

Post Office Limited
148 Old Street
London
EC1V 9HQ

For the attention of: Mike Moores

24 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.

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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.

/s/ Pat McFadden

Pat McFadden

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

Signed by Mike Moores)
for and on behalf of Post Office Limited)

Dated 24 March 2010

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>	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.