

POST OFFICE LIMITED  
(the "Company")

MINUTES of a Meeting of the Board of Directors of the Company held at  
80 Old Street, London at 8.15 a.m on 27 September, 2006

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Present:


Sir Mike Hodgkinson (in the Chair)  
Peter Corbett  
Ian Anderson  
Ric Francis

In attendance:


Sue Whalley  
Doug Evans (Group Legal Counsel)  
Neil Owen (Company Secretarial)  
Jeff Triggs (Slaughter and May)

Apologies:

Alan Cook  
Allan Leighton  
Jonathan Evans (Company Secretary)

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1. It was noted that a quorum was present.
  2. There were produced to the Meeting:
    - (a) the draft accounts of the Company for the financial year ended 26 March, 2006;
    - (b) a report on the Company's performance to Period 5 accompanied by summary profit and loss, income, expenditure, cash flow and balance sheet statements relating to period 5, year to date and forecast full year;
    - (c) monthly cash flow forecasts of the Company in respect of the 18 months to March, 2008;
    - (d) 

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- (e) a letter dated 26 April, 2006 from Stephen Lovegrove (on behalf of the Secretary of State for Trade and Industry) to the Chairman;
  - (f) the Subscription Agreement dated 9 August, 2006 between the Secretary of State for Trade and Industry, The Treasury Solicitor, Royal Mail Holdings plc, Royal Mail Group plc ("Mails") and the Company;
  - (g) a letter dated 18 September, 2006 from Alan Cook (on behalf of the Chairman) to the Secretary of State for Trade and Industry; and
  - (h) a letter dated 21 September, 2006 from Stephen Lovegrove to Alan Cook in reply to the letter referred to in paragraph 2 (g) above.
3. It was reported that the purpose of the Meeting was to review the Company's financial position and to consider whether the Company was a going concern for the purpose of approving its accounts for the year ended 26 March, 2006.
4. The accounts of the Company for the year ended 26 March, 2006 were produced to the Board and carefully considered by the Directors. It was noted that the accounts had been prepared on a going concern basis. The Directors were reminded that if they did not believe that the Company was in a position to meet its liabilities as they fell due over the foreseeable future then such accounts should be prepared on a break up basis.
5. 
6. The Board was reminded in particular that as the Company was insolvent each of the Directors owed a legal duty to act in the interests of the Company's creditors, with a view to minimising any loss to those creditors. As such the Directors should not continue to trade and to incur new debts unless they were confident that the Company would be in a position to meet its liabilities as they fell due over the foreseeable future.

It was clear to the Directors that they could not reach that conclusion unless they were confident that a long term funding solution would be put in place by Government and that pending that solution being put in place there would be sufficient funds available to the Company to enable it to meet its liabilities as they fell due.

It was noted that support from the Government was likely to require state aid approval. Accordingly in deciding to continue to trade in reliance on Government support it was necessary for the Directors to form the view not only that such support would be forthcoming from Government but also that the Government would promptly apply for and receive the necessary state aid approval for that support. The Directors should also take into account the time it was likely to take for state aid approval to be obtained – it was likely that the requirement for such approval could delay actual receipt of funds for six months or more from the time at which any agreement was reached with Government.

However, in terms of the Company's immediate cash requirements it was pointed out that the Company had recently received a cash injection of £145m. from Government

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and that Government was contractually committed to pay a further £231m., together with rural network payments of £150m. per annum for 2006/7 and 2007/8. Each of these amounts had already received state aid approval and together these amounts were likely to enable the Company to be able to continue to meet its liabilities as they fell due for the next seventeen or eighteen months.

It was also reported that the Government currently believed that they had existing state aid approval for a further £198m. of payments to meet the Company's funding requirements up to the end of the 2006/7 financial year and that Government were currently considering seeking an extension to be able to use that remaining sum during the next financial year. However, there was currently no commitment to pay that amount.

7. The Finance Director outlined the Company's current financial position and presented to the Board the papers referred to in paragraphs 2 (b) and (c) above. It was noted that in terms of cash flow the Company's performance year to date was in line with the budget.

However, it was clear that the Company was insolvent and that in the absence of support from the Government it would not be a going concern. Indeed if a long term funding solution did not materialise it would be necessary for the Company to take urgent and drastic steps to rationalise the network on terms driven more by what the Company could realistically afford at the time than what subpostmasters and employees might regard as compensation acceptable to them.

