

TO: Mike Kinski
John Lloyd
Miles Templeman
Rosemary Thorne

FROM: John Roberts

DATE: 24 May 1999

HORIZON

1. I attach two letters which were exchanged after last night's Board Meeting. The first, from Neville Bain, reflects our discussion and sets out not only the views of the Board but the conditions on which we were prepared to sign the Heads of Agreement. In writing them, we set a bottom line for our negotiations that the second and third starred items were essential, whereas the first and fourth items could, if necessary, be given away.
2. In the event, as you will see from the second letter, we were able to achieve the first three items with some warm words on the fourth item about VAT. On the basis of that, we faxed a signed copy of the Heads of Agreement to ICL at around 2am this morning.
3. As a result of last night's discussions, the Chairman has decided that there is no need for a Board Meeting today but he is available if any Non-Executive wants to phone him (or me) to add any further details to this note. We will be producing a formal record of last night's meeting, which we will circulate to you and then formally approve at our next regular meeting on 8 June.
4. Thank you all for your help last night.

GRO

PS The Minutes of last night's meeting will be faxed out to you later on this afternoon.

The Post Office
148, Old Street,
LONDON
EC1V 9HQ

23 May 1999

Dear Secretary of State

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

- 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

Chairman

CONFIDENTIAL - COMMERCIAL



Dr Neville Bain
Post Office Chairman
The Post Office
148 Old Street
London
EC1V 9HQ

23 May 1999

Dear Dr Bain

HORIZON

I have considered your response to my letter of today which indicated that you would be prepared to sign the Heads of Agreement tonight on the basis of a number of conditions. Taking these in turn:

Government will accept responsibility for the £150 million termination fee except to the extent that we judge the Post Office to be responsible for failure to complete the Codified Agreement:

We will amend the EFL to reflect the drawdown of the £480 million and take it fully into account in setting profit targets.

I confirm that nothing in my proposal earlier today will affect my approach on the White Paper.

Because any alteration to the VAT regime for the Post Office raises wider implications, I am afraid that we cannot solve this issue this evening. I am however sympathetic to your concerns, and will be prepared to discuss them in the wider context of the White Paper on the future of the Post Office.

Yours sincerely

GRO

STEPHEN BYERS

*(approved by the Secretary of State
and signed by the Minister)*

