

Message

From: Jane MacLeod **GRO**
Sent: 17/07/2018 20:15:38
To: Alisdair Cameron **GRO**; Michael Passmore **GRO**
Rodric Williams **GRO**; Mark Underwood **GRO**
Andrew Parsons **GRO**
Subject: POL Contingent Liability Issue and Outstanding Items - CONFIDENTIAL AND SUBJECT TO LEGAL PRIVILEGE
Attachments: Paper for EY re ARA Litigation disclosure Part 2 v1 17-7-2018.docx

All

Further to Peter McIver's email below, and taking inspiration from Al's suggested approach, I have drafted the attached paper. The front part of the paper is quite generic. The Appendix sets out the questions posed by EY and suggests answers. While the language is mainly mine, the facts etc are taken from materials prepared for litigation related purposes. However, there are a few facts that still need details to be checked and/or added, and I have highlighted these in yellow. Accordingly:

Michael - would you please provide details of losses in para 20, and agent debt as set out in Q4

Al - would anyone in your world know how approximately how many agents we've had since 2000? (see response to Q1) - if not, we'll delete the sentence. I'll check with HR how many employees we have working in DMBs (Q 14).

Andy/Rod/Mark - please highlight any areas where you think my language/ answers are particularly risky

Many thanks everyone.

Jane



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Mobile number: **GRO**

From: Peter McIver **GRO**
Sent: 12 July 2018 12:35
To: Alisdair Cameron **GRO**; Jane MacLeod **GRO**; Michael Passmore < **GRO** >
Cc: Claire Johnson **GRO**; Sana M Gangat **GRO**
Subject: POL Contingent Liability Issue and Outstanding Items

Dear All,

Further to our discussion today, we held our internal Panel last night to discuss the above and the together we discussed the following:

- We appreciate that no formal Particulars of Claim have been received to date
- We understand that POL are of the position that they are unable to determine the outcome of the proceedings and whether that would be material or adverse as yet

- We have received from POL's lawyers a letter recently where they confirmed that they believe that POL's position that it is currently unable to estimate the amount of the ultimate liabilities which might be incurred is reasonable
- We are aware the Freeths estimate in the Skeleton argument was not a formal estimate of damages and was subject to further analysis and information

We and the panel therefore focussed on obtaining more of a deeper understanding as to the background of what caused the claim to arise, the history of it, and want to understand, given POL is defending the matter vigorously, what is POL's view of the likely population of Postmasters affected and the possible quantum. We would also like to understand can the population then be stratified into various categories of ones which may be valid, those likely to be defendable and those that may require more investigation etc.

The reason this is asked for is to determine the ultimate claim likely to be material and therefore fundamental to the financial statements. This will then guide the panel further in determining the disclosure and whether we include an emphasis of matter within our audit report.

As we mentioned in the last ARC we said we may require further information and discussion.

Therefore the questions we would like responded to in a formal paper for the panel to consider are:

1. What analysis has POL undertaken to date to determine the population of Postmasters affected, both in number of Postmasters and quantum/value of the claim?
2. Do POL have a record of the number of postmasters terminated over time that may be possibly part of this claim (and possible future claims) or a list of all Postmasters who were terminated for breaching their contracts?
3. Do POL have an idea of the value or quantum of money that was owed by these Postmasters when a termination was sought?
4. Do POL have a record of how much money if any has been collected or has not been collected from these postmasters as part of the terminations above?
5. Are there any receivables or payables carried in POL's books for these amounts?
6. Has any amount been paid out by POL in the event of differences from Horizon (or Fujitsu) to postmasters who were terminated as per above? Do POL have a record of such amounts/value involved?
7. Prior to the case, we understand there was mediation and possibly some settlements made – can we have the full number and value of those please?
8. You have mentioned some cases may be time barred now – do we have an analysis of those or others?
9. Similarly some instances where there was legal proceedings against the individuals an analysis of them please?
10. How many terminations of postmasters were subsequently replaced by alternative postmasters?
11. What were the key contractual terms under which these terminations occurred and the general reasons for termination?
12. What is the level of analysis undertaken by in house legal/ external lawyers on the terms of the contracts i.e. are they relevant/water tight and the resulting strength of POLs position?
13. Have any experts been used by POL to report on the functioning of Horizon and Fujitsu to date? What was the outcome of that?
14. What is the historic trend in terms of the accuracy of the reporting from Horizon? Any assessment made to date on its robustness?

We and the panel would also like POL to produce an Accounting Treatment Paper as to why this is a Contingent Liability under IAS37 (and no provision required) and as a consequence what exact type of contingent liability this is and cover the disclosure required per IAS37. This is due to the fact that the litigation is now advancing this year, with the two test cases coming up. At present the paper from Legal only covers disclosure recommendations.

We and the panel also recommended a further private meeting or call with Womble Bond Dickinson, your external lawyers, along with POL in house legal/finance team to to discuss the level of analysis/strength of the case to form a

view if this is a probable or possible claim? This should occur after the questions above have been responded to formally.

Once we have done this we can provided these responses and papers to a further panel.

Thank you for your assistance.

Lastly, as mentioned at the end of the call, we will do up an outstanding list split into a) what matters are required from yourselves and b) matters where we have received information from you and are still finalising our work/testing.

Kind regards
Peter



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