

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"Financial Indebtedness" means any indebtedness (without double counting) for or in respect of:

- (A) moneys borrowed;
- (B) any amount raised by acceptance under any acceptance credit facility with a bank or financial institution;
- (C) any amount raised pursuant to any note purchase facility or the issue of bonds, notes, debentures, loan stock or any similar instrument;
- (D) the amount of any liability in respect of any lease or hire purchase contract which would, in accordance with GAAP, be treated as a finance or capital lease;
- (E) receivables sold or discounted (other than any receivables to the extent they are sold on a non recourse basis);
- (F) any amount raised under any other transaction (including any forward sale or purchase agreement) having the commercial effect of a borrowing and which would be shown as such in any financial statements delivered under Clause 15 (*Information Undertakings*);
- (G) any derivative transaction entered into in connection with protection against or benefit from fluctuation in any rate or price (and, when calculating the value of any derivative transaction, only the net marked to market value shall be taken into account);
- (H) the amount of any liability in respect of any guarantee or indemnity for any bank guarantee, indemnity, bond, standby or documentary letter of credit or any other instrument issued by a bank or financial institution; and
- (I) the amount of any liability in respect of any guarantee or indemnity for any of the items referred to in paragraphs (A) to (H) above.

"Foreign Currency-on-hand" means bank notes and coins (denominated other than in sterling) which are held by or on behalf of the Company and/or any of its Subsidiaries in any Post Office or Cash Centre.

"Framework Agreement" means the funding agreement dated 24 March 2010 between Holdings, the Company, Royal Mail Group and the Lender.

"Full Cancellation of Utilisation Request" means a notice substantially in the form set out in Schedule 5 (*Full Cancellation of Utilisation Request*).

"Funding Requirement" means the aggregate amount of borrowings that the Group will require under this Agreement in order to fund its provision of SGEI and liabilities relating to Cash Items and Near-Cash Items as and when the same fall due or are anticipated to fall due.

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"GAAP" means generally accepted accounting principles in the United Kingdom including without limitation IFRS.

"Gilt Rate" means, in relation to any Long Term Advance, the relevant rate determined by the Lender (with reference to, where available, the applicable Screen Rate) as being the rate as of 11:00 a.m. on the Quotation Date, for gilt edged securities issued by the Government of the United Kingdom having a period of maturity which is comparable to the period from (and including) the Utilisation Date for such Advance to (and including) its Maturity Date.

"Group" means the Company and its Subsidiaries for the time being.

"Group Reorganisation" means the reorganisation and restructuring of the Group approved by the Lender in its capacity as shareholder of Holdings which may be effected after the date of this Agreement pursuant to which, among other things, the Company shall cease to be a wholly-owned Subsidiary of Royal Mail Group and shall, instead, become a Subsidiary of Holdings.

"Guarantor" means a company which becomes a Guarantor in accordance with Clause 19 (*Changes to the Obligors*), unless it has ceased to be a Guarantor in accordance with Clause 19 (*Changes to the Obligors*).

"Holding Company" means, in relation to a company or corporation, any other company or corporation in respect of which it is a Subsidiary.

"Holdings" means Royal Mail Holdings plc (company number 04074919).

"IFRS" means international accounting standards within the meaning given in the IAS Regulation 1606 2002 to the extent applicable to the relevant financial statements.

"Information Package" means:

- (A) any information provided by or on behalf of the Company pursuant to Clause 4.5 (*Re-setting Commitment*);
- (B) any information provided by or on behalf of the Company pursuant to the audit of the monitoring regime carried out prior to its implementation under Clause 15.6.2 (*Initial implementation of Monitoring Regime*) (whether such information is provided to the Lender or the independent consultant appointed to carry out such audit); and
- (C) any information contained in any Weekly Report or otherwise provided by or on behalf of the Company in connection with the Monitoring Regime (including any information provided pursuant to Clause 15.7.4 (*Monitoring Regime*)).

"Intercreditor Agreement" means the agreement of the same name dated 20 March 2007 between A&L, ALCB, the Company and the Lender.

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"Interest Period" means:

- (A) in relation to each Long Term Advance:
 - (1) the period of six months or less commencing on the Utilisation Date for that Advance and ending on the earlier of the first 19 March or 19 September to occur after such Utilisation Date; and, thereafter,
 - (2) each successive period of six months commencing on 20 March and 20 September and ending on the next 19 September or, as the case may be, the next 19 March (the last such period ending on the day preceding the Maturity Date for that Advance);
- (B) in relation to any Short Term Advance, the period commencing on its Utilisation Date and ending on the day preceding the Maturity Date for that Advance; and
- (C) in relation to any Unpaid Sum, each period determined in accordance with Clause 7.3 (*Default interest*).

"Intermediary Transaction" means any transaction under which the Company or any of its Subsidiaries acts as an intermediary for the receipt of sums from one person and the payment of the same to another person.

"Key Assets" has the meaning given to it in Clause 16.3 (*Negative pledge*).

"LIBOR" means, in relation to any Short Term Advance:

- (A) the relevant rate determined by the Lender (with reference to the applicable Screen Rate) as being the rate based upon the rates supplied by BBA's Contributor Panel Banks; or
- (B) if the applicable Screen Rate is not available, the arithmetic mean (rounded upward to four decimal places) of the rates determined by the Lender to be quoted by the Reference Banks to leading banks in the London interbank market,

in each case as of 11.00 a.m. on the Quotation Day, for the offering of deposits in sterling and for a period comparable to the Interest Period for that Short Term Advance, except that where the Interest Period for any Short Term Advance does not coincide exactly with a relevant period shown on Reuters for the purpose of establishing the Screen Rate under paragraph (A) of this definition of LIBOR, the Lender shall calculate LIBOR by interpolation between the nearest longer and shorter relevant period shown on Reuters.

"Long Term Advance" means any Advance, the Maturity Date of which falls more than 12 months after its Utilisation Date.

"Margin" means 0.25 per cent. per annum.

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"Material Adverse Effect" means a material adverse effect on:

- (A) the business or financial position of the Group, taken as a whole; or
- (B) the ability of the Company to perform its obligations or, as the case may be, if at any time there is more than one Obligor, the ability of the Obligors (taken as a whole) to perform their obligations, in each case, under any of the Finance Documents when the same are due to be performed or within any applicable grace period.

"Maturity Date" has the meaning given to it in Clause 4.2 (*Completion of a Utilisation Request*).

"Maximum Commitment" means the maximum amount of the Commitment at any time, being £1,150,000,000 (or such lesser amount as the Company and the Lender may from time to time agree).

"Monitoring Regime" has the meaning given to it in Clause 15.6 (*Initial implementation of Monitoring Regime*).

"Near-Cash Items" means each of:

- (A) Cheques-on-hand;
- (B) Cheques-in-transit;
- (C) Cheques-in-clearing;
- (D) Estimating Debtor Receivables;
- (E) Other Debtor Receivables;
- (F) Unpaid Payment Files; and
- (G) Suspense Items,

provided that, for the purposes of calculating the amount of Near-Cash Items at any time, any amount included as a Near-Cash Item under paragraph (A), (B), (C), (D), (E), (F) or, as the case may be, (G) above shall not be included (i) as a Near-Cash Item under the other paragraphs above and/or (ii) as a Cash Item.

"Net Utilisations" has the meaning given to it in Schedule 7 (*Monitoring Regime*).

"Note Circulation Scheme" means the scheme of that name operated by the Bank of England under which members of the scheme are able to (a) sell to the Bank of England at the close of a Business Day bank notes held in a specific location and under specific conditions and (b) re-purchase those bank notes at the start of the next Business Day in accordance with the terms laid down by the Bank of England.

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"Note Circulation Scheme Cash" means bank notes (denominated in sterling) issued by the Bank of England falling within the Note Circulation Scheme which are held by the Company or on its behalf in secure locations designated (for the purposes of the Note Circulation Scheme) as qualifying cash centres by the Bank of England and the Company or are being transported to and from such cash centres (including such bank notes to which the Bank of England has title).

"NPV Formula" means the formula which is referred to in paragraphs 29.2.16 to 29.2.20 and annex 29.1 of the document entitled "Government Accounting" available on the website www.government-accounting.gov.uk as at the date of this Agreement (or, if agreed between the Company and the Lender, in the case of each of such formula, the relevant cross-references, the government publication and the website address, as amended or replaced from time to time).

"Obligor" means a Borrower or a Guarantor.

"Original Financial Statements" means:

- (A) in relation to the Company, its audited financial statements for its financial year ended 26 March 2006; and
- (B) in relation to any other Obligor, such of its audited financial statements as the Lender and the Company shall designate in writing as being its "Original Financial Statements" for the purposes of this Agreement.

"Other Debtor Receivables" means, in relation to any Intermediary Transaction under which the Company or any of its Subsidiaries (the **"relevant intermediary"**) pays (on behalf of a person (the **"ultimate payer"**) that utilises the relevant intermediary as an intermediary for the purposes of making such payment) sums to any person (the **"ultimate recipient"**) in respect of which the ultimate payer will pay to the relevant intermediary an amount equal to the sums so paid by such relevant intermediary to the ultimate recipient, the amounts so payable by any ultimate payer.

"Part Cancellation of Utilisation Request" means a notice substantially in the form set out in Schedule 6 (*Part Cancellation of Utilisation Request*).

"Party" means a party to this Agreement.

"Permitted Leasing Indebtedness" has the meaning given to it in paragraph (J) of clause 16.4.2 (*Permitted Indebtedness*).

"Post Offices" means Crown post offices, the counter or counters within agency post offices designated for the Company's business and any other counter facilities (by whatever name called) operated from time to time by or on behalf of the Company.

"Principal Subsidiary" means, at any time, any Subsidiary of the Company whose gross assets, gross revenues or operating profits represent at least 5% of the

consolidated gross assets, gross revenues or, as the case may be, the operating profits of the Group.

"Quotation Day" means, in relation to any period for which an interest rate is to be determined, the first day of that period.

"Reference Banks" means Barclays Bank Plc, The Royal Bank of Scotland Plc and Lloyds TSB plc.

"Relevant Cheque" means, in relation to any Intermediary Transaction under which the Company or any of its Subsidiaries (the **"relevant intermediary"**) is provided a cheque (which is payable to such relevant intermediary) by a person (the **"payer"**) as reimbursement for the payment made or to be made by the relevant intermediary of an amount equal to the amount of the cheque to the person (the **"ultimate payee"**) utilising the relevant intermediary as an intermediary for payments by the payer to the ultimate payee, the amount payable under any such cheque provided by any such payer to the extent that the same has not been cleared and the relevant intermediary has not been reimbursed for the amount that has been or is to be paid to the ultimate payee.

"Relevant Estimates" means any estimates and/or projections relating to payments of pensions and/or allowances through Post Offices (a) that have been provided to the Company by DWP or any other relevant government department and (b) on which the Company has relied or is relying when determining its Funding Requirement (where **"relevant government department"** means any government department (i) the identity of which has been notified by the Company to the Lender and (ii) in respect of which relevant contact details have been provided by the Company to the Lender).

"Relevant JV" means (a) First Rate Travel Services Limited (company number 04287490), (b) First Rate Travel Services Holdings Limited (company number 04287534) and (c) each joint venture or outsourcing arrangement entered into with the approval of the Lender pursuant to Clause 16.11 (*JVs*) and/or the relevant joint venture or other entity incorporated or set up for the purposes of carrying out such joint venture or outsourcing arrangement.

"Relevant Period" means:

- (A) the period from (and including) the date of this Agreement to (and including) the first 31 March to occur after the date of this Agreement (the **"first Relevant Period"**); and, thereafter,
- (B) each period of 12 months from (and including) 1 April to (and including) 31 March falling in the period ending on the Final Maturity Date.

"Repeating Representations" means each of the representations set out in Clause 14 (*Representations*) other than Clause 14.6 (*No filing*), Clause 14.7 (*No default*), Clause 14.9 (*Original financial statements*), Clause 14.11 (*No proceedings pending or threatened*) and Clause 14.12 (*Security*).

"Reporting Period" means:

- (A) the period from and including the first Utilisation Date to and including the first Wednesday to occur after such date; and, thereafter,
- (B) each successive period of seven days ending on each Sunday (or on such other day of the week as agreed by the Company and the Lender) occurring prior to the Final Maturity Date.

"Royal Mail Group" means Royal Mail Group Limited (formerly known as Royal Mail Group plc) (company number 04138203).

"Screen Rate" means:

- (A) in relation to the Gilt Rate, the yield to redemption of the relevant benchmark gilt edged securities issued by the Government of the United Kingdom as shown on the DMO's composite screen displayed on (i) page DMO10 on the Bloomberg screen, (ii) page DMO/BENCH1 on the Reuters screen or (iii) page 44720 on the Topic screen; and
- (B) in relation to LIBOR, the British Bankers' Association Interest Settlement Rate for sterling for the relevant period displayed on the appropriate page of the Reuters screen.

If, in each case, the agreed page is replaced or the relevant service ceases to be available, the Lender, may, after consultation with the Company, specify a reasonable alternative page or service displaying the appropriate rate.

"Security" means a mortgage, charge, pledge, lien or other security interest securing any obligation of any person or any other agreement or arrangement having the effect of creating security.

"Security Document" means each of:

- (A) the debenture between the Company and the Lender dated on or about the date of this Agreement; and
- (B) any documents from time to time entered into pursuant to this Agreement under which security over assets is granted to the Lender in respect of liabilities and/or obligations owed to it under this Agreement or any other Finance Document and designated as Security Documents by the Company and Lender in writing.

"SGEI" means services of general economic interest provided by the Company and as listed in Schedule 8 (*SGEI provided by Post Office Limited*).

"Short Term Advance" means any Advance, the Maturity Date of which falls 12 months or less after its Utilisation Date.

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"Subsidiary" means a subsidiary undertaking within the meaning of section 1159 of the Companies Act 2006.

"Suspense Items" means:

- (A) any amount arising (by reason of the role played by the Company or any of its Subsidiaries as an intermediary in any Intermediary Transaction) which would be (but for such amount being unreconciled or disputed) treated in accordance with GAAP as a receivable due to the Company and/or any of its Subsidiaries; and
- (B) any amount (arising by reason of the role played by the Company or any of its Subsidiaries as an intermediary in any Intermediary Transaction) which is due to the Company or such Subsidiary in respect of which a BACS transfer has been made but which has not been credited to the bank account of the Company or such Subsidiary.

"Tax" means any tax, levy, impost, duty or other charge or withholding of a similar nature (including any penalty or interest payable in connection with any failure to pay or any delay in paying any of the same).

"Transaction Party" means each Obligor and each other member of the Group party to a Finance Document.

"Total Borrowings" has the meaning given to it in Schedule 7 (*Monitoring Regime*).

"Unpaid Payment Files" means, in relation to any Intermediary Transaction under which the Company or any of its Subsidiaries (the **"relevant intermediary"**) is paid an amount via debit or credit card by a person (the **"payer"**) as reimbursement for the payment made or to be made by the relevant intermediary of an amount equal to the amount of the relevant debit or credit card payment to the person (the **"ultimate payee"**) utilising the relevant intermediary as an intermediary for payments by the payer to the ultimate payee, the amount of any such debit or credit card payment made by any such payer to the extent that the same has not been cleared and the relevant intermediary has not been reimbursed for the amount that has been or is to be paid to the ultimate payee.

"Unpaid Sum" means any sum due and payable but unpaid by an Obligor under the Finance Documents.

"Utilisation" means a utilisation of the Facility.

"Utilisation Date" means the date of a Utilisation, being the date on which the relevant Advance is to be made.

"Utilisation Request" means a notice substantially in the form set out in Schedule 2 (*Utilisation Request*).

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"VAT" means value added tax as provided for in the Value Added Tax Act 1994 and any other tax of a similar nature.

