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Department for
Business, Energy
& Industrial Strategy

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To the Board of Directors
Post Office Limited
20 Finsbury Street
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20 December 2021

To Whom it May Concern,

FUNDING COMMITMENT LETTER - OVERTURNED HISTORICAL CONVICTIONS ("OHC") LIABILITIES - IN CONFIDENCE

This funding commitment letter confirms that the Department for Business, Energy and Industrial Strategy ("**BEIS**") will provide funding of up to £685,600,000 (subject to the terms of this letter) to the Post Office Limited (the "**Company**"). When aggregated with the funding committed under the Interim Payment Funding Commitment Letter (as defined below), the total funding amounts to £780,000,000 across both commitments, such that the Company can make settlement payments (and/or compensation or other payments ordered by a competent court or other agreed adjudicator) to each postmaster, branch manager and/or assistant (each referred to as a "**postmaster**" or "**postmasters**") who:

- (i) have their criminal conviction/s overturned following the "Common Issues" and "Horizon Issues" judgments issued in the Post Office Group Litigation and/or the *Hamilton & Ors v. Post Office Limited* judgment issued by the Court of Appeal (Criminal Division); or
- (ii) were prosecuted, but not convicted, of offences connected to the Horizon IT system ("**Horizon**") and suffered detriment in respect of the actions of the Company,

(each a "**claimant**") (and each such settlement or other payment a "**Claim Payment**", which for the avoidance of doubt is calculated net of any interim payment provided under the Interim Payment Funding Commitment Letter to the relevant claimant).

Background:

The Company has, or could face, potential liabilities associated with individuals who may bring claims for compensation against the Company following the overturning of historical criminal convictions which relied on evidence from the Horizon IT system (the "**OHC Liabilities**").

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On 22 July 2021 the Company received a funding commitment letter from BEIS in respect of the OHC Liabilities to enable an interim payment of up to £100,000 to be made to each claimant meeting certain agreed criteria (each an “**Interim Payment**” and together the “**Interim Payments**”), with the aim of encouraging the uptake by claimants of an alternative dispute resolution process in relation to the OHC Liabilities (the “**Interim Payment Funding Commitment Letter**”).

The Interim Payment Funding Commitment Letter stated that 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.

The Company, however, expects the OHC Liabilities to exceed the aggregate amount of committed funding under the Interim Payment Funding Commitment Letter. BEIS is therefore providing this funding commitment letter in respect of any Claim Payments to be made to claimants for amounts in addition to any Interim Payment already made to the relevant claimant. For the avoidance of doubt, the funding commitment under this letter exists separate to, and exclusive of, the funding commitment under the Interim Payment Funding Commitment Letter.

The OHC Liabilities, by their nature, will ultimately need to be determined on a case-by-case basis: each claimant’s circumstances will be unique and consequently, should an appeal court overturn their conviction, claimants will need to particularize any claim they have, including any loss and damage suffered, against the Company. The Company in turn will need to respond on an individual basis, taking into account consistency, fairness across claimants and value for money for the taxpayer, in line with the strategy it has provided to BEIS. The overall amount of OHC Liabilities which ultimately become payable to claimants will be determined by a range of factors and variables. It may not be possible to fully predict these in advance, and consequently the Company’s estimated OHC Liabilities may change over time.

The Company has informed BEIS that, based on its current estimate of the OHC Liabilities, the Company will have insufficient funds to make Claim Payments to any or all anticipated claimants. Therefore, to ensure that the Company has sufficient certainty when it commences making Claim Payments that all Claim Payments can be met, the Company has requested a funding commitment from BEIS.

BEIS has agreed to fund the Claim Payments made by the Company to fulfil BEIS’ commitment to (i) delivering compensation to postmasters fairly and as quickly as possible, and (ii) supporting and maintaining the Post Office network. BEIS understands and acknowledges that the funding is being provided to address one of a number of categories of liabilities that are or could be faced by the Company, including those in connection with Horizon or workers’ rights legislation. This funding commitment letter specifically covers the provision of funds for Claim Payments for the OHC Liabilities only, and is provided to support the Company in delivering its rescue and restructuring plan (submitted to BEIS on 16 July 2021). The funding under this funding commitment letter is considered independent from and will not impact any funding for claims which may be brought by postmasters unrelated to Horizon, or subsidies or other funding the Company may receive from BEIS.

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Funding Structure:

BEIS will fund the Company for 100% of Claim Payments (for the avoidance of doubt, calculated net of any Interim Payments already made) up to a total aggregate amount of £685,600,000.

The Company and BEIS will follow the claim settlement process set out in Schedule 1 of this letter, as may be supplemented and/or modified from time to time by agreement between BEIS and the Company (the “**Agreed Process**”), in engaging claimants and requesting funding from BEIS.

The Company will request funding from BEIS in respect of each Claim Payment in accordance with the approvals procedure and process described in the Agreed Process. BEIS will advance funding for each Claim Payment to the Company promptly after delivery of a request from the Company for funding for:

- (a) the settlement amount agreed with a claimant, which may be of an amount up to that agreed between the Company and BEIS in the pre-approved settlement mandate given under the Agreed Process from time to time (the “**Settlement Mandate**”), provided that:
 - (i) the Company has followed the Agreed Process and a full and final settlement (which may be conditional on third party reports) of OHC Liabilities in respect of a claimant has been substantially agreed between the Company and the claimant; and
 - (ii) such settlement is in accordance with the Settlement Mandate under the Agreed Process; or
- (b) the amount ordered under the judgment of a competent court or award of an agreed adjudicator relating to OHC Liabilities in respect of a claimant.

BEIS may otherwise advance funding to the Company for a Claim Payment that has at any time been approved by BEIS.

BEIS is providing this funding to the Company so that it can settle the OHC Liabilities in a manner that allows it to deliver its objectives to pay eligible claimants swift and fair compensation while also protecting the interest of taxpayers. BEIS and the Secretary of State agree to immediately advise the Board of the Company if at any point BEIS withdraws its support for the Company or the settlement/funding process contemplated under this commitment letter.

Governance and controls:

The governance and controls for the funding of Claim Payments are set out in the Agreed Process (as may be supplemented and/or amended from time to time by agreement between BEIS and the Company).

Payments from BEIS to the Company will be made, in respect of each Claim Payment, promptly after delivery of a request for the same from the Company. Each such request from the Company will provide a copy of the relevant claimant-signed settlement

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agreement, and/or Court judgment or other award from an agreed adjudicator, in respect of that Claim Payment. This process is further detailed in the Agreed Process. Each funded Claim Payment will be made by the Company to the relevant claimant within 28 days of the date of the relevant settlement agreement, judgment of a competent court or award of an agreed adjudicator, or such other time period specified in the settlement agreement, judgment or award. The Company will inform BEIS promptly following it making such a Claim Payment to a claimant.

The Company will put in place an appropriate monitoring and forecasting process so that costs and the impact of internal and external decisions can be identified early, and BEIS is advised of the same in a timely manner.

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 to funding, as set out in the Agreed Process, pending further discussions.

BEIS will notify the Company if, at any time, there is a change in the intentions set out in this letter or it becomes aware of any impediment to the provision of the funding under this letter.

Yours sincerely,

GRO

TOM TAYLOR

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SCHEDULE 1

Operations Agreement (setting out the “Agreed Process”)