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Dear Kelly

Thank you for your letter dated 29 May 2019 regarding the current status and areas of risk around the ongoing Post Office Group Litigation. Some of your questions will be better answered in person, given the legal sensitivities. We have a meeting in the diary on 25 June but I would be happy to meet sooner: we completely share your perception of the risks to Post Office. We are of course already working on mitigation strategies and no avenue is ruled out. Nonetheless, we have limited options and no likely outcomes are attractive.

Answering your questions in turn:

**1. Current status of the litigation, particularly the Horizon trial and the appeal of the Common Issues trial**

With respect to the current status of the litigation, the Managing Judge split the litigation into a series of trials. The first trial, the "Common Issues Trial", took place in November 2018 and judgment was handed down in March. We are seeking to appeal this judgment. Having been denied permission by the Managing Judge, we must make an application for permission to appeal to the Court of Appeal by 13 June 2019. The Court of Appeal will then decide whether to grant permission. If it does, the appeal is likely to place in the next 12 months. If it refuses, the Common Issues judgment will stand.

The second trial, the "Horizon Trial", concerns the function and reliability of the electronic accounting system that Postmasters are required to use in the operation of their branches and the processes that operate around it ("Horizon"). At present the Horizon Trial is part-heard – evidence of fact has concluded, with expert evidence due to be heard from 4 June. It is anticipated that the Horizon Trial will conclude by 2 July 2019, with written judgment to follow thereafter. The written judgment is likely to be handed down some months after the hearings finish. However, we will be prepared for a judgment, and a difficult judgment, in July.

The third trial, the "Further Issues Trial", principally concerns limitation and breach issues in two lead claims. It is listed to be heard in November 2019 but it is not clear whether that timetable will be maintained. A fourth trial for final findings and liabilities is expected in 2020.

2. **What changes to your litigation strategy have been made following the appointment of the new legal team**

The Judge's findings to date have been consistently and highly critical, creating heightened legal risk and brand damage. We decided to introduce a new team because our existing advisors did not believe that our strategy and approach should change in the light of this criticism. When the new legal team was being introduced, we were pursuing a joint appeal on both the common issues and the recusal of the Judge. In discussion with its new advisors, the Board separated the two appeals so that the Common Issues appeal would not be affected by the more controversial appeal on recusal. The final Common Issues appeal that will be presented shortly will now not make any attempt to bring in any of the recusal evidence but instead will present a narrower focus on the most material legal issues affecting our contracts with Postmasters. We are planning a different tone as well as scope and have asked a different QC to lead the appeal.

3. **Scenarios as to how the litigation will play out and how it could be settled, including what settlement windows could exist during the trial timetable**

We have been working through the trials as scheduled. Our previous advisors considered this as effective strategy because there are a number of weaknesses in the claimants' case. For example, some claimants took action after more than 6 years had elapsed meaning that their claims should be time barred. Others have already signed "full and final settlements" with us or are claiming amounts that would seem disproportionate to the losses incurred.

However, it was always recognised that a settlement might be preferable and given the Judge's views to date, the protections listed above may be ineffective. The claimant's QC has indicated that a settlement discussion could take place after the Horizon Trial has completed, so in the late Summer and early Autumn. A settlement strategy is being considered at the moment and we will update you further on this when we meet. One point that needs to be borne in mind is that if any settlement occurs before the appeal on the Common Issues judgment is determined then that judgment would continue to stand with the difficult operational consequences it poses.

4. **Your assessment of the potential cost of the litigation, including a range of possible outcomes with rationale**

The claimants have not at any stage properly quantified their claim and on this basis we have explained to our external auditors that it is not possible for us come up with an effective estimate for disclosure or provision in our Annual Report. We will be able to speculate on ranges of settlement amounts and their rationales when we meet. However, it is important to note that settling this case will not comprise our only expected cost: any settlement may create new historical claims and we are also in the process of changing the way our current operations work in the light of the Common Issues judgement as well as the costs of the litigation itself.

5. **Details of any other significant operational consequences arising from the litigation**

Operationally, it is critical that we maintain the trust and co-operation of the Postmaster community. To date, that has held and we should remember that the vast majority of Postmasters manage effectively and without issue. To maintain trust, we are progressively introducing higher remuneration, simplifying the way Postmasters work, introducing changes to reduce accounting differences and creating more transparent and helpful processes to manage any differences that do arise.

Fundamentally, for us to trade as we do today, we must be able to recover taxpayers' money that is used as cash in branches. There are elements of the Common Issues judgment that make this harder and even more dependent on Postmaster goodwill. Hence the appeal.

6. **Confirmation of Post Office's ability to fund a settlement in the range referred to above without further taxpayer support.**

Based on current cashflow forecasts, we could manage a substantial cost. We are using £100m as a number with our auditors in determining our ability to trade as a going concern.

As you know, our long term financial health is complex but improving. A number of issues will affect it which we are working through over the Summer and which will support any debate underpinning the Government's next spending review. This will include issues that are the focus of the Select Committee and others. Al will be writing separately to you in the next few days on these issues but I did not want them to detract from our focus on the litigation.

7. **Other matters**

Our next Board meeting is on 30<sup>th</sup> and 31<sup>st</sup> July and I would be delighted if you would attend. In addition, we hold regular meetings of the Board sub-committee that deals specifically with the Litigation. As I am sure you know, Tom Cooper of UKGI has been a member of that since March 2018 and you are again most welcome to attend. This is a key component of our approach as a Board, recognising the importance of the litigation – our other sub-committees are more general (Nominations, Remuneration, Audit & Risk). I will share more about the operations of the Board and my own perspectives when we meet.

*Ben Wright,*

**GRO**