"Weekly Reports" means the reports referred to in paragraph 2 of Schedule 7 (*Monitoring Regime*) which are produced pursuant to the Monitoring Regime in the form agreed between the Lender and Company on or before the date of this Agreement (and initialled, for the purposes of identification, by or on behalf of the Company and the Lender on or about the date of this Agreement) or such other form (i) as may be required pursuant to Clause 15.7 (*Monitoring Regime*) or (ii) as the Company and the Lender may otherwise agree.

1.2 Construction

1.2.1 Unless a contrary indication appears, any reference in this Agreement to:

- (A) the "**Lender**", any "**Obligor**" or any "**Party**" shall be construed so as to include its successors in title, permitted assigns and permitted transferees;
- (B) "**assets**" includes present and future properties, revenues and rights of every description;
- (C) a "**Finance Document**" or any other agreement or instrument is a reference to that Finance Document or other agreement or instrument as amended or novated;
- (D) "**indebtedness**" includes any obligation (whether incurred as principal or as surety) for the payment or repayment of money, whether present or future, actual or contingent;
- (E) a "**person**" includes any person, firm, company, corporation, government, state or agency of a state or any association, trust or partnership (whether or not having separate legal personality) or two or more of the foregoing;
- (F) a "**regulation**" includes any regulation, rule or official directive of any governmental, intergovernmental or supranational body or regulatory, self regulatory or other authority or organisation;
- (G) a provision of law is a reference to that provision as amended or re enacted;
- (H) a time of day is a reference to London time; and
- (I) the word "**including**" is without limitation.

1.2.2 Section, Clause and Schedule headings are for ease of reference only.

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- 1.2.3 Unless a contrary indication appears, a term used in any other Finance Document or in any notice given under or in connection with any Finance Document has the same meaning in that Finance Document or notice as in this Agreement.
- 1.2.4 A Default (including an Event of Default) is "**continuing**" if it has not been remedied or waived.

1.3 Third party rights

- 1.3.1 Unless expressly provided to the contrary in a Finance Document, a person who is not a Party has no right under the Contracts (Rights of Third Parties) Act 1999 (the "**Third Parties Act**") to enforce or to enjoy the benefit of any term of this Agreement.
- 1.3.2 Notwithstanding any terms of any Finance Document, the consent of any person who is not a Party is not required to rescind or vary this Agreement at any time.

1.4 Shareholder consent

The Lender (in its capacity as shareholder of Holdings) hereby consents, for all purposes of the articles of association of Holdings, to the execution and performance by the Company of the Finance Documents and the Lender agrees that such consent shall take effect notwithstanding any failure to comply with any procedural requirements of such articles in connection with the obtaining of such consent. Holdings may rely on this Clause.

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THE FACILITY

2. THE FACILITY

2.1 Facility

Subject to the terms of this Agreement, in each Relevant Period, the Lender shall purchase from the Borrowers sterling debt securities up to an aggregate amount equal to the Commitment for that Relevant Period.

2.2 Purpose

Each Borrower must apply all amounts borrowed by it under this Agreement towards funding the Cash Items and Near-Cash Items (in each case to the extent that they are connected with the provision of SGEI).

2.3 Monitoring

The Lender is not bound to monitor or verify the application of any amount borrowed pursuant to this Agreement.

3. CONDITIONS OF UTILISATION

3.1 Initial conditions precedent

No Borrower may deliver a Utilisation Request unless the Lender has (a) received all of the documents and other evidence listed in Schedule 1 (*Conditions Precedent*) in form and substance satisfactory to the Lender (acting reasonably) and (b) confirmed to the Company the amount of the Commitment applicable to the first Relevant Period. The Lender shall notify the Company promptly upon being so satisfied pursuant to paragraph (a).

3.2 Further conditions precedent

The Lender will only be obliged to comply with Clause 4.4 (*Availability of Advance*) if:

3.2.1 on the date of the Utilisation Request and on the proposed Utilisation Date:

- (A) no Default is continuing or will result from the proposed Advance;
- (B) the Repeating Representations to be made by each Obligor are true in all material respects; and

3.2.2 subject to Clause 3.4 (*Parliamentary approval*), on or before the proposed Utilisation Date, the Lender has received the necessary approvals from Parliament to permit it to utilise funds for the purposes of purchasing the Debt Securities to be issued in respect of the proposed Advance; and

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3.2.3 on the proposed Utilisation Date, the Borrower to whom such Advance is to be made has issued to the Lender a Debt Security or Debt Securities in respect of such Advance in an aggregate principal amount equal to such Advance.

3.3 Maximum number of Advances

A Borrower may not deliver a Utilisation Request if as a result of the proposed Utilisation more than 30 Advances would be outstanding.

3.4 Parliamentary approval

The Lender will use its best endeavours to obtain the necessary approvals from Parliament referred to in Clause 3.2.2 (*Further conditions precedent*).

UTILISATION**4. UTILISATION****4.1 Delivery of a Utilisation Request**

A Borrower may utilise the Facility by delivery to the Lender of a duly completed Utilisation Request on a Business Day falling (in the case of any proposed Short Term Advance) 5 Business Days or (in the case of any proposed Long Term Advance) 15 Business Days prior to the proposed Utilisation Date set out in the Utilisation Request.

4.2 Completion of a Utilisation Request

4.2.1 No Utilisation Request will be regarded as having been duly completed unless:

- (A) it specifies a repayment date ("**Maturity Date**") for the Advance requested which complies with Clause 4.3 (*Currency, amount and maturity*);
- (B) the proposed Utilisation Date is a Business Day within the Availability Period; and
- (C) the currency and amount of the Utilisation comply with Clause 4.3 (*Currency, amount and maturity*).

4.2.2 Only one Advance may be requested in each Utilisation Request.

4.2.3 A Borrower may revoke a Utilisation Request in full or in part by delivery to the Lender of a duly completed Full Cancellation of Utilisation Request or a Part Cancellation of Utilisation Request (as the case may be) on a Business Day falling not less than 2 Business Days prior to the proposed Utilisation Date set out in that Utilisation Request, provided that a Borrower may deliver to the Lender no more than one Cancellation of Utilisation Request in respect of each Utilisation Request and, in the case of a Part Cancellation of Utilisation Request, only the amount of the Advance may be amended in that Part Cancellation of Utilisation Request.

4.2.4 As soon as reasonably practicable, the Lender shall confirm receipt of a Cancellation of Utilisation Request to the relevant Borrower. In the case of a Full Cancellation of Utilisation Request, the Lender shall also confirm that it will not make available the Advance specified in the Utilisation Request to which that Full Cancellation of Utilisation Request relates.

4.3 Currency, amount and maturity

4.3.1 The currency specified in a Utilisation Request must be sterling.

4.3.2 The amount of any proposed Advance must be:

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- (A) in the case of any Long Term Advance, a multiple of £5,000,000;
- (B) in the case of any Short Term Advance, a minimum of £1,000,000 and multiple of £1,000,000,

or, in each case, if less, the Available Commitment.

- 4.3.3 The Maturity Date for any Advance must be a Business Day falling on or before the Final Maturity Date.

4.4 Availability of Advance

If the conditions set out in this Agreement have been met, the Lender shall make each Advance available to the Borrower that submitted the Utilisation Request for such Advance by the Utilisation Date. Where the Borrower has submitted a Part Cancellation of Utilisation Request pursuant to Clause 4.2.3, the Lender shall make an Advance equal to the Final Amount specified in that Part Cancellation of Utilisation Request available to that Borrower on the Utilisation Date specified in that Part Cancellation of Utilisation Request.

4.5 Re-setting Commitment

4.5.1 Proposal Notices

- (A) On a date falling no later than four months before the commencement of each Relevant Period (other than the first Relevant Period), the Company must issue a notice (the "**Initial Proposal Notice**") to the Lender setting out its proposal for the amount of the Commitment which should apply for that Relevant Period.
- (B) On a date falling no later than two months before the commencement of each Relevant Period (other than the first Relevant Period), the Company may issue a further notice (the "**Further Proposal Notice**") to the Lender setting out a revised proposal for the amount of the Commitment which should apply for that Relevant Period.
- (C) At any time during each Relevant Period, the Company may request that the Commitment applicable to that Relevant Period be increased to an amount not exceeding the Maximum Commitment by issuing a notice to the Lender (an "**Interim Proposal Notice**") setting out the Company's proposal for the amount of the Commitment which should apply to that Relevant Period following such an increase.
- (D) For the purposes of this Agreement, "**Proposal Notice**" means any of the notices issued by the Company under this Clause 4.5.1.

4.5.2 Content of Proposal Notices

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- (A) Each Proposal Notice must be accompanied by:
- (1) all such documents, information and evidence as may be necessary to support the Commitment proposed and any other information contained in such Proposal Notice (including, without limitation, (i) any information relating to the funding requirements of the Group and the sources of committed funding for the Relevant Period to which that Proposal Notice relates and (ii) any Relevant Estimates (together with any supporting information relating thereto), the identity of each government department that provided the Relevant Estimates and relevant contact details for such government department); and
 - (2) any other information as the Lender may reasonably request in order to assess the amount of the Commitment to apply for the Relevant Period to which such Proposal Notice relates.
- (B) Each Proposal Notice must specify:
- (1) the Commitment which the Company proposes should apply;
 - (2) the Gross Borrowings; and
 - (3) the Gross Repayments,
- in each case, for the Relevant Period to which that Proposal Notice relates.
- (C) The amount of the Commitment proposed by the Company in any Proposal Notice must not exceed the Maximum Commitment.
- (D) For the purposes of this Agreement:
- (1) "**Gross Borrowings**" means:
 - (a) in relation to each Initial Proposal Notice and each Further Proposal Notice, the aggregate amount of the Advances that are projected to be made in the Relevant Period to which that Proposal Notice relates; and
 - (b) in relation to each Interim Proposal Notice, the aggregate amount of (a) the Advances that have been made and (b) the Advances that are projected to be made, in each case, in the Relevant Period to which that Proposal Notice relates.
 - (2) "**Gross Repayments**" means:

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- (a) in relation to each Initial Proposal Notice and each Further Proposal Notice, the aggregate amount of the Advances that are projected to be repaid in the Relevant Period to which that Proposal Notice relates; and
- (b) in relation to each Interim Proposal Notice, the aggregate amount of (a) the Advances that have been repaid and (b) the Advances that are projected to be repaid, in each case, in the Relevant Period to which that Proposal Notice relates.

4.5.3 Additional content - inaccurate estimates

- (A) Each Interim Proposal Notice must specify the extent to which the relevant increase in Commitment sought pursuant to such Interim Proposal Notice is required as a result of the then current Commitment being set on the basis of inaccurate Relevant Estimates.
- (B) Each Further Proposal Notice that contains a proposed Commitment ("**current proposed amount**") which exceeds the Commitment proposed in the preceding Initial Proposal Notice (the "**initial proposed amount**") must specify the extent to which the difference between the current and the initial proposed amounts is required as a result of the initial proposed amount being proposed on the basis of inaccurate Relevant Estimates.

4.5.4 Confirming Commitment

- (A) As soon as reasonably practicable after the issue of each Proposal Notice (other than any Initial Proposal Notice), the Lender shall confirm to the Company whether the Lender will need to seek any necessary approvals from Parliament with respect to the Commitment, Gross Borrowings and/or Gross Repayments specified in that Proposal Notice.
- (B) If the Company has issued an Initial Proposal Notice or any other Proposal Notice in respect of which the Lender is required to seek necessary approvals from Parliament, the Lender shall (subject to Clause 3.4 (*Parliamentary approval*)) respond to that Proposal Notice by issuing to the Company, no later than ten Business Days after the date on which the Lender receives the relevant approvals from Parliament, a notice confirming the Commitment for the Relevant Period to which that Proposal Notice relates.
- (C) If the Company has issued a Proposal Notice (not being an Initial Proposal Notice) in respect of which the Lender is not required to seek any necessary approvals from Parliament, the Lender shall, within ten Business Days of having considered all such information provided by

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the Company pursuant to Clause 4.5.2 (*Content of Proposal Notices*) and/or Clause 4.5.3 (*Additional content – inaccurate estimates*), respond to that Proposal Notice by issuing to the Company a notice confirming the Commitment for the Relevant Period to which that Proposal Notice relates.

- (D) The amount of the Commitment confirmed by the Lender in each notice issued by it under Clause 4.5.4 (B) or (C) (each, a "**Confirmation Notice**") must:
- (1) not exceed the Maximum Commitment; and
 - (2) subject to Clause 4.5.5 (*Setting a lower Commitment*), be equal to the Commitment proposed in the relevant Proposal Notice in response to which such Confirmation Notice is issued.
- (E) In the case of (a) each Confirmation Notice issued in response to an Initial Proposal Notice or (b) each Confirmation Notice (issued prior to the commencement of the Relevant Period to which it relates) in response to any Further Proposal Notice, the Commitment specified in such Confirmation Notice shall, subject to Clause 4.5.5 (*Setting a lower Commitment*), automatically be the Commitment for the Relevant Period to which such Confirmation Notice relates on the first day of that Relevant Period.
- (F) In the case of any other Confirmation Notice, the Commitment specified in such Confirmation Notice shall, subject to Clause 4.5.5 (*Setting a lower Commitment*), apply to the Relevant Period to which such Confirmation Notice relates on and from the effective date specified in such Confirmation Notice.

4.5.5 Setting a lower Commitment

- (A) If the Lender can demonstrate (by reference to the information provided to it in connection with this Agreement) that the amount of Commitment specified in any Proposal Notice exceeds (to a material extent) the Funding Requirement for the Relevant Period to which that Proposal Notice relates, the Lender shall be entitled to issue a Confirmation Notice which confirms an amount of Commitment which is less than that proposed in the relevant Proposal Notice provided that such amount shall not, in any event, be less than:
- (1) the Funding Requirement (determined by the Lender, acting reasonably in consultation with the Company) for the Relevant Period to which that Proposal Notice relates;

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- (2) in the case of any Confirmation Notice issued in response to an Interim Proposal Notice, the Commitment then current on the date of issue of that Interim Proposal Notice; or
 - (3) in the case of any Confirmation Notice issued (after the commencement of the Relevant Period to which that Confirmation Notice relates) in response to any Further Proposal Notice that specifies a proposed Commitment that is equal to or more than the Commitment (the "**initial Commitment**") as at the first day of that Relevant Period, that initial Commitment.
- (B) If the Lender issues a Confirmation Notice which confirms an amount of Commitment which is less than that proposed in the relevant Proposal Notice in response to which such Confirmation Notice has been issued then:
- (1) at any time within 15 days after the Lender has issued such a Confirmation Notice, the Company shall be entitled by notice in writing to the Lender to object to such confirmation, and to refer to an independent firm of accountants the determination of the amount of the Funding Requirement, such firm of accountants to be agreed between the Company and the Lender within 15 days of delivery of such notice of objection by the Company or, in the absence of agreement within such 15 day period, selected by the President of the Institute of Chartered Accountants in England and Wales (the "**Expert**");
 - (2) until the Expert shall have made his determination, the amount of the Commitment which shall apply to the Relevant Period in respect of which the determination is being made shall be the amount confirmed by the Lender in its Confirmation Notice;
 - (3) upon determination of the amount of the Funding Requirement by the Expert, the amount of the Commitment which shall apply to the Relevant Period in respect of which the determination has been made shall, unless the Company and the Lender agree that it shall be another amount, be the amount of the Funding Requirement determined by the Expert.
- (C) If the Expert determines that:
- (1) the Funding Requirement is equal to or more than the Commitment proposed by the Company in the relevant Proposal Notice, the Lender shall pay all costs and expenses in connection with the determination by the Expert under this Clause 4.5.5;

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- (2) the Funding Requirement is equal to or less than the Commitment confirmed by the Lender in the relevant Confirmation Notice, the Company shall pay all costs and expenses in connection with the determination by the Expert under this Clause 4.5.5; or
- (3) the Funding Requirement is greater than the Commitment confirmed by the Lender in the relevant Confirmation Notice but less than the Commitment proposed in the relevant Proposal Notice, the costs and expenses of the Expert in connection with the determination under this Clause 4.5.5 shall be paid by the Company and the Lender in such proportions as shall be set by the Expert, but which shall be in proportion to the degree to which the estimate of the Funding Requirement put forward by each of the Company and the Lender differs from the Funding Requirement determined by the Lender.

