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RESTRICTED: POLICY & COMMERCIAL ANNEX D

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11 December 1998

DR MICHAEL BAIN
Chairman

148 Old Street
LONDON
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GRO

The Rt Hon Peter Mandelson MP
Secretary of State for Trade and Industry
1 Victoria Street
LONDON
SW1H 0ET

Dear Peter,

HORIZON

As you know we received the latest set of proposals from ICL late on Wednesday (9 December), in line with the request made by the Chief Secretary. We have now had the opportunity to consider these and, also, have had helpful discussions with ICL and their advisors to clarify these.

Given your meeting with Ministerial colleagues on Monday (14 December), I wanted to let you know the Post Office Board's position. In summary, we welcome the thrust of ICL's proposals and believe that they represent the speedy and decisive move we have all been waiting for.

ICL have made major moves on a number of important issues. These include:

- Fujitsu will stand behind the project fully and provide a legally enforceable guarantee for its funding and performance - this removes a critical risk to the public sector and transforms our view of the project.
- ICL has confirmed that they retain all the fraud liabilities per their existing contracts.
- ICL has agreed that the system must be seen to work in live operation before we accept it.
- ICL has moved well over a further £100m towards the public sector in their commercial proposals.
- In addition, their total package represents the removal of a further £100m to £150m of indirect risk to us.

In the light of these changes, and on the assumption that DSS will honour the commitments made to us under the Graham Corbett discussions, the Post Office Board has a commercially

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viable case under these proposals and so the decision is straightforward - we should go ahead with Horizon.

Of course, we will be taking up ICL's offer to discuss further the details of their proposals during the course of reaching definitive agreements, including finally signing-off the draft Partnership Heads already agreed. However, we anticipate no major stumbling blocks for our part.

It is clear to us there are real benefits in moving ahead positively now:

- The much needed boost such a decision will bring to our commercial partners, existing and new.
- The confidence this will give to the thousands of subpostmasters whose livelihoods depend on a modernised network of post offices.
- The creation of a new public/private sector partnership to develop new services for customers and exploit the system.
- Clearing the way for a new partnership with Government and the banks to enable welfare reform and to help social exclusion in a managed way.
- The avoidance of major uncertainties flowing from termination including a massive loss of confidence that will result in major network disruption.
- The avoidance of protracted, messy and costly litigation.

There is now an opportunity to sweep away the uncertainty surrounding the project, put to bed the legal and contractual disputes, and focus only on the programme's delivery, and on the positive benefits the programme will bring to all parties. Such news will, undoubtedly, be welcomed very warmly by subpostmasters, and by our customers throughout the land, as a visible and substantial step in providing modern services at post offices.

All parties involved now need to reaffirm commitment to the programme's delivery. The Post Office Board endorses and supports the programme and strongly recommends to Ministers that Horizon should now go ahead.

I am copying this letter to Stephen Byers, Jack Cunningham, Alastair Darling, Ian McCartney and Peter Mathison.

With Kind regards

Yours sincerely

GRO

DR NEVILLE C BAIN