



Department for
Business, Energy
& Industrial Strategy

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The Board of Directors
Post Office Limited
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22 July 2021

Dear Post Office Board,

FUNDING COMMITMENT LETTER — IN CONFIDENCE

This funding commitment letter confirms that the Department for Business, Energy and Industrial Strategy (“**BEIS**”) will provide funding (the “**Interim Funding**”) for Post Office Limited (the “**Company**”) to make interim compensation payments (the “**Interim Payments**”) of up to £100,000 to each postmaster, branch manager and/or assistant (each referred to as a “**postmaster**” and collectively as the “**postmasters**”) who have their criminal convictions overturned by the Court of Appeal or the Crown Court due to the unreliability of evidence obtained from the Horizon IT system (“**Horizon**”) operated by the Company (each an “**affected postmaster**”).

Background:

The provision of Interim Payments to affected postmasters who have their criminal convictions overturned (as described above) forms part of a broader initiative of the Company in relation to compensation the Company expects to become payable.

The Company proposes to make Interim Payments to each such affected postmaster with the aim of encouraging the uptake of an alternative dispute resolution process for compensation claims and resolving the compensation claims in a timely, cost effective and non-adversarial manner.

The Company informed BEIS on 18 June 2021 that the total cost of making an Interim Payment of up to £100,000 to each affected postmaster is estimated to be up to c. £94.4m. This is calculated on the basis of postmasters which the Company forecasts

may be eligible for compensation for overturned convictions — being 59 currently overturned convictions (3 of which were Crown Court cases conceded on public interest grounds alone i.e. where the Company's arguments on liability are stronger), and a further 888 convictions which may be overturned in future. The Company has informed BEIS that the Company will have insufficient funds to make such Interim Payments, and therefore, before making any Interim Payment, the Company is requesting a funding commitment for the Interim Funding from BEIS to make all Interim Payments.

It is recognised that there is uncertainty around this figure. Notably it assumes all postmasters who were prosecuted by the Company and other prosecuting bodies will seek to have their convictions overturned, will be successful and will meet the Criteria defined below. Nonetheless, to ensure that the Company has sufficient certainty that when it commences payments all potential eligible Interim Payments can be met, the Company has requested funding assurance from BEIS to cover all Interim Payments.

BEIS understands and acknowledges that the Interim Funding will form part of the total final compensation to be made to affected postmasters and represents one of a number of categories of liabilities that are or could be faced by the Company associated with certain matters connected with Horizon or workers' rights legislation (together the "**Horizon and Employment Liabilities**"). This Funding Commitment Letter covers only the provision of funds specifically for Interim Payments to affected postmasters.

Funding Structure:

Each Interim Payment, which shall be no greater than the aggregate of £100,000 per any one affected postmaster, will be eligible for BEIS funding to the Company provided the postmaster meets all of the following criteria (the "**Criteria**"):

- i. Their Horizon-related conviction has been overturned by the Courts;
- ii. They do not belong to the class of postmasters whose convictions were overturned but were not opposed by the Company on public interest grounds; and
- iii. They have submitted an application to the Company.

Postmasters who do not meet the Criteria will not receive an Interim Payment (unless otherwise approved by BEIS having regard to the specific circumstances of the case).

Each of the Company and BEIS agree to discuss in good faith changes to the Criteria, if in the future they consider changes may be necessary based on the circumstances then existing.

The Company will agree with BEIS how it will make an assessment of eligible postmasters' Interim Payment applications. It will be based on an understanding of the likely heads of loss, to assess whether an eligible postmaster's full and final settlement claim is expected to be in excess of £50k, £75k or £100k. The Company will provide BEIS with confirmation in form to be agreed that the case in question satisfies the Criteria and that the Company has undertaken the above assessment before calling on BEIS funding.

BEIS will fund 100% of the Interim Payments, subject to a maximum aggregate of funding of £94.4m. BEIS expects the Company to put in place rigorous monitoring and forecasting so that any potential increase in the expected cost beyond the Company's existing request is identified early and is explained and notified to BEIS in a timely manner.

BEIS has agreed to provide this funding to the Company so that Interim Payments can be made to eligible postmasters to fulfil commitments made by both the Company and BEIS to see postmasters compensated swiftly to address any immediate hardship postmasters may be under, and to start the process for reaching full and final settlements.

If the Interim Payment made by the Company is greater than the full and final settlement received by the respective postmaster, the Company will reimburse BEIS for the difference.

Governance and controls:

It is expected that the process for payments including assessment of the Criteria, will be assessed and approved by the Post Office Board or the relevant subcommittee – in this case the Historical Remediation Committee (HRC) – prior to the submission to BEIS for the release of funding.

Interim Payments of up to £100,000 per affected postmaster will be made by the Company in accordance with the Criteria. Interim Funding in respect of each Interim Payment will be made to the Company promptly once a confirmation has been made to BEIS that the Criteria have been met and an assessment has been done on the affected postmaster's case.

The Company will provide BEIS with a monthly forecast report containing management information and a breakdown of the Interim Payments that the Company forecasts will become payable by it to affected postmasters in the forthcoming monthly period (the "**Monthly Report**").

The Company will meet with the BEIS Senior Responsible Officer (SRO) and working-level officials monthly, or more frequently if required, to discuss progress made on compensating affected postmasters.

The status of compensation for affected postmasters will also be a standing agenda item at Quarterly Shareholder Meetings.

Governance arrangements will be kept under review and updated from time to time to take account of any developments in the Company's negotiations with postmasters and their legal representatives.

Any funding provided by BEIS to the Company is subject to meeting the arrangements set out in this document and BEIS reserves the right to pause funding under this funding commitment if the Company fails to meet any of the conditions (as determined by BEIS acting reasonably) set out pending further discussions.

Shareholder Approval:

BEIS as sole shareholder of the Company, hereby approves and ratifies the Company making Interim Payments in accordance with the terms of this letter in accordance with Article 8.1(X) of the Articles of Association of the Company.

Yours sincerely,

GRO

TOM TAYLOR