4.5.6 Updating information

- (A) If the Company becomes aware at any time that the figures for Gross Borrowings and/or Gross Repayments that it last provided to the Lender under this Clause 4.5 have ceased to be accurate or are otherwise in need of updating, it must promptly inform the Lender of the same and supply any information relating thereto that the Lender may reasonably request.
- (B) Without prejudice to Clause 4.5.6(A), if the Lender so requests from time to time, the Company shall provide to the Lender such updated information as the Lender may reasonably request in relation to the figures for Gross Borrowings and/or Gross Repayments which the Company last provided to the Lender under this Clause 4.5.

4.5.7 No application

The provisions of Clause 21 (*Timing of Consents*) shall not apply to the procedures contemplated by this Clause 4.5.

REPAYMENT, PREPAYMENT AND CANCELLATION

5. REPAYMENT

5.1 Maturity Date

The Borrowers shall repay each Advance and thereby redeem the Debt Securities relating thereto on the Maturity Date for that Advance.

5.2 Cancellation of Debt Securities

Upon such repayment, each Debt Security relating to the Advance so repaid under Clause 5.1 (*Maturity Date*) shall automatically be cancelled.

6. PREPAYMENT AND CANCELLATION

6.1 Illegality

6.1.1 If it becomes unlawful in any applicable jurisdiction for the Lender to perform any of its obligations as contemplated by the Finance Documents or to fund or maintain its participation in any Advance:

- (A) the Lender shall promptly notify the Company upon becoming aware of that event;
- (B) upon the Lender so notifying the Company, the Commitments will be immediately cancelled; and
- (C) each Borrower shall repay each Advance (and redeem any Debt Securities relating thereto) made to it on the last day of the Interest Period for that Advance occurring after the Lender has notified the Company or, if earlier, the date specified by the Lender in the notice delivered to the Company (being no earlier than the last day of any applicable grace period permitted by law).

6.1.2 If it becomes unlawful in any applicable jurisdiction for a Borrower to perform any of its obligations as contemplated by the Finance Documents:

- (A) the Company shall promptly notify the Lender upon becoming aware of that event; and
- (B) such Borrower shall repay each Advance (and redeem any Debt Securities relating thereto) made to it on the last day of the Interest Period for that Advance occurring after the Company has notified the Lender or, if earlier, the date specified by the Company in the notice delivered to the Lender (being no earlier than the last day of any applicable grace period permitted by law).

6.2 Voluntary cancellation

The Company may at any time during each Relevant Period, if it gives the Lender not less than five Business Days' (or such shorter period as the Lender may agree) prior notice, cancel the whole or any part (being a minimum amount of £1,000,000 and integral multiples thereof) of the Available Commitment for that Relevant Period. This Clause shall not affect any rights which the Company has under Clause 4.5 (*Re-setting Commitment*).

6.3 Voluntary prepayment of Advances

A Borrower to which an Advance has been made may, if it gives the Lender not less than five Business Days' (or such shorter period as the Lender may agree) prior notice, prepay the whole of any Advance (and thereby redeem the Debt Securities relating thereto) prior to its Maturity Date (provided that no Advance may be prepaid under this Clause 6.3 on and from the date falling seven days prior to its Maturity Date).

6.4 Redemption on last day of Relevant Period

6.4.1 If the Commitment relating to a Relevant Period (the "**current Relevant Period**") is at any time more than the Commitment for the next Relevant Period, on the last Business Day of the current Relevant Period, the Borrowers shall repay the Advance(s) outstanding on that day (and thereby redeem the Debt Securities relating thereto) in an amount equal to the difference between the Commitment for the current Relevant Period and the Commitment for the next Relevant Period.

6.4.2 The Advance(s) (or part thereof) to be repaid shall be determined by the Company acting reasonably (in consultation with the Lender).

6.5 Prepayment on change of control

6.5.1 The following events shall constitute a "**Change of Control Event**" for the purposes of this Clause 6.5:

- (A) Holdings ceases to control the Company or any person or group of persons acting in concert gains control of the Company; or
- (B) the Crown ceases to control Holdings or any person or group of persons acting in concert gains control of Holdings.

6.5.2 For the purposes of this Clause 6.5:

"**control**" has the meaning given to such term in section 416 of the Income and Corporation Taxes Act 1988; and

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"**acting in concert**" has the meaning given to such term in the City Code on Takeovers and Mergers and the presumptions specified therein in relation to the term "**acting in concert**" shall apply to such term as used in this Agreement.

6.5.3 At any time after a Change of Control Event has occurred:

- (A) the Lender may notify the Company that it requires repayment and cancellation in full of the Facility; and
- (B) upon the Lender so notifying the Company, the Commitments will be immediately cancelled in full and the Borrowers shall repay each Advance (and redeem any Debt Securities relating thereto) on the date specified by the Lender in such notice.

6.6 Restrictions

- 6.6.1 Any notice of cancellation or prepayment given by any Party under this Clause 6 shall be irrevocable and, unless a contrary indication appears in this Agreement, shall specify the date or dates upon which the relevant cancellation or prepayment is to be made and the amount of that cancellation or prepayment.
- 6.6.2 Any prepayment under this Agreement shall be made together with accrued interest on the amount prepaid without premium or penalty. The aggregate amount to be prepaid or repaid if any Advance (or part thereof) is prepaid or repaid other than on its Maturity Date shall be determined by the Lender in accordance with the NPV Formula.
- 6.6.3 The Borrowers shall not repay or prepay all or any part of the Advances or cancel all or any part of the Commitments except at the times and in the manner expressly provided for in this Agreement.
- 6.6.4 No amount of the Commitment cancelled under this Agreement in any Relevant Period may be subsequently reinstated in that Relevant Period other than (i) in accordance with Clause 4.5 (*Re-setting Commitment*) or (ii) otherwise with the Lender's consent.
- 6.6.5 Upon the repayment or prepayment of all or any part of any Advance pursuant to this Clause 6, the Debt Securities in respect of such Advance shall be automatically cancelled (to the extent of the amount so repaid or prepaid) and the nominal amount of the relevant Debt Securities shall be deemed to be reduced accordingly.
- 6.6.6 Without prejudice to Clause 6.6.5, if only part of any Advance has been repaid or prepaid pursuant to this Clause 6, the Company shall, if the Lender so requests, issue, or procure the issue of, a replacement Debt Security in respect of the aggregate amount of the Advance which remains outstanding. Such

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replacement Debt Security shall be issued forthwith upon the Lender surrendering the Debt Securities relating to the Advance so repaid or prepaid.

COSTS OF UTILISATION

7. INTEREST

7.1 Calculation of interest

7.1.1 The rate of interest on each Long Term Advance for each Interest Period is the percentage rate per annum which is the aggregate of:

- (A) the Margin; and
- (B) the Gilt Rate applicable to such Advance.

7.1.2 The rate of interest on each Short Term Advance for each Interest Period is the percentage rate per annum which is the aggregate of:

- (A) the Margin; and
- (B) LIBOR.

7.2 Payment of interest

The Borrower to which an Advance has been made shall pay accrued interest on that Advance on the first Business Day following the expiry of each Interest Period relating to that Advance.

7.3 Default interest

7.3.1 If an Obligor fails to pay any amount payable by it under a Finance Document on its due date, interest shall accrue on the overdue amount from the due date up to the date of actual payment (both before and after judgment) at a rate which, subject to Clause 7.3.2 below, is one per cent. higher than the rate which would have been payable if the overdue amount had, during the period of non payment, constituted an Advance in the currency of the overdue amount for successive Interest Periods, each of a duration selected by the Lender (acting reasonably). Any interest accruing under this Clause 7.3 shall be immediately payable by the Obligor on demand by the Lender.

7.3.2 If any overdue amount consists of all or part of an Advance which became due on a day which was not the last day of an Interest Period relating to that Advance:

- (A) the first Interest Period for that overdue amount shall have a duration equal to the unexpired portion of the current Interest Period relating to that Advance; and

- (B) the rate of interest applying to the overdue amount during that first Interest Period shall be one per cent. higher than the rate which would have applied if the overdue amount had not become due.

7.3.3 Default interest (if unpaid) arising on an overdue amount will be compounded with the overdue amount at the end of each Interest Period applicable to that overdue amount but will remain immediately due and payable.

7.4 Notification of rates of interest

The Lender shall promptly notify the relevant Borrower of the determination of a rate of interest under this Agreement.

7.5 Changes to the calculation of interest

7.5.1 If LIBOR is to be determined by reference to the Reference Banks but a Reference Bank does not supply a quotation by 11.00 a.m. on the Quotation Day, the applicable LIBOR shall be determined on the basis of the quotations of the remaining Reference Banks.

7.5.2 If at or about noon on the Quotation Day for the relevant Interest Period the Screen Rate is not available and none or only one of the Reference Banks supplies a rate to the Lender to determine LIBOR for the relevant Interest Period and the Lender or the Company so requires, the Lender and the Company shall enter into negotiations (for a period of not more than fifteen days) with a view to agreeing a substitute basis for determining the rate of interest.

8. FEES

8.1 Commitment fee

8.1.1 The Company shall pay to the Lender a commitment fee computed at the rate of 0.125 per cent. per annum on the Lender's Available Commitment (if any) for the Availability Period.

8.1.2 The accrued commitment fee is payable on the last day of each successive period of three months which ends during the Availability Period, on the last day of the Availability Period and, if the Lender's Commitment is cancelled in full during the Availability Period, on the amount of that cancelled Commitment at the time the cancellation is effective.

8.2 Additional commitment fee

8.2.1 If, following the submission by the Company of any Further Proposal Notice or Interim Proposal Notice under Clause 4.5 (*Re-setting Commitment*), the Commitment for any Relevant Period is increased during such Relevant Period and save to the extent that the Company can demonstrate to the reasonable

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satisfaction of the Lender that such an increase is required as a result of the Commitment (prior to such increase taking effect) being set on the basis of inaccurate Relevant Estimates, the Company shall pay to the Lender an additional commitment fee computed at the rate of 0.125 per cent. per annum on the difference between the Commitment so increased and the Commitment immediately prior to such increase taking effect in accordance with Clause 4.5 (*Re-setting Commitment*).

8.2.2 The additional commitment fee referred to in Clause 8.2.1 shall:

- (A) accrue in the period from and including the first day of the then current Relevant Period to and including the date (the "effective date") on which the relevant increased Commitment takes effect pursuant to Clause 4.5.4(F) (*Confirming Commitment*) or, as the case may be, Clause 4.5.5(B)(3) (*Setting a lower Commitment*); and
- (B) be payable on the effective date or, if the effective date is not a Business Day, the next Business Day falling thereafter.

8.3 Arrangement fee

The Company shall pay to the Lender an arrangement fee of £1,300,000 on or before the date of this Agreement payment of which is acknowledged by the Lender.

ADDITIONAL PAYMENT OBLIGATIONS

9. STAMP TAXES AND VAT

9.1 Stamp taxes

The Company shall pay and, within three Business Days of demand, indemnify the Lender against any cost, loss or liability the Lender incurs in relation to all stamp duty, registration and other similar documentary Taxes payable in respect of any Finance Document other than in respect of an assignment or transfer by the Lender of its rights and/or obligations under any such Finance Document.

9.2 Value added tax

9.2.1 All consideration expressed to be payable under a Finance Document by any Party to the Lender shall be deemed to be exclusive of any VAT. If VAT is chargeable on any supply made by the Lender to any Party in connection with a Finance Document, that Party shall pay to the Lender (in addition to and at the same time as paying the consideration) an amount equal to the amount of the VAT.

9.2.2 Where a Finance Document requires any Party to reimburse the Lender for any costs or expenses, that Party shall also at the same time pay and indemnify the Lender against all VAT incurred by the Lender in respect of the costs or expenses to the extent that the Lender reasonably determines that it is not entitled to credit or repayment of the VAT.

10. OTHER INDEMNITIES

10.1 Currency indemnity

10.1.1 If any sum due from an Obligor under the Finance Documents (a "**Sum**"), or any order, judgment or award given or made in relation to a Sum, has to be converted from the currency (the "**First Currency**") in which that Sum is payable into another currency (the "**Second Currency**") for the purpose of:

- (A) making or filing a claim or proof against that Obligor; or
- (B) obtaining or enforcing an order, judgment or award in relation to any litigation or arbitration proceedings,

that Obligor shall, as an independent obligation, within five Business Days of demand, indemnify the Lender against any cost, loss or liability arising out of or as a result of the conversion including any discrepancy between (i) the rate of exchange used to convert that Sum from the First Currency into the Second Currency and (ii) the rate or rates of exchange available to that person at the time of its receipt of that Sum.

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10.1.2 Each Obligor waives any right it may have in any jurisdiction to pay any amount under the Finance Documents in a currency or currency unit other than that in which it is expressed to be payable.

10.2 Other indemnities

The Company shall (or shall procure that an Obligor will), within three Business Days of demand, indemnify the Lender against any cost, loss or liability incurred by the Lender as a direct result of:

10.2.1 the occurrence of any Event of Default;

10.2.2 a failure by an Obligor to pay any amount due under a Finance Document on its due date;

10.2.3 funding, or making arrangements to fund, its participation in an Advance requested by a Borrower in a Utilisation Request but not made by reason of a Default or an act or omission of an Obligor; or

10.2.4 an Advance (or part of an Advance) not being prepaid in accordance with a notice of prepayment given by a Borrower or the Company.

10.3 Indemnity to the Lender

The Company shall, within 30 days of demand, indemnify the Lender against any cost, loss or liability incurred by the Lender (acting reasonably) as a direct result of:

10.3.1 investigating any event which it reasonably believes is a Default; or

10.3.2 acting or relying on any notice, request or instruction which it reasonably believes to be genuine, correct and appropriately authorised by an Obligor.

11. MITIGATION BY THE LENDER

11.1 Mitigation

11.1.1 The Lender shall, in consultation with the Company, take all reasonable steps to mitigate any circumstances which arise and which would result in any amount becoming payable under or pursuant to, or cancelled pursuant to Clause 6.1.1 (*Illegality*).

11.1.2 Clause 11.1.1 above does not in any way limit the obligations of any Obligor under the Finance Documents.

11.1.3 The Lender shall notify the Company as soon as it becomes aware that any circumstances of the kind described in Clause 11.1.1 above have arisen.

11.2 Limitation of liability

11.2.1 The Company shall indemnify the Lender for all costs and expenses reasonably incurred by the Lender as a result of steps taken by it under Clause 11.1 (*Mitigation*).

11.2.2 The Lender is not obliged to take any steps under Clause 11.1 (*Mitigation*) if, in the opinion of the Lender (acting reasonably), to do so might be materially prejudicial to it.

12. COSTS AND EXPENSES

12.1 Transaction expenses

The Company shall within thirty days of demand pay the Lender the amount of all costs and expenses (including external legal fees) reasonably incurred by it in connection with the negotiation, preparation, printing and execution of:

12.1.1 this Agreement and any other documents referred to in this Agreement; and

12.1.2 any other Finance Documents executed after the date of this Agreement,

but shall not be required to pay (a) legal expenses or recharges of the Lender's legal department or (b) all costs and expenses payable to Deloitte & Touche in relation to the work done by Deloitte & Touche in the period up to and including the date of this Agreement.

