

18 January 2006

By Fax [GRO]

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Dear Sirs

Post Office Limited -v- Mr L. Castleton

Thank you for your letter dated 17 January to which we will reply shortly.

We refer to the reports of Wright and Hoggard and Bentley Jennison dated 18 August and 23 September 2005 respectively.

The conclusion of both reports is that the Horizon system "double counted" losses because it allegedly failed to recognise the transfer of the money over from the daily snapshot into the suspense account. White & Hoggard even suggest that "if this has happened for the one week where we have documentary evidence then the balance of probabilities would suggest that it is quite likely that this is also happened in earlier periods..." The "evidence" that they rely upon is that on day 2 of week 49 (27 February 2004), an entry for £3,509.68 is shown as "loss to A" (document 3 attached to Bentley Jennison's report). An Office Copy of the suspense account dated 3 March 2004 states "cash shortages 27/02/04 loss A to table A £3,509.68" (document 4). Bentley Jennison then state that the net discrepancy of £3,509.68 is still showing in the balance snapshot dated 27 February 2004 (document 5) after it was purportedly transferred into the suspense account.

We have discussed the reports with our client and have the following comments:

1. Both experts have made a fundamental error in reviewing the documents you supplied to them and consequently, their conclusions are completely incorrect.
2. The reason they have made a crucial error is that Bentley Jennison and White & Hoggard have both wrongly assumed that the balance snapshot is the same thing as the Final cash account, but they are not the same and have two separate functionalities. They rely upon the balance snapshot (document 5) dated 27 February 2004 to support their assertion that the discrepancy of £3,509.68 was still showing in the cash account after it was purportedly transferred into the suspense account. The balance snapshot would not show (or be expected to show) the transfer into the suspense account.
3. In summary, a balance snapshot is a running total printout and shows a balance of what the branch *should have*, not what cash it *actually does* have. It looks at the previous week's declared cash in stock and adjusts items as they are sold, so if somebody forgets to enter an item that a customer has purchased, then the balance snapshots will be inaccurate. Effectively, the balance snapshot is just a facility to allow the Sub-Postmaster to quickly check transactions through the week. That is why it does not show the transfer of the sum of £3,509.18 into the suspense account.
4. For the above reason, the balance snapshot is not a useful tool for verifying whether cash was missing from the Marine Drive Branch and the balance snapshots will not be determinative of this dispute. It is not mandatory for a Sub-Postmaster to print out a balance snapshot. In any event, we are instructed by Ms Oglesby that Mr Castleton did not print out a balance snapshot every day and that those balance snapshots that Mr Castleton did print and which she removed from the Marine Drive branch are those in the Post Office's file that has been sent to us. It is evident from your experts' reports that you already have various balance snapshots. When the parties provide standard disclosure, we will

disclose copies of all those documents falling within CPR 31.6 which we do have (including, for what they are worth, any balance snapshots).

5. The Final Balance print out is an accurate and more useful report, because to produce the Final Balance, a Sub-Postmaster would have to physically check and declare his true cash position, stock and stamps and to enter those into the system.
6. Both experts state that they would need to see further information to obtain a clearer picture. However, you only sent to them a tiny fraction of the information which we had at the time already provided to you: Well before you instructed the experts, we had sent to you 14 weeks worth of cash accounts (weeks 39 to 52), 12 weeks of giro accounts (weeks 39 to 50) and 12 weeks of declared cash receipts (weeks 39 to 50) and a copy of the final audit. However, you only sent to them accounting information for just week 49, being the cash account, balance snapshot dated 27 February 2004, final balance dated 4 March 2004 and suspense account dated 3 March 2004. It is disingenuous for you to ask us for disclosure of balance snapshots (upon which nothing will turn, for the reasons explained above), given that you appear to have withheld the vast majority of the more useful documents we gave to you from White & Hoggard and Bentley Jennison.

To summarise, the balance snapshots will not be determinative of the claim (or useful) and you have not given the vast majority of the more useful information we have supplied to your experts. The conclusions in White & Hoggard and Bentley Jennison's reports are completely incorrect, yet you have stated that they will form the core of any formal report that Mr Castleton intends to rely upon at Court. In the circumstances, we invite Mr Castleton to seriously reconsider his refusal to agree to set aside the default judgment. If he fails to do so, we will produce this fax to the Court at the appropriate time on the question of costs.

Yours faithfully

Bond Pearce LLP