

In Strictest Confidence

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POLB03/31 to 33

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Post Office Limited

(company no. 2154540)

Minutes of the meeting of the Board of Directors
held at 80-86 Old Street, London
on 19th May 2003

Present:

Mike Hodgkinson	Non-Executive Chairman
Alan Barrie	Information Technology Director
Peter Corbett	Finance Director
John Main	Human Resources Director
David Miller	Chief Operating Officer

In attendance:

Jonathan Evans	Company Secretary
Neil Owen	Notes
Jeff Triggs	Corporate Lawyer, Slaughter & May
Charles Colquhoun	Accounting & Reporting Manager

Apologies

David Mills	Chief Executive
Allan Leighton	Chairman, Royal Mail Holdings
Elmar Toime	Executive Deputy Chairman, Royal Mail Holdings
Gordon Steele	Director Sales & Marketing

WELCOME

The Board welcomed Mike Hodgkinson to his first meeting of the Post Office Ltd Board.

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GOING CONCERN

- (a) It was reported that the Board needed to consider whether it was appropriate for the accounts of the Company for the year ended 31st March 2003 to be prepared on a going concern basis. Jeff Triggs of Slaughter and May had been invited to the meeting to provide external legal advice to the Board on this subject.

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- (b) The Board was reminded that the accounts should be prepared on a going concern basis only if the directors were of the view that the Company was likely to be able to continue trading, and to meet its liabilities as they fell due, over the foreseeable future. Should the Board decide that the going concern basis was no longer appropriate, adjustments would need to be made to the Company's balance sheet to reduce the value of the assets to their realisable amount, to provide for any future liabilities that might arise and to reclassify fixed assets and long term liabilities as current assets and current liabilities.
- (c) In considering what was meant by the foreseeable future it was reasonable for the Board to have in mind the period up to March 2006 for which funding commitments had been obtained. It was necessary for the Board to have some justifiable faith that appropriate arrangements were being contemplated which would extend the Company's viability beyond that date, but it was not necessary to have entered into binding agreements for committed funding for the longer term future in order to conclude that the Company was currently a going concern.
- (d) The Board was reminded that the Company had entered into a Framework Agreement in December, 2002 under which funding had been agreed by way of:
 - (i) the writing off of a debt of £464m. owing by the Company to Royal Mail Group plc ("Mails");
 - (i) the provision of Rural Network funding in the amount of £150m per annum (subject to termination by Government with effect from March, 2006);
 - (i) the funding of ongoing projected net cash outflows up to March 2007 from the section 72 reserve maintained in Mails' balance sheet; and
 - (i) the provision of a long term working capital facility for funding the cash in the network of outlets following the withdrawal of pre-funding of benefit payments by the DWP.
- (e) In addition there was produced to the Board a paper setting out the latest cashflow projections of the company as at 19th May 2003.
- (f) After some discussion the Board agreed that the amount of funding contemplated under the Framework Agreement would be sufficient, having regard to the Company's current cashflow projections, to enable it to conclude that the Company would continue to be a going concern for the foreseeable future.
- (g) However, it was drawn to the attention of the Board that all of

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such funding was conditional on state aids clearance being given by the European Commission and such clearance had not yet been given. It was therefore necessary for the Board to consider not only the amount of the funding but also the likelihood of that condition being fulfilled. In this regard there was produced to the Board a copy of a letter dated 1st May 2003 to the directors from the DTI. In the letter, the DTI had:

- (i) stated that the relevant members of the DTI were not aware of any reason why state aids clearance should not be received by the end of July 2003 (hopefully sooner);
- (i) agreed to extend until 31st July 2003 the arrangements under which Mails was permitted to advance up to £365m to the Company by way of temporary funding;
- (i) agreed that if state aids clearance were not forthcoming by 14th July 2003 the Government would immediately meet with the Directors to consider a further extension of that temporary funding; and
- (i) agreed that if state aids clearance were refused the Government would immediately meet with the Directors to take the most appropriate course of action having regard to the Directors' duty to minimise any loss to the Company's creditors.

It was reported to the meeting that since the date of that letter, as a result of recent exchanges between UKRep and the Commission, state aids clearance was understood likely to be forthcoming shortly, perhaps as early as the end of the current month.

- (h) Having regard to the letter from the DTI, both as to the likelihood of state aids clearance being obtained and the contingency arrangements in the unlikely event of it not being obtained, the Directors considered that it was appropriate to prepare the accounts of the Company on a going concern basis.
- (i) It was noted that in relation to previous years' accounts there had been no legally binding agreement for the ongoing funding of the Company. As a result the Directors had needed to rely on a comfort letter from the Company's parent company. Now that the ongoing funding was set out in a legally binding agreement (the Framework Agreement), it was considered unnecessary and inappropriate to seek a comfort letter over and above that legally binding commitment.

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STATUTORY ACCOUNTS

- (a) Peter Corbett reported to the Board that a number of minor amendments had been made to the Statutory Accounts since

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they had been circulated for consideration in advance of the Board meeting.

It was further reported to the Board that some minor adjustments to the statutory accounts were anticipated, but no material changes were expected.

- (b) On the basis of the information before them, and on the understanding that only insubstantial changes would be made to the accounts, the Board
 - (i) approved the accounts;
 - (i) authorised Mike Hodgkinson, David Mills and Peter Corbett to make any further minor amendment, and to sign the accounts on behalf of the Board;
 - (i) agreed that Peter Corbett would be authorised to sign the Letter of Representation on behalf of the directors to the auditors.
- (c) The Board further agreed to take legal and Royal Mail Holdings plc secretarial advice regarding the disclosure and remuneration of the Post Office Ltd directors within the Statutory Accounts in subsequent years.

CLOSE

There being no further business, the meeting was closed.