12.2 Amendment costs

If (a) an Obligor requests an amendment, waiver or consent or (b) an amendment is required pursuant to Clause 22.7 (*Change of currency*) or the Group Reorganisation (unless the Group Reorganisation is effected on the instructions of the Lender), the Company shall, within thirty days of demand, reimburse the Lender for the amount of all costs and expenses (including legal fees) reasonably incurred by the Lender in responding to, evaluating, negotiating or complying with that request or requirement.

12.3 Enforcement costs

The Company shall, within five Business Days of demand, pay to the Lender the amount of all costs and expenses (including legal fees) incurred by the Lender in connection with the enforcement of, or the preservation of any rights under, any Finance Document.

GUARANTEE

13. GUARANTEE AND INDEMNITY

13.1 Guarantee and indemnity

Each Guarantor irrevocably and unconditionally jointly and severally:

- 13.1.1 guarantees to the Lender punctual performance by each Borrower of all that Borrower's obligations under the Finance Documents;
- 13.1.2 undertakes with the Lender that whenever a Borrower does not pay any amount when due under or in connection with any Finance Document, that Guarantor shall immediately on demand pay that amount as if it were the principal obligor; and
- 13.1.3 indemnifies the Lender immediately on demand against any cost, loss or liability suffered by the Lender if any obligation guaranteed by it is or becomes unenforceable, invalid or illegal. The amount of the cost, loss or liability shall be equal to the amount which the Lender would otherwise have been entitled to recover.

13.2 Continuing guarantee

This guarantee is a continuing guarantee and will extend to the ultimate balance of sums payable by any Obligor under the Finance Documents, regardless of any intermediate payment or discharge in whole or in part.

13.3 Reinstatement

If any payment by an Obligor or any discharge given by the Lender (whether in respect of the obligations of any Obligor or any security for those obligations or otherwise) is avoided or reduced as a result of insolvency or any similar event:

- 13.3.1 the liability of each Obligor shall continue as if the payment, discharge, avoidance or reduction had not occurred; and
- 13.3.2 the Lender shall be entitled to recover the value or amount of that security or payment from each Obligor, as if the payment, discharge, avoidance or reduction had not occurred.

13.4 Waiver of defences

The obligations of each Guarantor under this Clause 13 will not be affected by an act, omission, matter or thing which, but for this Clause, would reduce, release or prejudice any of its obligations under this Clause 13 (without limitation and whether or not known to it or the Lender) including:

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- 13.4.1 any time, waiver or consent granted to, or composition with, any Obligor or other person;
- 13.4.2 the release of any other Obligor or any other person under the terms of any composition or arrangement with any creditor of any member of the Group;
- 13.4.3 the taking, variation, compromise, exchange, renewal or release of, or refusal or neglect to perfect, take up or enforce, any rights against, or security over assets of, any Obligor or other person or any non presentation or non observance of any formality or other requirement in respect of any instrument or any failure to realise the full value of any security;
- 13.4.4 any incapacity or lack of power, authority or legal personality of or dissolution or change in the members or status of an Obligor or any other person;
- 13.4.5 any amendment (however fundamental) or replacement of a Finance Document or any other document or security;
- 13.4.6 any unenforceability, illegality or invalidity of any obligation of any person under any Finance Document or any other document or security; or
- 13.4.7 any insolvency or similar proceedings.

13.5 Immediate recourse

Each Guarantor waives any right it may have of first requiring the Lender (or any trustee or agent on its behalf) to proceed against or enforce any other rights or security or claim payment from any person before claiming from that Guarantor under this Clause 13. This waiver applies irrespective of any law or any provision of a Finance Document to the contrary.

13.6 Appropriations

Until all amounts which may be or become payable by the Obligors under or in connection with the Finance Documents have been irrevocably paid in full, the Lender (or any trustee or agent on its behalf) may:

- 13.6.1 refrain from applying or enforcing any other moneys, security or rights held or received by the Lender (or any trustee or agent on its behalf) in respect of those amounts, or apply and enforce the same in such manner and order as it sees fit (whether against those amounts or otherwise) and no Guarantor shall be entitled to the benefit of the same; and
- 13.6.2 hold in an interest bearing suspense account any moneys received from any Guarantor or on account of any Guarantor's liability under this Clause 13.

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13.7 Deferral of Guarantors' rights

Until all amounts which may be or become payable by the Obligor under or in connection with the Finance Documents have been irrevocably paid in full and unless the Lender otherwise directs, no Guarantor will exercise any rights which it may have by reason of performance by it of its obligations under the Finance Documents:

13.7.1 to be indemnified by an Obligor;

13.7.2 to claim any contribution from any other guarantor of any Obligor's obligations under the Finance Documents; and/or

13.7.3 to take the benefit (in whole or in part and whether by way of subrogation or otherwise) of any rights of the Lender under the Finance Documents or of any other guarantee or security taken pursuant to, or in connection with, the Finance Documents by the Lender.

13.8 Additional security

This guarantee is in addition to and is not in any way prejudiced by any other guarantee or security now or subsequently held by the Lender.

REPRESENTATIONS, UNDERTAKINGS AND EVENTS OF DEFAULT

14. REPRESENTATIONS

Each Obligor makes the representations and warranties set out in this Clause 14 (other than Clause 14.10 (*Financial statements*) and Clause 14.13 (*Material adverse change*)) to the Lender on the date of this Agreement.

14.1 Status

14.1.1 It is a corporation, duly incorporated and validly existing under the law of its jurisdiction of incorporation.

14.1.2 It and each of its Principal Subsidiaries has the power to own its assets and carry on its business as it is being conducted.

14.2 Binding obligations

The obligations expressed to be assumed by it in each Finance Document are, subject to any laws or legal procedures affecting the enforceability of creditors' rights generally and any other qualifications and reservations set out in any legal opinion delivered pursuant to Clause 3 (*Conditions of Utilisation*) or Clause 19 (*Changes to the Obligors*), legal, valid, binding and enforceable obligations.

14.3 Non conflict with other obligations

The entry into and performance by it of, and the transactions contemplated by, the Finance Documents do not and will not conflict with:

14.3.1 any law or regulation applicable to it;

14.3.2 its constitutional documents; or

14.3.3 any agreement or instrument binding upon it or any of its assets in a manner which would reasonably be expected to have a Material Adverse Effect.

14.4 Power and authority

It has the power to enter into, perform and deliver, and has taken all necessary action to authorise its entry into, performance and delivery of, the Finance Documents to which it is a party and the transactions contemplated for it by those Finance Documents.

14.5 Validity and admissibility in evidence

All Authorisations required:

14.5.1 to enable it lawfully to enter into, exercise its rights and comply with its obligations in the Finance Documents to which it is a party; and

14.5.2 to make the Finance Documents to which it is a party admissible in evidence in its jurisdiction of incorporation; and

14.5.3 (save to the extent that not to do so would reasonably be expected not to have a Material Adverse Effect) to undertake its business and carry on its operations,

have been obtained or effected and are in full force and effect.

14.6 No filing

Other than registration of the Security Documents in accordance with section 395 of the Companies Act 1985, under the law of its jurisdiction of incorporation it is not necessary that the Finance Documents be filed, recorded or enrolled with any court or other authority in that jurisdiction.

14.7 No default

14.7.1 No Event of Default is continuing or might reasonably be expected to result from the making of any Utilisation.

14.7.2 No other event or circumstance is outstanding which constitutes a default under any other agreement or instrument which is binding on it or any of its Subsidiaries or to which its (or any of its Subsidiaries) assets are subject which would reasonably be expected to have a Material Adverse Effect.

14.8 No misleading information

14.8.1 Any factual information provided in the most recently delivered Information Package was true and accurate in all material respects as at the date it was provided or as at the date (if any) at which it is stated.

14.8.2 The financial projections contained in the most recently delivered Information Package have been prepared on the basis of recent historical information and on the basis of assumptions which the directors of the Company consider reasonable. The forecasts, opinions and assumptions contained or made in the most recently delivered Information Package have been given in good faith and are based on grounds which the directors of the Company consider reasonable.

14.9 Original financial statements

14.9.1 Its Original Financial Statements were prepared in accordance with GAAP consistently applied save as disclosed therein and unless expressly disclosed to the Lender in writing to the contrary before the date of this Agreement.

14.9.2 Its Original Financial Statements give a true and fair view of its financial condition as at the end of the relevant financial year and its operations during the relevant financial year unless expressly disclosed to the Lender in writing to the contrary before the date of this Agreement.

14.9.3 Save as previously disclosed in writing to the Lender before the date of this Agreement, there has been no material adverse change in the business or financial condition of the Company since 26 March 2006.

14.10 Financial statements

14.10.1 Its financial statements and the financial statements of the Group, in each case, most recently delivered to the Lender pursuant to Clause 15.1 (*Financial statements*) have been prepared in accordance with GAAP consistently applied unless save as disclosed therein and expressly disclosed to the Lender in writing to the contrary (A) at the time such financial statements were delivered to the Lender or (B) prior to the date on which this representation is made or deemed to be made.

14.10.2 Its financial statements and the financial statements of the Group, in each case, most recently delivered to the Lender pursuant to Clause 15.1 (*Financial statements*) give a true and fair view of its financial condition or, as the case may be, consolidated financial condition as at the end of the relevant financial year and its operations during the relevant financial year unless expressly disclosed to the Lender in writing to the contrary (A) at the time such financial statements were delivered to the Lender or (B) prior to the date on which this representation is made or deemed to be made.

14.11 No proceedings pending or threatened

Save as disclosed to the Lender in the Disclosure Letter, no litigation, arbitration or administrative proceedings of or before any court, arbitral body or agency which, if adversely determined, would have a Material Adverse Effect have (to the best of its knowledge and belief) been started or threatened against it or any member of the Group.

14.12 Security

14.12.1 It has legal and beneficial title to all or any of the assets over which Security is or is expressed to be created by it pursuant to any Finance Document.

14.12.2 Save for any Security that it is permitted to grant or permit to subsist pursuant to Clause 16.3 (*Negative pledge*), no Security exists over all or any of its assets.

14.12.3 Its execution of the Finance Documents and its exercise of its rights and obligations under the Finance Documents and its entry into the arrangements contemplated by the Finance Documents will not result in the existence of nor oblige it to create any Security (other than any Security that it is permitted to grant or permit to subsist pursuant to Clause 16.3 (*Negative pledge*)) over all or any of its assets.

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14.12.4 Subject to laws or legal procedures affecting the enforceability of creditors rights generally and any other qualifications and reservations set out in any legal opinion delivered pursuant to Clause 3.1 (*Initial conditions precedent*):

- (A) each Security Document to which it is a party (subject to due registration (to the extent required) under section 395 of the Companies Act 1985) confers the Security it purports to confer over its assets; and
- (B) the Security created under or pursuant to each Security Document to which it is a party, is not liable to avoidance on liquidation or bankruptcy, composition or any other similar insolvency proceedings.

14.13 Material adverse change

No event or series of events or development and/or change in circumstances has occurred since the date to which the financial statement(s) most recently delivered to the Lender under Clause 15.1.1 (*Financial statements*) or, as the case may be, Clause 15.1.2 (*Financial statements*) were drawn up which would reasonably be expected to have a Material Adverse Effect.

14.14 Repetition

The Repeating Representations are deemed to be made by each Obligor by reference to the facts and circumstances then existing (but subject to any matters previously disclosed by the Company and accepted for the purpose of such disclosure in writing by the Lender) on:

14.14.1 the date of each Utilisation Request, the Utilisation Date and the first day of each Interest Period;

14.14.2 each 31 March and 30 September falling in the Availability Period; and

14.14.3 in the case of an Additional Borrower or Guarantor, the day on which the person becomes an Additional Borrower or Guarantor.

15. INFORMATION UNDERTAKINGS

The undertakings and provisions in this Clause 15 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force.

15.1 Financial statements

The Company shall supply to the Lender (in such number of copies as the Lender may reasonably request):

15.1.1 as soon as the same are published, but in any event within 120 days after the end of each of its financial years:

- (A) if consolidated financial statements are produced, the audited consolidated financial statements of the Group for that financial year; and
- (B) the audited financial statements of each Obligor for that financial year.

15.1.2 as soon as the same are published, but in any event within 90 days after the end of the first half of each of its financial years, if consolidated financial statements are produced, the consolidated financial statements of the Group for that financial half year.

15.2 Requirements as to financial statements

The Company shall procure that each set of financial statements of an Obligor delivered pursuant to Clause 15.1 (*Financial statements*) is prepared using GAAP, accounting practices and, in the case of any annual financial statements, financial reference periods consistent with those applied in the preparation of the Original Financial Statements for that Obligor unless, in relation to any set of financial statements, the Company notifies the Lender promptly that there has been a change in GAAP or the accounting practices or financial reference periods. In such circumstances, the Company shall:

- 15.2.1 provide a description of any change necessary for those financial statements to reflect the GAAP, accounting practices and reference periods upon which that Obligor's Original Financial Statements were prepared; and
- 15.2.2 provide sufficient information in form and substance satisfactory to the Lender (acting reasonably) to enable it to make an accurate comparison between the financial position indicated in those financial statements and that Obligor's Original Financial Statements.

15.3 Information: miscellaneous

The Company shall supply to the Lender (in such number of copies as the Lender may reasonably request):

- 15.3.1 all documents dispatched by the Company to its shareholders (or any class of them) or its creditors generally at the same time as they are dispatched;
- 15.3.2 promptly upon becoming aware of them, the details of any litigation, arbitration or administrative proceedings which have been commenced, are current or pending against any member of the Group, and which would, if adversely determined, have a Material Adverse Effect;
- 15.3.3 a Weekly Report for each Reporting Period as soon as reasonably practicable and in any event not later than 14 days after expiry of that Reporting Period;

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15.3.4 promptly, such further information regarding the financial condition, business and operations of any member of the Group as the Lender may reasonably request; and

15.3.5 from time to time if the Lender so requests, a list of Post Offices and/or Cash Centres and/or cash centres which are designated as qualifying cash centres for the purposes of the Company's participation in the Note Circulation Scheme.

15.4 Notification of default

15.4.1 Each Obligor shall notify the Lender of any Default (and the steps, if any, being taken to remedy it) promptly upon becoming aware of its occurrence (unless that Obligor is aware that a notification has already been provided by another Obligor).

15.4.2 Promptly upon a request by the Lender, the Company shall supply to the Lender a certificate signed by two of its directors or senior officers on its behalf certifying that no Default is continuing (or if a Default is continuing, specifying the Default and the steps, if any, being taken to remedy it).

15.4.3 The Company shall notify the Lender promptly upon becoming aware of the occurrence of a material breach of the Framework Agreement by Holdings, Royal Mail Group or the Company.

15.5 New Subsidiaries

15.5.1 The Company shall promptly notify the Lender if it or any Obligor or any of its or any Obligor's Subsidiaries shall acquire any Principal Subsidiary or form or cause the formation of a new Principal Subsidiary.

15.5.2 Any notice issued by the Company pursuant to Clause 15.5.1 shall include reasonable details of the relevant new Subsidiary and the circumstances relating to its acquisition or formation and the Company shall provide or procure the provision of any further information that the Lender may reasonably request in relation to such new Subsidiary and/or its acquisition or formation.

15.6 Initial implementation of Monitoring Regime

15.6.1 Prior to the first Utilisation Date, the Company must implement and operate a monitoring regime which complies with:

- (A) the principles set out in Schedule 7 (*Monitoring Regime*); and
- (B) the reasonable requirements of the Lender from time to time notified by it to the Company pursuant to any audit carried out under this Clause 15.6.

