

PRIVATE & CONFIDENTIAL

THE POST OFFICE

23 May 1999

The Rt Hon Stephen Byers MP
Secretary of State
Department Trade & Industry
1 Victoria Street
LONDON
SW1H 0ET

DR NEVILLE BAIN
Chairman

148 Old Street
LONDON
EC1V 9HQ

Telephone
Fax

Dear Secretary of State,

Horizon

In the light of your letter today expressing the Government's wish for the Post Office to sign the Heads of Agreement with ICL, the Post Office Board met tonight. With the exception of one non-executive, all members were involved.

We considered your proposal and the unanimous view of the Board was as follows:

- based on the information currently available to us, and bearing in mind our fiduciary responsibilities, we believe that option B3 is likely to lead to a deterioration in the financial position of the Post Office, and is not the best use of shareholder funds
- however, you have made it clear that you and colleagues believe it is the best way forward, and of course we do have the opportunity of the next three months to fully understand the proposal and see if it can be made workable

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■ in the light of this we would be prepared to sign the Heads of Agreement tonight but on the following conditions:

- while we will work positively to create a success of the option, if the three months show this is not possible, or the performance of ICL causes us to doubt further their ability to complete their part of the deal, then we expect the £150m cancellation payment to be treated in the same way as the £480m.
- in the case of both figures they will lead to appropriate profit target and EFL reductions and that you will ensure payment is made in a way that POCL remains solvent and able to pay its creditors as they fall due.
- that none of the figures mentioned in your letter will in any way affect the proposals, including funding for acquisitions so far put forward in the Government approach to the White Paper.
- that because POCL is largely exempt from VAT, you will ensure that the VAT effects on the payments to ICL are neutral to the Post Office.

Finally, my Board are deeply concerned about the whole way in which this issue has been handled and about the relationship between yourself as our sponsoring Minister and ourselves. I would like an urgent meeting between myself, the non-executives and yourself as soon as possible.

Sincerely

GRO

DR NEVILLE BAIN