The Finance Director reminded the Board that in the letter of 26 April, 2006 referred to in paragraph 2 (e) above, the Government and Mails had agreed to put in place short term funding to meet the Company's immediate requirements. In addition the Government had stated in that letter its intention to agree with the Company by the end of December, 2006 a long term funding arrangement such as to enable the Company to continue to trade as a going concern without putting its creditors at risk of the Company going into insolvent liquidation in the foreseeable future.

However, it was pointed out that on a number of occasions in the past the Government had stated its intention to put in place a long term funding solution by deadlines each of which had come and gone without any such solution having been put in place. It was also noted that the 26 April letter referred to a process of public consultation which had not commenced as anticipated. The Directors therefore needed to consider carefully whether it was appropriate for the Company to continue to rely on such a solution being provided in accordance with the timetable set out in the 26 April letter.

It was noted that the short term funding that the Government agreed to provide to the Company in the 26 April letter was now dealt with in the legally binding Subscription Agreement referred to in paragraph 2 (f) above and that such funding benefited from existing state aid approval. It was pointed out that the Subscription Agreement also dealt with funding for the rural network until March, 2008 and that such funding had also received state aid approval. To date £145m. of the short term funding had already been received and a further tranche of £156m. was expected to be received shortly, in addition to the rural network funding.

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It was reported to the Board that the letter referred to in paragraph 2(g) had been sent to Government with a view to reminding Government of the Board's continuing reliance on Government's letter of 26 April and inviting Government to inform the Board if its intentions expressed in that letter had changed. It was further reported that in his reply of 21 September, Stephen Lovegrove stated that he was not aware of any alteration to the Government's intentions with regard to the timetable for agreeing a long term financing arrangement for the Company and gave his support to the signing of the Company's accounts on a going concern basis.

It was therefore considered reasonable for the Board to continue to place reliance on the Government's support, although it was agreed that the Finance Director should be instructed to draw up a contingency plan such that the Company would be in a position to put in place more drastic cost reduction initiatives at relatively short notice in the event that an acceptable long term funding arrangement was not put in place by Government as currently anticipated.

8. After discussion IT WAS RESOLVED as follows:

- (a) that despite the lack of apparent progress to date each of the Directors believed that the Government would fulfil the intention set out in the letter of 26 April, 2006 to put in place a long term funding solution by the end of December, 2006 such as to enable the Company to continue to trade as a going concern without putting the Company's creditors at risk of the Company going into insolvent liquidation in the foreseeable future;
- (b) in the meantime, having regard to:
  - (i) the current trading position of the Company as reported by the Finance Director;
  - (ii) the reports and forecasts presented to the Board by the Finance Director;
  - (iii) the current short term funding available to the Company from Government and from Mails (including the amount received to date) and the existing state aid approvals for such funding; and
  - (iv) the likely requirement to obtain state aid approval for any future long term funding, the delay that such process would entail and the risk of such approval not being obtained,

the Company would have sufficient funds available to it to meet its liabilities as they fell due over the foreseeable future and in particular until the long term funding solution had been agreed and received state aid approval;

- (c) the Directors should sign the Company's accounts for the financial year ended 26 March, 2006 on a going concern basis;
- (d) the Directors should keep the financial position of the Company and its ability to meet its liabilities under regular review. This should include a discussion on a

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monthly basis of the current cashflow position of the Company and progress towards agreeing a long term funding package from Government;

- (e) the Directors should in particular meet shortly after the end of December, 2006 to consider the long term funding requirements of the Group and, if a long term funding solution had not been agreed with Government by that date, to consider what action to take with a view to minimising loss to creditors in the light of that, including consideration of an immediate and drastic rationalisation of the network;
  - (f) the Finance Director be instructed to prepare a draft contingency plan for the implementation of such action in the event that it should become necessary, such plan to be considered by the Board at its October meeting; and
  - (g) a letter be written to the Secretary of State explaining the basis on which the Board had resolved to continue to trade and to sign its accounts on a going concern basis
9. The Company Secretary was instructed to file the accounts for the financial year ended 26 March, 2006, once signed, with the Registrar of Companies.
10. There being no further business the Meeting closed.

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Grant Thornton

26/10/06