- 15.6.2 The Lender may at its own cost appoint an independent consultant to carry out an audit of such monitoring regime prior to its initial implementation. Accordingly, at all reasonable times prior to the first Utilisation Date and upon reasonable requests, the Company shall provide and shall ensure that each of its Subsidiaries and the directors, employees and agents of the Company and such Subsidiaries provides all such information, access and assistance as the Lender and/or the appointed independent consultant shall require for the purpose of such audit.
- 15.6.3 The monitoring regime shall only be treated as having been implemented for the purposes of this Agreement if (a) the Lender has received an audit report (satisfactory to the Lender) from the independent consultant referred to in Clause 15.6.2 confirming, inter alia, that the regime so implemented complies with the requirements of Clause 15.6.1; and (b) (where such an audit report includes any requirements and/or recommendations relating to such monitoring regime or its implementation) the Lender is satisfied, acting reasonably, that all such requirements and/or recommendations have been implemented. For the purposes of this Agreement, the "**Monitoring Regime**" means the regime so implemented and in respect of which a satisfactory audit report has been delivered to the Lender (together with the practices, systems and information underpinning the same and/or required to produce the Weekly Reports) as the same may be modified from time to time in accordance with Clause 15.7.1 (*Monitoring Regime*).

15.7 Monitoring Regime

- 15.7.1 Following the implementation of the Monitoring Regime, in accordance with Clause 15.6 (*Initial implementation of Monitoring Regime*), each Obligor shall ensure that it maintains, operates and complies with such Monitoring Regime. If, pursuant to any audit carried out in accordance with this Clause 15.7, the Lender (acting reasonably) identifies additional matters that need to be covered by the Monitoring Regime and/or any other modifications that need to be made to the Monitoring Regime, it may notify the Company of the same and each Obligor shall use its reasonable endeavours to ensure that the Monitoring Regime is modified to take account of the additional matters and/or other modifications so notified by the Lender, in each case, to the reasonable satisfaction of the Lender. Following any such modification of the Monitoring Regime, each Obligor shall ensure that it maintains, operates and complies with the Monitoring Regime so modified.
- 15.7.2 The Company shall (at its own expense) commission annual audits of the Monitoring Regime relating to each Relevant Period from Ernst & Young or such other auditor of the Company as shall be approved by the Lender and supply to the Lender audit reports (in such form and containing such information as the Lender may reasonably require) of the result of such audits. Each audit report carried out pursuant to this Clause 15.7.2 must be delivered to the Lender no later than 120 days after the expiry of such Relevant Period.

15.7.3 Without prejudice to Clause 15.7.2, the Lender may, at any time, and at its own cost appoint an independent consultant to carry out an audit of the Monitoring Regime and the Company (without prejudice to Clause 15.7.4) shall provide and shall ensure that each of its Subsidiaries and the directors, employees and agents of the Company and such Subsidiaries provides all such assistance and information as the Lender and/or the appointed independent consultant shall reasonably require for the purpose of such audit.

15.7.4 At all reasonable times and upon reasonable requests, each Obligor (and the Company shall procure that each member of the Group) must:

- (A) allow the Lender, the National Audit Office, any appointed representative of the Lender and/or the National Audit Office or any independent consultant appointed by the Lender pursuant to Clause 15.7.3 (each, a "**Relevant Person**") access to its offices, files, records and computing systems and its directors, employees and/or agents;
- (B) provide and ensure that its directors, employees and agents provide all such assistance and information as any Relevant Person may reasonably require,

in each case, for the purposes of checking the Monitoring Regime and/or verifying any information produced pursuant to the Monitoring Regime (including, without limitation, the Weekly Reports).

16. GENERAL UNDERTAKINGS

The undertakings and provisions in this Clause 16 remain in force from the date of this Agreement for so long as any amount is outstanding under the Finance Documents or any Commitment is in force. The Company may in accordance with Clause 21 (*Timing of Consents*) seek consent from the Lender to take any action that would otherwise be restricted by the undertakings in this Clause 16.

16.1 Authorisations

Each Obligor shall promptly obtain, comply with and do all that is necessary to maintain in full force and effect any Authorisation required under any law or regulation of its jurisdiction of incorporation to enable it to perform its obligations under the Finance Documents, to ensure the legality, validity, enforceability and in the case of an Obligor that is not incorporated in England and Wales, admissibility in evidence in its jurisdiction of incorporation, of any Finance Document.

16.2 Compliance with laws

Each Obligor shall comply in all respects with all laws to which it may be subject, if failure so to comply would have a material adverse effect on its ability to perform its obligations under the Finance Documents.

16.3 Negative pledge

16.3.1 No Obligor shall (and the Company shall ensure that no other member of the Group will) create or permit to subsist any Security over any (i) Cash Items; (ii) Near-Cash Items; (iii) Authorised Investments made pursuant to Clause 16.12 (*Authorised investments*); (iv) Client Bank Accounts (or sums standing to the credit thereto); or (v) its interests relating to the assets referred to in (i), (ii), (iii) and (iv) (together, the "**Key Assets**").

16.3.2 No Obligor shall and the Company shall ensure that no other member of the Group will:

- (A) transfer or otherwise dispose of any of its Key Assets on terms whereby they are or may be leased to or re acquired by an Obligor or any other member of the Group;
- (B) sell, transfer or otherwise dispose of any of its Key Assets on recourse terms;
- (C) enter into any arrangement with respect to any of its Key Assets under which money or the benefit of a bank or other account may be applied, set off or made subject to a combination of accounts; or
- (D) enter into any other preferential arrangement with respect to any of its Key Assets having a similar effect,

in circumstances where the arrangement or transaction is entered into primarily as a method of raising Financial Indebtedness or of financing the acquisition of an asset.

16.3.3 Clauses 16.3.1 and 16.3.2 shall not apply to:

- (A) any Security granted or other arrangement falling under Clause 16.3.2 entered into pursuant to any Finance Document;
- (B) any lien arising by operation of law and in the ordinary course of business; and
- (C) any netting or set-off arrangement entered into by the Company in the ordinary course of its financing arrangements for the purpose of netting or setting off debit or credit balances.

16.3.4 As soon as reasonably practicable after the same shall have been granted or entered into, the Company shall:

- (A) notify the Lender of any Security that has been granted or entered into by it or any of its Subsidiaries in accordance with this Clause 16.3 or otherwise; and

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- (B) if so requested by the Lender, provide copies of any documents relating thereto.

16.4 Financial Indebtedness

16.4.1 Except as provided below, no member of the Group may incur any Financial Indebtedness.

16.4.2 Clause 16.4.1 does not apply to:

- (A) any Financial Indebtedness incurred under the Finance Documents;
- (B) any Financial Indebtedness arising from the purchase of goods and services by any member of the Group on normal credit terms in the ordinary course of business provided that such Financial Indebtedness is discharged on or before the expiry of the relevant period of credit;
- (C) any Financial Indebtedness owed to Royal Mail Group which has been provided by Royal Mail Group in accordance with clause 18.6.6 of the credit agreement dated 20 December 2002 as amended as restated on 19 March 2007 between (among others) Royal Mail Group and the Lender (provided that such Financial Indebtedness does not at any time exceed £250,000,000 (or its equivalent) in aggregate and is discharged and/or repaid no later than 28 days after it has been incurred);
- (D) any intra-day Financial Indebtedness owed to Royal Mail Group or any other person as a result of Royal Mail Group or such other person making payments or incurring liabilities on behalf of the Company in connection with the Note Circulation Scheme;
- (E) any Financial Indebtedness incurred on terms whereby such Financial Indebtedness is expressly subordinated in right of payment to the Financial Indebtedness under the Finance Documents and the terms of such subordination are satisfactory to the Lender;
- (F) any Financial Indebtedness owed by one member of the Group to another member of the Group;
- (G) on and from the date on which such arrangements replace the Company's participation in the Note Circulation Scheme, any Financial Indebtedness incurred as a result of any arrangements entered into with the approval of the Lender (such approval not to be unreasonably withheld or delayed) in substitution for the Company's participation in the Note Circulation Scheme;
- (H) any Financial Indebtedness arising in the ordinary course of business as a result of settlement or reimbursement obligations of the Company or any of its Subsidiaries by reason of the role played by the Company

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or such Subsidiary as an intermediary in respect of the handling of Cash Items and Near-Cash Items;

- (I) to the extent that the same is discharged at the close of the relevant day, any intra-day Financial Indebtedness arising as a result of a debit balance existing with respect to any of the Company's bank accounts;
- (J) Financial Indebtedness arising pursuant to any leasing arrangements as described in paragraph (D) of the definition of Financial Indebtedness ("**Permitted Leasing Indebtedness**"), provided that such Permitted Leasing Indebtedness does not exceed, at any time, an aggregate principal amount of £50,000,000 (or its equivalent); and
- (K) Financial Indebtedness (arising other than pursuant to paragraphs (A) to (J) of this clause 16.4.2) not exceeding, at any time, an aggregate principal amount of £50,000,000 (or its equivalent), provided that no Permitted Leasing Indebtedness shall be incurred by POL pursuant to this paragraph (K).

16.4.3 Prior to incurring any Permitted Leasing Indebtedness, the Company shall consider and be of the reasonable opinion that such Permitted Leasing Indebtedness is the most appropriate form of Financial Indebtedness for the particular business requirement of the Company.

16.5 Loans

No Obligor shall (and the Company shall ensure that no other member of the Group will) be the creditor in respect of any Financial Indebtedness except:

- 16.5.1 in relation to any of its suppliers or customers on normal credit terms in the ordinary course of its business;
- 16.5.2 any cash deposits made with financial institutions and, in accordance with the guidelines and procedures approved by the Lender from time to time, other entities, in each case, at arm's length and on normal commercial terms as part of the deposit maker's cash management procedures in the ordinary course of its business;
- 16.5.3 Financial Indebtedness permitted to be incurred under Clause 16.4.2(F) (*Financial Indebtedness*);
- 16.5.4 any cash deposits and other investments made in accordance with Clause 16.12 (*Authorised investments*);
- 16.5.5 loans to Relevant JVs not exceeding £40,000,000 (when aggregated with the amount of any subscription for any shares or equity contribution to Relevant JVs permitted under Clause 16.11 (*JVs*));

16.5.6 loans to employees of members of the Group or to sub-post masters engaged by the Company, in each case, in the ordinary course of business; and

16.5.7 any Financial Indebtedness arising in the ordinary course of business as a result of settlement or reimbursement obligations owed to the Company or any of its Subsidiaries by reason of the role played by the Company or such Subsidiary as an intermediary in respect of the handling of Cash Items and Near-Cash Items.

16.6 Merger

No Obligor shall enter into any amalgamation, demerger, merger or corporate reconstruction other than the Group Reorganisation.

16.7 Change of business

The Company shall procure that no substantial change is made to the general nature of the business of the Group from that carried on at the date of this Agreement.

16.8 Subsidiaries

The Company shall ensure that each Principal Subsidiary shall continue to be a Subsidiary of the Company.

16.9 Insurance

Each Obligor shall (and the Company shall ensure that each other member of the Group will) (A) maintain insurances on and in relation to its business and assets with reputable underwriters or insurance companies and/or (B) self-insure, in the case of (A) and (B), against such risks and to such extent as is usual for prudent companies carrying on a business such as that carried on by such Obligor or member of the Group.

16.10 Debt Security

Each Obligor shall comply with the terms and conditions of each Debt Security issued pursuant to this Agreement.

16.11 JVs

No Obligor and no member of the Group shall:

16.11.1 enter into any joint venture or outsourcing arrangements without the consent of the Lender (not to be unreasonably withheld or delayed); and

16.11.2 in any event, subscribe for any shares or other securities issued by or otherwise provide any equity contributions to any Relevant JVs, other than subscriptions or equity contributions to Relevant JVs where the amount subscribed or

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contributed does not exceed, when aggregated with loans to Relevant JVs permitted under Clause 16.5.5 (*Loans*), £40,000,000.

16.12 Authorised investments

16.12.1 The Company shall from time to time ensure that monies are:

- (A) placed on deposit with the DMO pursuant to the Deposit Agreement; or
- (B) invested with financial institutions or in money market funds approved by and on such terms as are approved, in each case, from time to time by the Lender (including in accordance with the letter dated 8th November 2001 from Derek Davis of the Lender to Marisa Cassoni of Royal Mail Group),

in each case, in order to ensure that the aggregate amount of all outstanding Advances at any time does not exceed the Aggregate Utilisations at such time. For the purposes of this Agreement, "**Authorised Investment**" means each such deposit or investment within paragraphs (A) and (B) of this Clause 16.12.1

16.12.2 For the purposes of this Agreement, "**Aggregate Utilisations**" on any date means an amount calculated (without double counting) in accordance with the following formula:

$$AU = CI + NCI + D - RM - A\&L \text{ Debt}$$

where:

"AU" is the relevant amount of the Aggregate Utilisations on such date;

"CI" is the aggregate amount (calculated in sterling) of Cash Items on such date;

"NCI" is the aggregate amount (calculated in sterling) of Near-Cash Items on such date;

"D" is the aggregate amount (calculated in sterling) of deposits and other investments made pursuant to Clause 16.12.1 on such date;

"RM" is the aggregate amount, if any, (calculated in sterling) of funds provided by Royal Mail Group within the terms of Clause 16.4.2(C) (*Financial Indebtedness*) to the Group on or before such date which (a) have been specifically provided by Royal Mail Group to enable the Group to fund Cash Items and/or Near-Cash Items arising in the period ending on such date; (b) have not been utilised by the Group (or any member thereof) for such purposes on or before such date; and (c) have not been repaid by the Group (or any member thereof) on or before such date; and

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"A&L Debt" has the same meaning as in the Intercreditor Agreement.

16.13 Segregation

Each Obligor shall ensure that:

16.13.1 the Group maintains accounting systems and practices, bank accounts, computing systems, filing and recording systems and practices and other operational mechanisms, systems and practices which allow:

- (A) the liabilities of the members of the Group and/or the assets of the members of the Group (whether held by a member of the Group or on its behalf) to be separately identifiable from the liabilities and assets of (i) Royal Mail Group and Holdings and any of their Subsidiaries that are not members of the Group or (ii) any other person that is not a member of the Group (each person referred to in (i) and (ii) being, for the purposes of this Clause 16.13, a "Third Person"); and
- (B) the liabilities and assets relating to or represented by Cash Items and Near-Cash Items to be separately identifiable from any other liabilities and/or assets of the Group;

16.13.2 (without prejudice to Clause 16.13.1) all Cash Items and Near-Cash Items are held and/or dealt with in a manner which will allow the same to be separately identifiable from (i) any other assets or liabilities of the Group and (ii) any assets or liabilities of any Third Person;

16.13.3 (without prejudice to Clause 16.13.1) it will not co-mingle or permit to be co-mingled:

- (A) any cash, deposits, investments or other fungible assets held by or on behalf of any member of the Group with the cash deposits, investments or other fungible assets of any Third Person; and
- (B) any cash, deposits, investments or other fungible assets held by or on behalf of any member of the Group for the purposes of or in connection with the funding of Cash Items and Near-Cash Items with cash, deposits, investments or other fungible assets held by or on behalf of any member of the Group for any other purposes,

in each case, to the satisfaction of the Lender.

17. EVENTS OF DEFAULT

Each of the events or circumstances set out in Clause 17 is an Event of Default.

17.1 Non payment

An Obligor does not pay on the due date any amount payable pursuant to a Finance Document at the place at and in the currency in which it is expressed to be payable unless:

17.1.1 its failure to pay is caused by administrative or technical error; and

17.1.2 payment is made within three Business Days of its due date.

17.2 Other covenants

An Obligor does not comply with any of Clause 16.3 (*Negative pledge*), Clause 16.4 (*Financial Indebtedness*), Clause 16.7 (*Change of business*) and Clause 16.11 (*JVs*).

