

To the Board of Directors
Post Office Limited
20 Finsbury Street
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**Department for Business, Energy &
Industrial Strategy**

1 Victoria Street,
London SW1H 0ET

T: **GRO**

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W: www.gov.uk/beis

11 March 2021

Dear Sirs,

FUNDING COMMITMENT LETTER– IN CONFIDENCE

This funding commitment letter confirms that the Department for Business, Energy and Industrial Strategy (BEIS) will provide funding for settlement costs as per the Funding Structure set out below only in relation to and in accordance with the Historical Shortfall Scheme (the “HSS”) that Post Office Limited (the “Company”) is operating to address historical shortfalls and related losses incurred by postmasters.

Background:

The Company has informed its auditors and BEIS that its best estimate of the likely total of settlement claims under the HSS will result in it making a provision in its 2019/20 accounts of £153m. In recognition of the uncertainty around this figure, the Company has informed its auditors and BEIS that alongside this provision, a disclosure note will be included in its accounts stating that the liability might be as high as £320m but that this is currently not deemed to be the likely outcome. The Company has informed BEIS that while it can fund all its expected legal and programme costs associated with the HSS, it cannot afford to fund the total amount of settlement claims above its originally forecasted amount of £35m plus its Net Telecoms Proceeds.

The calculation formula for the Net Telecoms Proceeds will be agreed between BEIS and the Company in a separate document to follow the issuance of this Funding Commitment Letter.

Funding Structure:

It is therefore agreed as follows:

BEIS must approve the commencement of payments to claimants under the HSS, including but not limited to the “escalation” and “de minimis” payments which have previously been discussed and agreed between the Company and UKGI.

The Company will allocate funds including the Net Telecoms Proceeds to the settlement costs of the HSS as follows:

- The Company will pay the first £35m of HSS settlement costs from its own funds.

- The Company will utilise the Net Telecoms Proceeds in full.

The Company will provide BEIS with evidence that it has funded both the first £35m of HSS settlement costs and fully utilised the Net Telecoms Proceeds for HSS settlement costs before calling on the BEIS funding commitment.

BEIS will fund 100% of the remaining HSS settlement costs, until 31 March 2023, subject to a maximum aggregate of funding of £285m minus the Net Telecoms Proceeds. As stated above, BEIS notes that the Company has made a provision of £153m for the HSS which represents the Company's best estimate of the expected cost in the face of uncertainty. BEIS expects the Company to put in place rigorous monitoring and forecasting so that any potential increase in the expected cost of the HSS beyond the Company's existing provision is identified early and is explained and notified to BEIS in a timely manner.

BEIS has provided this funding to the Company so that the HSS is able to deliver on its objectives to pay eligible postmasters fair compensation whilst protecting the interests of taxpayers.

On the earlier of: (i) the date on which all claims raised under the HSS have been settled (including for the avoidance of doubt under any alternative or replacement scheme) and (ii) 31 March 2023, the Company will provide BEIS with evidence of the amount of Net Telecoms Proceeds remaining. If the Company retains any Net Telecoms Proceeds on the earlier of these dates and if there are no remaining HSS settlement costs payable by the Company, it will promptly reimburse BEIS in respect of any HSS settlement costs funded up to an amount equal to 75% of any remaining Net Telecoms Proceeds (e.g. through the early repayment of any outstanding borrowings by the Company from BEIS). In such an event the Company will retain the remaining 25% of Net Telecoms Proceeds.

Governance and controls:

BEIS will not fund amounts:

- paid to a claimant in accordance with the HSS which exceed the aggregate of (i) the amount determined by the HSS process set out in the HSS Operations Agreement made between the Company and BEIS dated 25 February 2021 (as amended from time to time) and (ii) any contribution for the claimant's legal costs due in accordance with the HSS Terms of Reference dated 9 September 2020 (as amended from time to time); or
- where, in the sole opinion of BEIS (acting reasonably) the determination of the Independent Panel (as defined in the HSS Operations Agreement) is so unreasonable or irrational that no panel acting reasonably could have made it and BEIS instructs the Company to object to the determination of the Independent Panel on that basis.

Payments from BEIS to the Company will be made monthly, based on forecasts of payments to be made by the Company and provided to BEIS. This, along with other governance and controls arrangements, is detailed in the HSS Operations Agreement.

Any funding provided by BEIS to the Company is subject to meeting the arrangements in the HSS Operations Agreement and BEIS reserves the right to withdraw this funding commitment if the Company fails to meet any of the conditions (as determined by BEIS acting reasonably) set out in the HSS Operations Agreement.

Yours sincerely,

GRO

Finance Director
Tom Taylor

We acknowledge and agree to this funding commitment letter

GRO

For and on behalf of Post Office Limited

Position: CFO

Name: Alisdair Cameron

Date: 18 March 2021

