



STRICTLY CONFIDENTIAL AND SUBJECT TO LEGAL PRIVILEGE

Post Office Limited  
ARC Committee Meeting**MINUTES OF AN EXTRAORDINARY MEETING OF THE AUDIT, RISK AND COMPLIANCE COMMITTEE (THE "COMMITTEE") OF POST OFFICE LIMITED (THE "COMPANY") HELD ON THURSDAY, 28 JUNE 2018 AT 20 FINSBURY SREET, LONDON EC2Y 9AQ AT 3.00PM**

Present:	Carla Stent Tom Cooper <b>(TC)</b>	Committee Chairman UKGI, Non-Executive Director
In Attendance:	Paula Vennells <b>(PV)</b> Alisdair Cameron <b>(AC)</b>  Jane MacLeod <b>(JM)</b> Sarah Konarski <b>(SK)</b> Micheal Passmore <b>(MP)</b> Peter McIver <b>(PM)</b> Claire Johnson <b>(CJ)</b> Sana Gangat <b>(SG)</b>	Group Chief Executive (CEO) Chief Finance and Operations Officer (CFOO) Director, Legal Risk and Governance Assistant Company Secretary Financial Controller  Ernst & Young Ernst & Young Ernst & Young
Apologies:	Tim Franklin <b>(TF)</b> Ken McCall <b>(KM)</b>	Independent Non-Executive Director Senior Independent Director

**ACTION****1. WELCOME AND CONFLICTS OF INTEREST**

A quorum being present, the Chair opened the meeting. The Directors declared that they had no conflicts of interest in the matters to be considered at the meeting in accordance with the requirements of section 177 of the Companies Act 2006 and the Company's Articles of Association.

# Irrelevant



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**Irrelevant**

2.3

Strictly Confidential



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# Irrelevant

**Post Office Group Litigation – SUBJECT TO LEGAL PRIVILEGE**

2.5 Discussion turned to the disclosure of the Group Litigation. It was understood that the extent of disclosure had become a substantive issue since the Committee's last meeting. Solicitors on behalf of the claimants had recently included an estimate of £80m to £90m in a skeleton argument submitted to Court relating to cost budgeting, and EY had recommended the disclosure of this figure. PM believed that the estimated figure should be disclosed as:

- (a) The claimants' had initiated litigation in 2016 and while previous ARA's had included a description of the Group Litigation within the note on contingent liabilities, the claim had not been quantified.
- (b) There were two trials now scheduled in the financial year to discuss preliminary issues.
- (c) The figures contained in the skeleton argument, while heavily caveated, were now technically in the public domain.
- (d) The figures were material and could be considered as the best current estimate of the scale of the potential damages to be sought. PM



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recognised that disclosure of the figure could be accompanied by a Post Office narrative challenging the reliability of the estimate.

- (e) There was no suggestion that PO could not continue as a going concern.
- (f) Depending on the extent of the disclosure, EY would consider whether it would include an emphasis of matter statement in its audit report. It was acknowledged that this was neither EY nor Post Office's preferred solution. Accordingly, PM requested the Committee to reflect on the extent of its disclosure and agree updated wording for review by EY. Following receipt of the wording, EY would convene an internal panel to consider whether the proposed note would be sufficient and correspondingly, whether an emphasis of matter statement would be included.

2.6 The Committee noted the text of the existing note, together with alternative examples of disclosures provided by JM, and assessed the potential implications arising from each of the options. The following points were considered:

- (a) Timing: the Committee noted that given the nature of the issues to be considered at the upcoming Common Issues and Horizon trials it was not likely that the Claimants' damages would be quantified until after conclusion of those trials and receipt of the respective decisions.
- (b) Purpose: The Committee noted that the estimate included in the Skeleton Argument did not represent a formal assessment of damages, was expressed to be "subject to further quantum analysis and formulation" and was only intended to be used as a guide for proportionality of costs, and the Claimants' solicitors had stated "There are inherent difficulties to setting out the quantum of these claims at this stage and the figures should be relied upon solely as a suitable guide for the purposes of proportionality considerations in costs budgeting." JM advised that the Post Office had asked the claimants' solicitor to explain the calculation but a response had not been received.
- (c) Accuracy: The Committee agreed that given the relatively early stage in proceedings, it could not be confident that the quoted figure was within a reasonably appropriate range, and indeed potential damages once quantified could be materially larger or smaller, and therefore disclosure of a number now could be misleading.
- (d) Reputation: The Committee noted that, as a trusted brand, Post Office must operate in a fair and transparent manner. The Committee discussed who might rely on the disclosure of the figure in the accounts. The Shareholder was conversant with the latest developments in the Group Litigation and the ARA would highlight that the Post Office was defending a large claim. In the circumstances, the Committee believed it was unlikely that the omission of an estimated figure would mislead a stakeholder and cause them to act to their disadvantage. The Communications Team was equipped to respond to any enquiries.
- (e) Proportionality: The Committee noted that for Post Office to reference the number in its accounts would lend credence to the figure and that this may have unintended consequences and be damaging to Post Office's defence. It was noted that Post Office's legal team recommended against disclosure.





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- 2.7 Following careful consideration the Committee concluded that the existing draft disclosure in the contingent liability note needed to be expanded, however they did not believe that disclosure of the estimated aggregate claim value (provided as part of a skeleton argument) would be a reliable and fair reflection of the size of claim. They therefore expressed a strong preference not to disclose the Claimant's estimated figure. The Committee authorised JM to draft and circulate proposed wording for the Group Litigation note. The Committee would agree the final wording by correspondence before onward submission to the EY panel.
- 2.8 The Committee was advised that EY would seek the advice of its internal evaluation panel in the week commencing 9 July before confirming its final position on management of the disclosure. Accordingly the Committee agreed to convene an extraordinary meeting later in July to receive EY's conclusion, review the ARA and make its recommendations to the Board.
- 2.9 The Committee noted the Financial Results report.
- 3. ANY OTHER BUSINESS**
- 3.1 PV recorded her thanks to AC and PM's respective teams for their work to provide assurance and support around the migration from POLSAP to CFS.

There being no further business the Chairman declared the meeting closed at

3.2

**Carla Stent**

Chair

Date

31/7/18.