17.3 Other obligations

17.3.1 The Company does not comply with any provision of this Agreement or any other Finance Document (other than those referred to in Clause 15.3.3 (*Information: miscellaneous*), Clause 17.1 (*Non payment*) and Clause 17.2 (*Other covenants*)).

17.3.2 No Event of Default under Clause 17.3.1 above will occur if the failure to comply is capable of remedy and is remedied within 21 Business Days of the Lender giving notice to the Company of the failure to comply.

17.4 Misrepresentation

Any representation or statement made or deemed to be made by any Obligor in the Finance Documents is or proves to have been incorrect or misleading in any material respect when made or deemed to be made.

17.5 Cross default

17.5.1 Any Financial Indebtedness of any member of the Group is not paid when due nor within any originally applicable grace period.

17.5.2 Any Financial Indebtedness of any member of the Group is declared to be or otherwise becomes due and payable prior to its specified maturity as a result of an event of default (however described).

17.5.3 Any creditor of any member of the Group becomes entitled to declare any Financial Indebtedness of any member of the Group due and payable prior to its specified maturity as a result of an event of default (however described).

17.5.4 No Event of Default will occur under this Clause 17.5 if:

- (A) the aggregate amount of Financial Indebtedness falling within Clauses 17.5.1 to 17.5.3 above is less than £10,000,000 (or its equivalent in any other currency or currencies); or
- (B) the Lender is satisfied (acting reasonably) that the relevant member of the Group is contesting the claim in question in good faith (on the basis of independent legal advice to the effect that the relevant member of the Group is more likely than not to succeed in its claim).

17.6 Insolvency

- 17.6.1 A Transaction Party or any Principal Subsidiary is unable or admits inability to pay its debts as they fall due (save that this shall not apply by virtue only of a party being deemed unable to pay its debt by section 123(2) of the Insolvency Act 1986), suspends making payments on all or any class of its debts or, by reason of actual or anticipated financial difficulties, commences negotiations with one or more of its creditors with a view to rescheduling all or any class of its indebtedness.
- 17.6.2 A moratorium is declared in respect of any indebtedness of any Transaction Party or Principal Subsidiary.

17.7 Insolvency proceedings

Any corporate action, legal proceedings or other procedure or step is taken in relation to:

- 17.7.1 the suspension of payments, a moratorium of any indebtedness, winding up, dissolution, administration or reorganisation (by way of voluntary arrangement, scheme of arrangement or otherwise) of any Transaction Party or Principal Subsidiary other than a solvent liquidation or reorganisation of any Principal Subsidiary which is not a Transaction Party;
- 17.7.2 a composition, assignment or arrangement with the creditors generally of any Transaction Party or Principal Subsidiary;
- 17.7.3 the appointment of a liquidator (other than in respect of a solvent liquidation of a Principal Subsidiary which is not a Transaction Party), receiver, administrator, administrative receiver, compulsory manager or other similar officer in respect of any Transaction Party or Principal Subsidiary or all or a material part of its assets; or
- 17.7.4 enforcement of any Security over all or a material part of the assets of any Transaction Party or Principal Subsidiary,

or any analogous procedure or step is taken in any jurisdiction provided that an Event of Default under this Clause 17.7 will occur in relation to presentation of a petition for winding up only if (i) such petition is not discharged or struck out within 30 days or (ii)

the Lender, acting reasonably, is satisfied that a provisional liquidator is reasonably likely to be appointed within those 30 days as a result of such petition.

17.8 Creditors' process

Any expropriation, attachment, sequestration, distress or execution in respect of indebtedness exceeding £5,000,000 (or its equivalent) affects any asset or assets of any Transaction Party or Principal Subsidiary and is not discharged within 30 days.

17.9 Ownership of the Obligors

A Transaction Party (other than the Company) is not or ceases to be a Subsidiary of the Company.

17.10 Repudiation

A Transaction Party repudiates a Finance Document.

17.11 Cessation of business

Any Transaction Party or Principal Subsidiary ceases or threatens to cease to carry on the whole or substantially the whole of its business or operations unless, in the case of any Principal Subsidiary that is not a Transaction Party, all of the assets and liabilities of the Principal Subsidiary that ceases to carry on the whole or substantially the whole of its business or operations have been transferred to a Transaction Party or any other Principal Subsidiary on or before the date on which such cessation of business or operations takes effect.

17.12 Compliance with Framework Agreement

Failure by the Company to comply with any material provisions of the Framework Agreement within 7 days of the Lender giving notice to the Company of the failure to comply.

17.13 Required Security

17.13.1 Failure by the Company to provide the Lender with a Weekly Report for any Reporting Period within 16 days of the expiry of that Reporting Period.

17.13.2 If any Weekly Report provided to the Lender demonstrates that the Total Borrowings on the last day of the Reporting Period to which it relates is more than the Net Utilisations on that date:

- (A) failure by the Company to provide (within 7 days of the date on which the relevant Weekly Report is provided) any explanation of the reason for such Total Borrowings exceeding such Net Utilisations;

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- (B) failure by the Company to demonstrate (within 7 days of the date on which the relevant Weekly Report is provided) to the reasonable satisfaction of the Lender that such Total Borrowings have exceeded such Net Utilisations for reasons other than a contravention of Clause 2.2 (*Purpose*) and/or Clause 16.12 (*Authorised investments*); or
- (C) if such Total Borrowings have exceeded such Net Utilisations by reason of a contravention of Clause 2.2 (*Purpose*) and/or Clause 16.12 (*Authorised investments*), failure by the Company to rectify or otherwise address the matter(s) that has or have resulted in such Total Borrowings exceeding such Net Utilisations to the reasonable satisfaction of the Lender within 7 days of the date on which the Lender notifies the Company that it must rectify or otherwise address such matter(s).

17.14 Acceleration

17.14.1 On and at any time after the occurrence of an Event of Default which is continuing the Lender may by notice to the Company:

- (A) cancel the Commitments, whereupon they shall immediately be cancelled;
- (B) declare that all or part of the Advances, together with accrued interest, and all other amounts accrued or outstanding under the Finance Documents be immediately due and payable, whereupon they shall become immediately due and payable; and/or
- (C) declare that all or part of the Advances be payable on demand, whereupon they shall immediately become payable on demand by the Lender.

17.14.2 The aggregate amount of principal to be repaid under Clause 17.14.1 above shall be determined by the Lender in accordance with the NPV Formula.

CHANGES TO PARTIES

18. TRANSFER BY THE LENDER

18.1 Assignments and transfers by the Lender

Subject to this Clause 18, the Lender may:

- 18.1.1 assign any of its rights; or
- 18.1.2 transfer by novation any of its rights and obligations, to another governmental body or to a bank or financial institution (the "**New Lender**").

18.2 Conditions of assignment or transfer

- 18.2.1 The consent of the Company is required for an assignment or transfer by the Lender.
- 18.2.2 The consent of the Company to an assignment or transfer must not be unreasonably withheld or delayed. The Company will be deemed to have given its consent fifteen Business Days after the Lender has requested it unless consent is expressly refused by the Company within that time.
- 18.2.3 The transfer of any obligations of the Lender will be effective only if the New Lender confirms to the Lender and the Company that it undertakes to be bound by the terms of this Agreement in form and substance reasonably satisfactory to the Lender and the Company.

18.3 Disclosure of information

The Lender may disclose to:

- 18.3.1 Her Majesty's Treasury and/or DMO;
- 18.3.2 any person to (or through) whom the Lender assigns or transfers (or with whom the Lender enters into negotiations with regard to a proposed assignment or transfer or (or through) such person) all or any of its rights and obligations under this Agreement and/or any other Finance Documents;
- 18.3.3 any person to whom, and to the extent that, information is required to be disclosed by any applicable law or regulation; and/or
- 18.3.4 any professional adviser of the Lender, Her Majesty's Treasury and/or DMO,

any information about any Obligor, the Group and the Finance Documents as the Lender shall reasonably consider appropriate, subject to any person referred to in Clause 18.3.2 entering into a confidentiality undertaking in form and substance satisfactory to the Company (acting reasonably).

19. CHANGES TO THE OBLIGORS

19.1 Assignments and transfer by Obligors

No Obligor may assign any of its rights or transfer any of its rights or obligations under the Finance Documents.

19.2 Additional Borrowers

19.2.1 The Company may request that any Holding Company (other than Holdings or Royal Mail Group) in respect of which the Company is a wholly owned Subsidiary or any of the Company's wholly owned Subsidiaries becomes an Additional Borrower.

19.2.2 That Holding Company or Subsidiary shall become an Additional Borrower (a) if the Lender consents to the same and (b) upon its accession to this Agreement and any Debt Security on such terms and conditions and the delivery of such documents, in each case, as the Lender may reasonably require.

19.3 Additional Guarantors

19.3.1 If the Lender so requires from time to time, each Obligor shall procure the accession by any Principal Subsidiary (that is not an Obligor) to this Agreement and any Debt Security as a Guarantor.

19.3.2 That Principal Subsidiary shall become a Guarantor upon its accession to this Agreement and any Debt Security on such terms and conditions and the delivery of such documents, in each case, as the Lender may reasonably require.

19.4 Release of Borrowers and Guarantors

In connection with any person (A) becoming an Additional Borrower in accordance with Clause 19.2 (*Additional Borrowers*) or (B) becoming a Guarantor in accordance with Clause 19.3 (*Additional Guarantors*) the Lender may, in the case of (A), release an existing Borrower or existing Borrower(s) from this Agreement in its or their capacity as such or, in the case of (B), release an existing Guarantor or existing Guarantors from this Agreement in its or their capacity as such. Such release shall, in each case, be effected on such terms and conditions and the delivery of such documents as the Lender may reasonably require.

GENERAL PROTECTIONS

20. FINANCE PARTY

20.1 Rights and discretions of the Lender

20.1.1 The Lender may rely on:

- (A) any representation, notice or document believed by it to be genuine, correct and appropriately authorised; and
- (B) any statement made by a director, authorised signatory or employee of any person regarding any matters which may reasonably be assumed to be within his knowledge or within his power to verify.

20.1.2 The Lender may assume that any notice or request made by the Company (other than a Utilisation Request) is made on behalf of and with the consent and knowledge of all the Obligors.

20.1.3 The Lender may act in relation to the Finance Documents through its personnel and agents.

20.2 Exclusion of liability

No Party (other than the Lender) may take any proceedings against any officer, employee or agent of the Lender in respect of any claim it might have against the Lender or in respect of any act or omission of any kind by that officer, employee or agent in relation to any Finance Document and any officer, employee or agent of the Lender may rely on this Clause.

21. TIMING OF CONSENTS

21.1 Submission of request

21.1.1 If any Obligor wishes to obtain the Lender's consent to any matter in respect of which the Lender's consent is required to be obtained under the Finance Documents, such Obligor shall issue a request for such consent in accordance with Clause 24 (*Notices*) save that such request shall be delivered to the Lender at the relevant address personally.

21.1.2 Any request issued under Clause 21.1.1 must:

- (A) clearly state that it is important and requires immediate attention;
- (B) clearly identify itself as a request served pursuant to this Clause 21 and that failure to respond within ten Business Days will result in the Lender being deemed to have given his consent to the matter in question; and

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- (C) contain or annex such information as can reasonably be expected to enable the Lender to consider the matter being proposed.

21.2 Response by Lender

21.2.1 On or before the date which falls ten Business Days after the date of receipt by the Lender of any request issued in accordance with Clause 21.1 (*Submission of request*) (the "**Initial Expiry Date**"), the Lender shall issue a notice to the Obligor submitting the relevant request stating:

- (A) its consent to the matter contained in the request; or
- (B) its refusal to consent to the matter contained in the request (together with, in reasonable detail and on a confidential basis, the reasons for such refusal); or
- (C) that it requires a further period of ten business days (commencing from and including the first Business Day after the Initial Expiry Date) in which to consider the matter.

21.2.2 If on or before the Initial Expiry Date, the Lender issues a notice pursuant to Clause 21.2.1(C), the Lender shall (on or before that date which falls ten Business Days after the Initial Expiry Date (the "**Subsequent Expiry Date**")) issue a further notice to the Obligor submitting the relevant request stating:

- (A) its consent to the matter contained in the request; or
- (B) its refusal to consent to the matter contained in the request (together with, in reasonable detail and on a confidential basis, the reasons for such refusal).

21.2.3 The Lender may, at any time, request any Obligor submitting a request for consent under Clause 21.1 (*Submission of request*) for such information as it reasonably requires in order to assist it to consider the matter being proposed and such Obligor shall deliver such information to the Lender as soon as reasonably practicable thereafter.

21.3 Deemed consent

If the Obligor submitting a request for consent under Clause 21.1 (*Submission of request*) does not receive any notice pursuant to Clause 21.2.1 (*Response by Lender*) on or before the Initial Expiry Date or if the Lender has given notice to the Company under Clause 21.2.1(C) (*Response by Lender*) in accordance with Clause 21.2.2 (*Response by Lender*), on or before the Subsequent Expiry Date, that Obligor shall be entitled to undertake the matter contained in the request issued by it and the Lender shall be deemed irrevocably to have given its consent to such matter.

ADMINISTRATION

22. PAYMENT MECHANICS

22.1 Payments to the Lender

22.1.1 On each date on which an Obligor is required to make a payment under a Finance Document, that Obligor shall make the same available to the Lender (unless a contrary indication appears in a Finance Document) for value on the due date at the time and in such funds specified by the Lender as being customary at the time for settlement of transactions in the relevant currency in the place of payment.

22.1.2 Payment shall be made to such account as the Lender specifies.

22.2 Distributions by the Lender

Each payment to be made by the Lender under the Finance Documents shall, subject to Clause 22.3 (*Distributions to an Obligor*) be made available by it, to such account as (a) the Party entitled to receive it may notify to the Lender by not less than five Business Days' notice with a bank in the principal financial centre of the country of that currency or, (b) in the case of any Advance, may be specified in the Utilisation Request for such.

22.3 Distributions to an Obligor

The Lender may (with the consent of the Obligor or in accordance with Clause 23 (*Set Off*)) apply any amount received by it for or to be paid to that Obligor in or towards payment (on the date and in the currency and funds of receipt) of any amount due from that Obligor under the Finance Documents or in or towards purchase of any amount of any currency to be so applied.

22.4 No set off by Obligors

All payments to be made by an Obligor under the Finance Documents shall be calculated and be made without (and free and clear of any deduction for) set off or counterclaim.

22.5 Business Days

22.5.1 Any payment which is due to be made on a day that is not a Business Day shall be made on the next Business Day.

22.5.2 During any permitted extension of the due date for payment of any principal or Unpaid Sum under this Agreement interest is payable on the principal or Unpaid Sum at the rate payable on the original due date.

22.6 Currency of account

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- 22.6.1 Subject to Clauses 22.6.2 to 22.6.5 below, sterling is the currency of account and payment for any sum due from an Obligor under any Finance Document.
- 22.6.2 A repayment of an Advance or Unpaid Sum or a part of an Advance or Unpaid Sum shall be made in the currency in which that Advance or Unpaid Sum is denominated on its due date.
- 22.6.3 Each payment of interest shall be made in the currency in which the sum in respect of which the interest is payable was denominated when that interest accrued.
- 22.6.4 Each payment in respect of costs, expenses or Taxes shall be made in the currency in which the costs, expenses or Taxes are incurred.
- 22.6.5 Any amount expressed to be payable in a currency other than sterling shall be paid in that other currency.

