In Strictest Confidence

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POST OFFICE LIMITED

(company no. 2154540)

Minutes of the meeting of the Board of Directors held at Gavrelle House, London, on 24 May 2002

Present:

Allan Leighton	Chairman
David Mills	Chief Executive
Peter Corbett	Finance Director
David Miller	Operations Director
Marisa Cassoni	Group Finance Director, Consignia plc
John Roberts	Chief Executive, Consignia plc

In attendance:

James Dean	Ernst & Young
Dan Hamilton	CMS Cameron McKenna
David Day	CMS Cameron McKenna
Catherine Churchard	Head of Legal Services, Consignia plc
Jeff Triggs	Slaughter and May
Jonathan Evans	Company Secretary
Anna Malley	Notes

POLB 02/01 ~~INTRODUCTION~~ POST OFFICE LIMITED ACCOUNTS 2001-02

(i) The Chairman ~~It was~~ explained to the meeting that the Company's ultimate parent company, Consignia Holdings plc ("Holdings") proposed to make a preliminary announcement of the results of the Consignia group for the financial year 2001/2, on a going concern basis. The meeting had been convened to consider whether, in the context of that proposed announcement, the Directors were able to conclude that the accounts of the Company for that period should be prepared on a going concern basis;

(ii) For the purposes of Article 89 of the Company's Articles of Association and pursuant to section 317 Companies Act 1985, it was noted that Allan Leighton, Marisa Cassoni, John Roberts and David Mills were directors of Consignia Holdings PLC and Consignia plc and that accordingly they were to be regarded as having an interest in any transaction or arrangement between the Company and either of such other companies;

~~2 DOCUMENTATION~~

(iii) There were produced to the meeting copies of the following:-

(a) ~~(i)~~ a draft letter from the Secretary of State dated 21st May 2002 setting out, inter alia, the Government's intentions for funding the Consignia group over the foreseeable future;

(b) ~~(ii)~~ a further draft letter from the DTI dated 21 May 2002;

(c) ~~(iii)~~ a group cashflow analysis dated 23 May 2002;

(d) ~~(iv)~~ [redacted]

(e) ~~(v)~~ [redacted]

(f) ~~(vi)~~ a draft "comfort" letter to be addressed to the Directors from Holdings in relation to Holdings' intention to provide financial support to the Company;

(g) ~~(vii)~~ the current strategic plan of the Company; ~~and~~

(h) ~~(viii)~~ the draft accounts for 2001-2.

~~3 THE DISCUSSION~~

~~(a)~~ The Board ~~Directors~~ carefully considered the documents produced to the meeting, ~~In particular:-~~ and noted in discussion:

(iv) ~~(i)~~ [redacted]

(v) ~~(ii)~~ [redacted]

(vi) ~~(iii)~~ ~~the Directors discussed~~ the extent of the comfort to be derived from the draft letter from the Secretary of State (having regard, in particular, to the various conditions referred to in the letter) and the draft letter from the DTI. It was noted in addition that personal assurances had been given to the Group Finance Director, the Consignia plc Chief Executive, and the Chief Executive of the Company, from the Treasury, DTI and the Prime Minister's private office, that the current Government could not foresee circumstances in which the Company would be allowed to become insolvent;

(vii) ~~(iv)~~ ~~there was discussion of certain issues in relation to the current strategic plan of the Company and it was noted~~ that the Company had agreed to produce a revised strategic plan by 1st September 2002. It was noted that the Company had taken a prudent decision to remove funding for the Social Network Payment and Your Guide from the plan, in the absence of any financial support;

(viii) ~~(v)~~ the projected future cash flows of the Consignia group, ~~were carefully considered~~, including the headroom contained in them and the sensitivities to which they were potentially subject. Furthermore, the Horizon running costs, the removal of benefit agency pre-payments and the move to automated credit transfer would mean that the Company remained loss-making throughout the duration of the plan, and were dependent on continued support from the parent company; ~~and~~.

(ix) ~~(vi)~~ ~~the Directors carefully considered~~ the draft letter from Holdings and the extent of the financial support contained therein, noting that it was (amongst other things) subject to certain conditions and constraints imposed by the Secretary of State's letter. It would be important to keep the financial position of Consignia Holdings plc and Consignia plc under review, given the dependence of the Company on the support of its parent;

(x) ~~It was noted~~ that the Secretary of State's letter did not amount to a legally binding obligation to advance the necessary funding for the Consignia group and was subject to the following conditions:-

a) approval by the Holdings Board of the corporate governance, structure and performance management arrangements proposed in it (it being noted that the Holdings Board had indicated its intention to give this approval);

b) any necessary state aid clearances;

c) the NLF approving the funding where necessary; and

d) the Company producing a revised strategic plan by 1 September 2002, as referred to in the Secretary of State's letter;

(xi) ~~It was also noted~~ that the consent of Postcomm maybe necessary to deal with the gilts currently held by Consignia plc in the manner envisaged by the Secretary of State's letter. This notwithstanding, ~~it was agreed that~~ the letter (together with the further letter from the DTI) constituted evidence of the Secretary of State's commitment to funding the Consignia group, including the post office network.

~~4 RESOLUTIONS.~~

After careful consideration of the uncertainties inherent in the Secretary of State's letter and the possible risks involved in the delivery of the Company's strategic plan ~~the Directors resolved that~~, having regard to:

(i) the Government's publicly expressed commitment to funding the network;
(ii) the intentions expressed in the Secretary of State's letter and the supplemental letter from the DTI;
(iii) the personal assurances provided to certain Directors by the Treasury, the DTI and the Prime Minister's private office;
(iii) the terms of the letter of comfort from Holdings;
(iv) the Company's understanding of the financial position of Holdings and of Consignia plc;
(iv) the Company's cash flow forecasts as produced to the meeting; and
(v) the recommendation of the Holdings audit committee that the Consignia group's accounts should be prepared on a going concern basis;

and subject to the Secretary of State's letter, the DTI letter and the comfort letter from Holdings being signed in the form tabled (or subject to amendments agreed by the Company's Board), the Company was likely to meet its liabilities as they fell due for the foreseeable future and that the Company's accounts for the financial year 2001/02 should therefore be prepared on a going concern basis. ~~The Directors also agreed that~~ (xiii) the accounts be signed off as presented, subject to resolution of those outstanding issues presented to the meeting.

(xiv) The Directors also noted, ~~however,~~ that the margins contained in the cash flow forecasts were not great and that there were uncertainties inherent in the delivery of both the Company's strategic plan to be prepared by 1 September 2002 and the strategic plan of Consignia plc, on whose performance the ability of Holdings to support the Company was dependent and that the finance available to the Company was subject to a number of conditions. Accordingly ~~it was resolved~~ the Board agreed that the Company's financial position should be kept under regular review by the Board.