22.7 Change of currency

- 22.7.1 Unless otherwise prohibited by law, if more than one currency or currency unit are at the same time recognised by the central bank of any country as the lawful currency of that country, then:
- (A) any reference in the Finance Documents to, and any obligations arising under the Finance Documents in, the currency of that country shall be translated into, or paid in, the currency or currency unit of that country designated by the Lender (after consultation with the Company); and
 - (B) any translation from one currency or currency unit to another shall be at the official rate of exchange recognised by the central bank for the conversion of that currency or currency unit into the other, rounded up or down by the Lender (acting reasonably).
- 1.1.2 If a change in any currency of a country occurs, the Parties will enter into negotiations in good faith with a view to agreeing any amendments to the Finance Documents necessary to comply with any generally accepted conventions and market practice in the London interbank market and otherwise to reflect the change in currency.

23. SET OFF

The Lender may at any time after notice has been served on the Company under Clause 17.14 (*Acceleration*) set off any matured obligation due from an Obligor under the Finance Documents (to the extent beneficially owned by the Lender) against any matured obligation owed by the Lender to that Obligor, regardless of the place of payment, booking branch or currency of either obligation. If the obligations are in different currencies, the Lender may convert either obligation at a market rate of exchange in its usual course of business for the purpose of the set off. The Lender will

give notice to the Company that it has exercised its rights under this Clause 23 promptly after it has exercised such rights.

24. NOTICES

24.1 Communications in writing

Any communication to be made under or in connection with the Finance Documents shall be made in writing and, unless otherwise stated, may be made by fax or letter.

24.2 Addresses

The address or fax number (and the department or officer, if any, for whose attention the communication is to be made) of each of the Company and the Lender for any communication or document to be made or delivered under or in connection with the Finance Documents is that identified with its name and signature below or, in each case, any substitute address, fax number or department or officer as the relevant Party may notify to the other Parties by not less than five Business Days' notice.

24.3 Delivery

1.1.3 Any communication or document made or delivered by one person to another under or in connection with the Finance Documents will only be effective:

- (A) if by way of fax, when received in legible form; or
- (B) if by way of letter, when it has been left at the relevant address or five Business Days after being deposited in the post (postage prepaid) in an envelope addressed to it at that address,

and, if a particular department or officer is specified as part of its address details provided under Clause 24.2 (*Addresses*), if addressed to that department or officer or, in the case of any communication or document made or delivered to the Lender under Clause 21 (*Timing of Consents*), if addressed and sent to each of the four officers so specified.

1.1.4 Any communication or document to be made or delivered to the Lender will be effective only when actually received by the Lender and then only if it is expressly marked for the attention of the department or officer(s) identified with the Lender's signature below (or any substitute department or officer as the Lender shall specify for this purpose).

1.1.5 Any communication or document made or delivered to the Company in accordance with this Clause will be deemed to have been made or delivered to each of the Obligors.

24.4 Electronic communication

1.1.6 Any communication to be made between the Company and the Lender under or in connection with the Finance Documents may be made by electronic mail or other electronic means, if the Company and the Lender:

- (A) agree that, unless and until notified to the contrary, this is to be an accepted form of communication;
- (B) notify each other in writing of their electronic mail address and/or any other information required to enable the sending and receipt of information by that means; and

1.1.7 notify each other of any change to their address or any other such Any electronic communication made between the Lender and the Company will be effective only when actually received in readable form and only if it is addressed in such a manner as the Lender or as the case may be the Company shall specify for this purpose.

24.5 English language

1.1.8 Any notice given under or in connection with any Finance Document must be in English.

1.1.9 All other documents provided under or in connection with any Finance Document must be:

- (A) in English; or
- (B) if not in English, and if so required by the Lender, accompanied by a certified English translation and, in this case, the English translation will prevail unless the document is a constitutional, statutory or other official document.

25. CALCULATIONS AND CERTIFICATES

25.1 Accounts

In any litigation or arbitration proceedings arising out of or in connection with a Finance Document, the entries made in the accounts maintained by the Lender are prima facie evidence of the matters to which they relate.

25.2 Certificates and Determinations

Any certification or determination by the Lender of a rate or amount under any Finance Document is, in the absence of manifest or proven error, prima facie evidence of the matters to which it relates.

25.3 Day count convention

Any interest, commission or fee accruing under a Finance Document will accrue from day to day and is calculated on the basis of the actual number of days elapsed and a year of 365 days or, in any case where the practice in the London interbank market differs, in accordance with that market practice.

26. PARTIAL INVALIDITY

If, at any time, any provision of the Finance Documents is or becomes illegal, invalid or unenforceable in any respect under any law of any jurisdiction, neither the legality, validity or enforceability of the remaining provisions nor the legality, validity or enforceability of such provision under the law of any other jurisdiction will in any way be affected or impaired.

27. REMEDIES AND WAIVERS

No failure to exercise, nor any delay in exercising, on the part of the Lender, any right or remedy under the Finance Documents shall operate as a waiver, nor shall any single or partial exercise of any right or remedy prevent any further or other exercise or the exercise of any other right or remedy. The rights and remedies provided in this Agreement are cumulative and not exclusive of any rights or remedies provided by law.

28. AMENDMENTS AND WAIVERS

Any term of any Finance Document may be amended or waived only with the consent of all the parties to such Finance Document and any such amendment or waiver will be binding on all Parties.

29. COUNTERPARTS

Each Finance Document may be executed in any number of counterparts, and this has the same effect as if the signatures on the counterparts were on a single copy of the Finance Document.

GOVERNING LAW AND ENFORCEMENT

30. GOVERNING LAW

This Agreement is governed by English law.

31. ENFORCEMENT

31.1 Jurisdiction of English courts

The courts of England have exclusive jurisdiction to settle any dispute arising out of or in connection with this Agreement (including a dispute regarding the existence, validity or termination of this Agreement) (a "**Dispute**").

31.2 Convenient Forum

The Parties agree that the courts of England are the most appropriate and convenient courts to settle Disputes and accordingly no Party will argue to the contrary.

31.3 Benefit

This Clause 31 is for the benefit of the Lender only. As a result, the Lender shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Lender may take concurrent proceedings in any number of jurisdictions.

31.4 Service of process

Without prejudice to any other mode of service allowed under any relevant law, each Obligor (other than an Obligor incorporated in England and Wales):

31.4.1 irrevocably appoints the Company as its agent for the service of process in relation to any proceedings before the English courts in connection with any Finance Document; and

31.4.2 agrees that failure by a process agent to notify the relevant Obligor of the process will not invalidate the proceedings concerned.

SCHEDULE 1
Conditions Precedent

1. ORIGINAL OBLIGORS

- 1.1.1 A copy of the constitutional documents of the Company.
- 1.1.2 A copy of a resolution of the board of directors of the Company:
 - (A) approving the terms of, and the transactions contemplated by, the Finance Documents to which it is a party and resolving that it execute the Finance Documents to which it is a party;
 - (B) authorising a specified person or persons to execute the Finance Documents to which it is a party on its behalf; and
 - (C) authorising a specified person or persons, on its behalf, to sign and/or despatch all documents and notices (including, if relevant, any Utilisation Request) to be signed and/or despatched by it under or in connection with the Finance Documents to which it is a party.
- 1.1.3 A specimen of the signature of each person authorised by the resolution referred to in paragraph 1.1.2 above.
- 1.1.4 A certificate of the Company (signed by a director) confirming that borrowing the Maximum Commitment would not cause any borrowing, guaranteeing or similar limit binding on it to be exceeded.
- 1.1.5 A certificate of an authorised signatory of the Company certifying that each copy document relating to it specified in this Schedule 1 is correct, complete and in full force and effect as at a date no earlier than the date of this Agreement.
- 1.1.6 A certificate of solvency signed by two directors of the Company.

2. LEGAL OPINIONS

A legal opinion from the Lender's English legal advisers, Herbert Smith.

3. OTHER DOCUMENTS AND EVIDENCE

- 3.1.1 The Original Financial Statements of the Company.
- 3.1.2 Evidence that the fees due from the Company pursuant to Clause 8.3 (*Arrangement fee*) have been paid.
- 3.1.3 Originals of the following, duly executed by the parties thereto:
 - (A) the Security Documents; and

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(B) the Deposit Agreement,

in each case, unconditional and in full force and effect.

- 3.1.4 (A) evidence that a monitoring regime has been implemented in accordance with Clause 15.6 (Initial implementation of Monitoring Regime) and (B) a satisfactory audit report (the "**relevant audit report**") (from such independent consultant as may be appointed pursuant to Clause 15.6.2 (Initial implementation of Monitoring Regime)) relating thereto.
- 3.1.5 Evidence that each requirement and/or recommendation specified in the relevant audit report referred to in paragraph 3.1.4 has been implemented.

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SCHEDULE 2
Utilisation Request

From: [Borrower]

To: [Lender]

Fax No: [Lender fax]

[FAO required Lender contacts]

Date: [date request submitted]

Copy: [•]

Fax No: [Copy recipient fax]

Dear Sirs

Secretary of State for Business, Innovation & Skills – Post Office Limited - credit facilities agreement dated 17th October 2003 (as amended and restated on 16 May, 2007; amended on 18 April 2008; and amended and restated on 24 March 2010) (the "Agreement")

1. We refer to the Agreement. This is a Utilisation Request. Terms defined in the Agreement have the same meaning in this Utilisation Request unless given a different meaning in this Utilisation Request.
2. We wish you to make us an Advance on the following terms:
 - Number: [•]
 - Proposed Utilisation Date: [•] (or, if that is not a Business Day, the next Business Day)
 - Amount: [•] or, if less, the Available Facility
 - Interest Period: [•]
 - Maturity Date (i.e. Repayment due date): [•]
3. We confirm that each condition specified in Clause 3.2.1 (*Further conditions precedent*) of the Agreement is satisfied on the date of this Utilisation Request.
4. The proceeds of this Advance should be credited to:
 - Account No: [•]
 - Sort Code: [•]
 - Account Name: [•]

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Yours faithfully

.....
authorised signatory for [*name of relevant Borrower*]

[*] Information to be inserted as required when submitting a request. Such information must be represented in the preferred format of the Lender, which shall be agreed after discussion with the Borrower.

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SCHEDULE 3
Form of Debt Security

Debt Security No:

Amount £

POST OFFICE LIMITED
(Company number 02154540)
(the "**Company**")

DEBT SECURITY

Issued pursuant to the credit facilities agreement dated 17th October 2003 between the Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Trade and Industry) and Post Office Limited (as amended and restated on 16 May, 2007; amended on 18 April 2008; and amended and restated on 24 March, 2010) (the "**Agreement**").

This is a Debt Security for an Advance of £[•].

This Debt Security is issued in accordance with and subject to the Agreement and pursuant to the Memorandum and Articles of Association of the Company and a resolution of the Directors of the Company dated 15th October 2003. Unless otherwise defined in this Debt Security, terms defined in the Agreement shall have the same meanings when used in this Debt Security.

"Conditions" means the conditions that are set out in Schedule 4 of the Agreement and which shall be deemed to be part of this Debt Security. This Debt Security is issued subject to and with the benefit of such Conditions.

For the purposes of Condition 3 of the Conditions, the rate of interest on the Advance in respect of which this Debt Security has been issued is [•]per cent. per annum and shall be payable in accordance with the Agreement.

The Company will pay to the Secretary of State for Business, Innovation & Skills (or any person to whom it transfers its interest in this Debt Security in accordance with the Conditions) (the "**Lender**") the principal sum of £[•] together with interest thereon in accordance with the Conditions.

IN WITNESS whereof this Debt Security has been executed on [•].

POST OFFICE LIMITED

By:

SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS

By:

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- [•] Information to be inserted as required when issuing debt security. Such information must be represented in the preferred format of the Lender, which shall be agreed after discussion with the Borrower.

SCHEDULE 4
Conditions of Debt Security

1. DEFINITIONS

- 1.1 In this Debt Security (including these Conditions) (the "Agreement") means the credit facilities agreement dated 17 October 2003 (as amended and restated on 16 May, 2007; amended on 18 April 2008; and amended and restated on 24 March, 2010) between the Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Trade and Industry) and Post Office Limited.
- 1.2 Unless otherwise defined, in this Debt Security (including these Conditions) all defined terms in the Agreement shall have the same meanings when used herein.

2. INCORPORATION

The terms and conditions of the Agreement shall be incorporated into this Debt Security and the parties hereto shall comply with such terms and conditions mutatis mutandis as if they were set out in full in this Debt Security (with references to the "Lender" being construed as references to the "Holder").

3. INTEREST

The rate of interest on the Advance in respect of which this Debt Security has been issued is [•]* per cent. per annum and shall be payable in accordance with the Agreement.

4. REDEMPTION

The Company shall repay and/or prepay all or part of the Advance in respect of which this Debt Security has been issued in accordance with the Agreement and this Debt Security shall be redeemed accordingly upon such repayment and/or prepayment.

5. CANCELLATION

If this Debt Security is redeemed pursuant to Condition 4 above, it shall be cancelled forthwith and the Company shall not be permitted to reissue the same. In the event of a redemption of part of this Debt Security the Company shall, on surrender by the Holder of this Debt Security, issue to the Holder a replacement Debt Security for a principal amount representing the outstanding principal amount of the Advance in respect of which this Debt Security has been issued after such part redemption or repayment has been made.

* Insert relevant figure calculated by the Lender in accordance with Clause 7.1 (*Calculation of interest*) and notified by it in accordance with Clause 7.4 (*Notification of rates and interest*).

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6. TRANSFER

6.1 The Holder may transfer its interest in all or part of this Debt Security to any person to whom the Holder transfers its interests in the Agreement pursuant to Clause 18 (*Transfer by the Lender*) of the Agreement but not otherwise.

6.2 Upon the Holder confirming in writing to the Company that it has transferred its interest in this Debt Security to another person in accordance with Condition 6.1, the Company will replace this certificate by issuing (i) a new certificate for the Debt Security to the transferee and (ii) where the Holder transfers only part of its interest in this Debt Security, a new certificate (representing the amount of the Advance not transferred) to the transferor. Upon the issue of such new certificate(s), this certificate shall automatically be cancelled.

7. REPLACEMENT DEBT SECURITIES

If this Debt Security is defaced, worn-out, lost or destroyed, it shall be renewed and replaced by the Company free of charge and (in case of defacement or wearing out) on delivery up of the old Debt Security certificate.

8. GOVERNING LAW

This Debt Security is governed by English Law. The Courts of England shall have exclusive jurisdiction to settle any dispute arising out of or in connection with this Debt Security (including a dispute regarding the existence, validity or termination of this Debt Security) (a "**Dispute**"). The parties hereto agree that the Courts of England are the most appropriate and convenient courts to settle Disputes and accordingly, no party will argue to the contrary. This Condition 8 is for the benefit of the Holder only. As a result, the Holder shall not be prevented from taking proceedings relating to a Dispute in any other courts with jurisdiction. To the extent allowed by law, the Holder may take concurrent proceedings in any number of jurisdictions.

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SCHEDULE 5
Full Cancellation of Utilisation Request

Number: [•] Date: [Date cancellation submitted]
From: [Borrower]
To: [Lender] Fax No: [Lender fax]
[FAO required Lender contacts]
Copy: [•] Fax No: [Copy recipient fax]

Dear Sirs

Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Trade and Industry) – Post Office Limited - credit facilities agreement dated 17th October 2003 (as amended and restated on 16 May, 2007; amended on 18 April 2008; and amended and restated on 24 March, 2010) (the "Agreement")

1. We refer to the Agreement. This is a Full Cancellation of Utilisation Request ("**Full Cancellation Request**"). Terms defined in the Agreement have the same meaning in this Full Cancellation Request unless given a different meaning in this Full Cancellation Request.
2. We wish to cancel in full our previous Utilisation Request reference number [*insert Number*] containing the following details:

Proposed Utilisation Date: [•]

Amount: [•]
3. We confirm that we wish to cancel the above Utilisation Request as set out in this Full Cancellation Request with immediate effect.

Yours faithfully,

authorised signatory for [*name of relevant Borrower*]

[•] Information to be inserted as required when issuing debt security. Such information must be represented in the preferred format of the Lender, which shall be agreed after discussion with the Borrower.

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SCHEDULE 6
Part Cancellation of Utilisation Request

Number: [•] Date: [Date cancellation submitted]
 From: [Borrower]
 To: [Lender] Fax No:[Lender fax]
 [FAO required Lender contacts]
 Copy: [•] Fax No:[Copy recipient fax]

Dear Sirs

Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Trade and Industry) – Post Office Limited - credit facilities agreement dated 17th October 2003 (as amended and restated on 16 May, 2007; amended on 18 April 2008; and amended and restated on 24 March, 2010) (the "Agreement")

1. We refer to the Agreement. This is a Part Cancellation of Utilisation Request ("**Part Cancellation Request**"). Terms defined in the Agreement have the same meaning in this Part Cancellation Request unless given a different meaning in this Part Cancellation Request.
2. We wish to part cancel our Utilisation Request (number [insert number]) as set out below with immediate effect:

INITIAL UTILISATION REQUEST		FINAL UTILISATION REQUEST	
Number:	[•]	Number:	[•]
Proposed Utilisation Date:	[•]	Proposed Utilisation Date:	[•]
Initial Amount:	[•]	Final Amount:	[•]
Interest Period:	[•]	Interest Period:	[•]
Maturity Date (i.e. Repayment Due Date):	[•]	Maturity Date (i.e. Repayment Due Date):	[•]

3. We confirm that each condition specified in Clause 3.2.1 (*Further conditions precedent*) of the Agreement is satisfied on the date of this Part Cancellation Request.

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4. The proceeds of this Advance set out in this Part Cancellation Request as the "**Final Amount**" should be credited to:

Account No: [•]

Sort Code: [•]

Account Name: [•]

Yours faithfully

authorised signatory for [*name of relevant Borrower*]

- [•] Information to be inserted as required when submitting a request. Such information must be represented in the preferred format of the Lender, which shall be agreed after discussion with the Borrower.

SCHEDULE 7
Monitoring Regime

1. The monitoring regime that the Company must set up pursuant to Clause 15.6 (*Initial implementation of Monitoring Regime*) must enable the Lender to monitor (on a weekly basis) whether the Group's utilisation of the funds made available under this Agreement are for the purposes specified in Clause 2 (*The Facility*).
2. The monitoring regime must enable the Company to provide weekly reports each of which shows, without double counting, for each Business Day of the Reporting Period to which such report relates:
 - 2.1 the aggregate amount of outstanding Advances on such date ("**Total Borrowings**");
 - 2.2 the aggregate amount (calculated in sterling) of Cash Items on such date;
 - 2.3 the aggregate amount (calculated in sterling) of Near-Cash Items on such date;
 - 2.4 the aggregate amount (calculated in sterling) of deposits and other investments made pursuant to Clause 16.12 (*Authorised investments*) on such date;
 - 2.5 the aggregate amount, if any, (calculated in sterling) of funds provided by Royal Mail Group within the terms of Clause 16.4.2(C) (*Financial Indebtedness*) to the Group on or before such date which (a) have been specifically provided by Royal Mail Group to enable the Group to fund Cash Items and/or Near-Cash Items arising in the period ending on such date; (b) have not been utilised by the Group (or any member thereof) for such purposes on or before such date; and (c) have not been repaid by the Group (or any member thereof) on or before such date;
 - 2.6 the amount of the A&L Debt (as defined in the Intercreditor Agreement);
 - 2.7 the amount calculated (without double counting) in accordance with the following formula:

$$X = CI + NCI + D - RM - A\&L \text{ Debt}$$

where:

"X" is the relevant amount to be specified on such date (the "**Net Utilisations**");

"CI" is the amount referred to in paragraph 2.2;

"NCI" is the amount referred to in paragraph 2.3;

"D" is the amount referred to in paragraph 2.4;

"RM" is the amount referred to in paragraph 2.6;

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"A&L Debt" is the amount referred to in paragraph 2.8.

- 2.8 the difference between Total Borrowings and Net Utilisations on such date and (if that difference is not nil) whether Total Borrowings exceed Net Utilisations or, as the case may be, whether Net Utilisations exceed Total Borrowings;
 - 2.9 the Total Borrowings on such date expressed as a proportion of the Net Utilisations on such date;
 - 2.10 the aggregate amount of all Advances (whether or not still outstanding on such date) that have been made in the period from and including the first day of the then current Relevant Period to and including such date;
 - 2.11 the aggregate amount of all Advances that have been repaid in the period from and including the first day of the then current Relevant Period to and including such date;
 - 2.12 the aggregate amount (in sterling) of all sums payable by any member of the Group in relation to any Intermediary Transaction on such date which have not been taken into account when calculating the amounts referred to in paragraphs 2.2 to 2.8 (inclusive); and
 - 2.13 (in the case of each weekly report relating to the last Relevant Period of each month) each of the constituent elements of, and/or each amount that has been taken into account for the purposes of determining, the amounts referred to in paragraphs 2.2 to 2.8 (inclusive) and paragraph 2.14.
3. The monitoring regime must be supported by banking, information, accounting and computing systems and practices which:
 - 3.1 allow each such weekly report referred to in paragraph 2 above and its contents to be independently verified at any time;
 - 3.2 separate the cash flows of the Company (and its Subsidiaries) from the cash flows of Royal Mail Group (and its Subsidiaries that are not members of the Group) and otherwise comply with Clause 16.13 (*Segregation*).

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SCHEDULE 8
SGEI provided by Post Office Limited

(A) Overarching Network Provisions SGEI

Post Office Limited's public service obligation extends to maintaining a network of post offices beyond its optimum commercial size and providing SGEIs over that network. Post Office Limited is required by the Lender to provide a network of post office branches to make available the SGEIs listed in Section B of this Schedule 8. Post Office Limited is entrusted with the delivery of these SGEIs using its network in accordance with the contractual terms which apply to each service.

(B) Specific SGEIs to be provided 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.	<p>Cash payment of state benefits including state pension, child benefits and tax credits and encashment of benefit cheques.</p> <p>Cash payment of benefits and the issuing of vouchers to eligible asylum seekers.</p> <p>Cash payment of health benefits and the provision of form EHIC benefits</p>	<p>Department for Work and Pensions, Social Security Agency - Northern Ireland, Her Majesty's Revenue & Customs and financial institutions</p> <p>Home Office</p> <p>Department of Health.</p>
2.	Processing of national identity and licensing scheme applications	<p>Providing passport application forms for customers to complete and return to IPS</p> <p>Checking and authentication of passport applications and supporting documentation</p> <p>Providing vehicle licence application forms for customers to complete and return to DVLA, and budget cash savings schemes for licence fees.</p>	<p>The Identity and Passport Service ("IPS")</p> <p>IPS</p> <p>The Driver and Vehicle Licensing Agency ("DVLA")</p>

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	Category of service	Service provided	Service provided on behalf of
		Receiving payment for vehicle licences and Photocard Licences, and checking Photocard application forms and supporting documentation.	DVLA
3.	Universal payment facilities for public utility services.	<p>Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. savings stamps).</p> <p>Provision of facilities for payment of tax bills and social housing rents.</p>	<p>Financial institutions, individual utility service providers, and billing service providers</p> <p>Her Majesty's Revenue and Customs, local authorities and housing associations.</p>
4.	Universal postal service.	Provision of postal services which the universal service provider (Royal Mail Group Limited) is required to provide under its postal services licence	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.	<p>Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches.</p> <p>Access to Saving Gateway accounts and Government savings instruments including Premium Bonds, Investment Accounts, Children's Bonds and National Savings certificates.</p>	Financial institutions including Her Majesty's Treasury, the Government-owned National Savings & Investments, the Department for Work and Pensions, the Social Security Agency - Northern Ireland, and Her Majesty's Revenue & Customs.

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(C) Amendments to SGEIs to be provided by Post Office Limited

The SGEIs are currently defined in the entrustment letter from the Secretary of State for Business, Innovation & Skills (formerly the Secretary of State for Trade and Industry) to Post Office Limited dated 24 March, 2010. If the Secretary of State issues a further entrustment letter that revises the scope of the SGEIs entrusted to Post Office Limited and this amendment has been approved (if required) by the European Commission under the State aid rules of the Treaty on the functioning of the European Union, then the above wording will be amended as necessary to conform with the wording of the entrustment letter applicable to Post Office Limited at that time.

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THIS AGREEMENT has been entered into on the date stated at the beginning of this Agreement.

POST OFFICE LIMITED

By: **Peter Corbett**

Contact Details

Address : 148 Old Street
London EC1V 9HQ

Fax Number : 020 7751 6150

Attention : Charles Colquhoun

With copies to :

Address : 1st Floor
1 Future Walk
West Bars
Chesterfield
Derbyshire S49 1PF

Fax Number : 01246 546 922

Attention : Rod Ismay

and

Address : 100 Victoria Embankment
London
EC4Y 0HQ

Fax Number : 020 7530 7104

Attention : Matthew Rose

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**SECRETARY OF STATE FOR BUSINESS, INNOVATION & SKILLS (FORMERLY THE
SECRETARY OF STATE FOR TRADE AND INDUSTRY)**

By: **Nigel Leese**

Contact Details (other than for the purposes of Clause 21 (*Timing of Consents*))

Address : Shareholder Executive – Royal Mail and Post Office Team
Department for Business, Innovation & Skills
Bay 6-025
1 Victoria Street
London SW1H 0ET

Fax Number : 020 7215 5336

Attention : James Baugh, Policy Adviser

Contact Details for the purpose of Clause 21 (*Timing of Consents*)

Address: As above

Fax number: As above

Attention: James Baugh, Policy Adviser

Address: As above

Fax number: As above

Attention: Robert Faull, Grade 6

Address: As above

Fax number: As above

Attention: Will Gibson, Grade 6

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APPENDIX B
POL ENTRUSTMENT LETTER

Post Office Limited
148 Old Street
London
EC1V 9HQ

For the attention of: Mike Moores

March 2010

Dear Sirs,

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

Commencement

This letter has effect from the date on which the European Commission confirms that the schedule of services of general economic interest as set out in Annex A to this letter are compatible with the requirements on State aid of the Treaty on the functioning of the European Union (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 Secretary of State to Post Office Limited entitled "Entrustment of Post Office Limited with the delivery of certain public services" and dated 8 November 2007 (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 public 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.

Post Office Limited is required to provide a network of post office branches to make available the services of general economic interest detailed in Annex A ("**SGEI**"). Post Office Limited is entrusted with the delivery of these SGEI using its network in accordance with the contractual terms which apply to each service.

1 Victoria Street, London SW1H 0ET
<http://www.bis.gov.uk/>

Direct Line **GRO** | Fax +44 (0)20 7215 3466
Enquiries +44 (0)20 7215 5000 | Email mpst.mcfadden@GRO

Specifically, the SGEI are provided under commercial contracts entered into by Post Office Limited and the Government department or body purchasing the service. In the case of universal postal services, the services made available at post office branches are ones which the universal service provider (Royal Mail Group Limited) is required to provide under the terms of its postal service licence.

The entrustment of the delivery of the SGEI set out in this letter to Post Office Limited does not replace or change in any way contracts and other agreements under which the terms of the provision of the individual SGEI are made. Post Office Limited is expected to use reasonable endeavours to enter into contracts with the Government department or body purchasing the service to provide the SGEI.

We confirm that Post Office Limited's public service obligation extends to maintaining a network of post offices beyond its optimum commercial size and providing services of general economic interest over that network from the start of its financial year on or around 1st April 2011 until its financial year ending on or around 31st March 2012. Additionally, as set out in the Post Office Limited Funding Agreement dated on or around the date of this letter (the "**2010 Funding Agreement**"), Post Office Limited will, as a minimum, be required to meet the following 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.
- 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 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.

Method of Calculating Compensation

As soon as reasonably practicable following publication of its audited accounts for each of the Financial Years 2010/11 and 2011/12, Post Office Limited will be required to provide, in accordance with the 2010 Funding Agreement, a statement (the "**NSP Statement**"), accompanied by a supporting statement from independent auditors, to confirm that the amount of the Social Network Payment made by the Government to Post Office Limited in respect of that Financial Year under the 2010 Funding Agreement did not exceed the direct and indirect costs incurred by Post Office Limited in connection with the provision of SGEI during that Financial Year, including:

1. all variable costs incurred in providing the SGEI; plus
2. all fixed costs incurred in providing the SGEI; plus
3. such proportion of fixed costs common to both the SGEI and other activities of Post Office Limited as is appropriate to be allocated to the SGEI (based on generally accepted cost accounting principles); plus
4. a reasonable profit in providing the SGEI; less
5. the revenues received by Post Office Limited from the SGEI activities,

in each case in respect of the relevant Financial Year.

For the purposes of paragraph 3 above, the fixed costs common to both the SGEI and other activities of Post Office Limited shall include, without limitation, contributions to the Royal Mail Group pension fund, interest costs, group central cost allocations, capital expenditure, contributions to the cost of any employee incentivisation arrangements and the costs of rationalising the network to maintain a network with optimal coverage for delivery of SGEI at minimum cost within the funding envelope.

Recovery of Overpayment

Notwithstanding clause 7.2 of the 2010 Funding Agreement, in the event that the NSP Statement discloses that the amount paid to Post Office Limited on account of the Social Network Payment for any Financial Year exceeds the costs incurred by Post Office Limited in providing the SGEI during that Financial Year, as calculated in accordance with the above formula, Post Office Limited will be required to repay to the Government, within 10 Business Days of the receipt by Government of the NSP Statement, an amount equal to such excess.

Pat McFadden

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

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 and encashment of benefit cheques. Cash payment of benefits and the issuing of vouchers to eligible asylum seekers. Cash payment of health benefits and the provision of form EHIC benefits	Department for Work and Pensions, Social Security Agency - Northern Ireland, Her Majesty's Revenue & Customs and financial institutions Home Office Department of Health.
2.	Processing of national identity and licensing scheme applications	Providing passport application forms for customers to complete and return to IPS Checking and authentication of passport applications and supporting documentation Providing vehicle licence application forms for customers to complete and return to DVLA, and budget cash savings schemes for licence fees. Receiving payment for vehicle licences and Photocard Licences, and checking Photocard application forms and supporting documentation.	The Identity and Passport Service ("IPS") IPS The Driver and Vehicle Licensing Agency ("DVLA") DVLA.

	Category of service	Service provided	Service provided on behalf of
3.	Universal payment facilities for public utility services.	<p>Provision of facilities for payment of electricity, gas, telecommunications and water bills. Payment options include pre-payment and other budgeting schemes (e.g. savings stamps).</p> <p>Provision of facilities for payment of tax bills and social housing rents.</p>	<p>Financial Institutions individual utility service providers, and billing service providers</p> <p>Her Majesty's Revenue and Customs, local authorities and housing associations.</p>
4.	Universal postal service.	Provision of postal services which the universal service provider (Royal Mail Group Limited) is required to provide under its postal services licence	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.	<p>Provision of basic community banking facilities (cashing of cheques, cash deposit, Post Office card account and automated cash withdrawals and deposits) and cash transmission facilities (postal orders), in particular to socially excluded customers. This includes deposits and withdrawals of cash by businesses local to Post Office branches.</p> <p>Access to Saving Gateway accounts and Government savings instruments including Premium Bonds, Investment Accounts, Children's Bonds and National Savings certificates.</p>	<p>Financial Institutions including Her Majesty's Treasury, the Government-owned National Savings & Investments, the Department for Work and Pensions, the Social Security Agency - Northern Ireland, and Her Majesty's Revenue & Customs.</p>