ENGAGEMENT LETTER DATED 9TH APRIL 2014 CHANGE ORDER NUMBER 02 (VERSION 1)

11 March 2016

Post Office Limited Finsbury Dials 20 Finsbury Street EC2Y 9AQ

For the attention of Jane MacLeod

Dear Sirs

This Change Order (including any appendices, schedules, and/or attachments), records agreed changes to the Contract between Deloitte LLP ("Deloitte" or "we") and Post Office Limited ("POL" or "you") dated 9th April 2014, as amended by prior agreed Change Order(s) or amendments thereto. This Change Order constitutes the entire understanding and agreement between the Client and Deloitte with respect to the changes set out in this document, supersedes all prior oral and written communications with respect to such changes (including, but not limited to Change Requests), and may only be amended in writing, signed by authorised representatives of both parties.

The section(s) of the Engagement Letter set forth below and Change Order Number 01 (Version 2) are hereby amended, effective as of 11 March 2016, by the following text:

1 Project scope, objectives and background

Background

POL continues to respond to allegations that the "Horizon" IT system used to record transactions in POL branches is defective and the processes associated with it are inadequate (the "Allegations"). As part of this activity, POL's Chairman Tim Parker instructed Jonathan Swift QC to review and advise him on the work POL had already taken in the 2010-2015 period (including the work undertaken by Deloitte pursuant to the Engagement Letter and Change Order Number 01 (Version 2)), and if there were gaps in that work, whether further action can reasonably now be taken to respond to the Allegations.

Deloitte is now asked to undertake the work described in this Change Order Number 02 in order to support and inform the advice that Jonathan Swift QC is providing to POL's Chairman, and to assist POL respond to the Allegations which continue to be the subject of threatened litigation.

Scope and Objective

This first phase of work will constitute 'Phase 0', the 'Discovery Phase', whereby Deloitte will perform initial enquiries and investigations across four scope areas named by POL and identify procedures which POL may wish to undertake for each scope area.

The objective of the 'Discovery Phase' is to ratify the procedures into an agreed statement of work which can be undertaken in Phase 1, the 'Delivery Phase'.

This Change Order (including its commercial terms) relates to the 'Discovery Phase' / Phase 0 only. The Delivery Phase / Phase 1 will be the subject of a separate engagement letter or further Change Order as is necessary.

2 Our Services and responsibilities

Timetable

We are planning to operate in accordance to the following timetable:

Phase	Activity	Planned Completion Time
0. Discovery Phase	Initial engagement activities such as review of documentation, discussions with Fujitsu and POL's financial processing team, and high level data gathering to allow the core procedures to be identified and defined.	18 th March 2016
1. Delivery Phase	Execute the core procedures (and selected optional procedures) against each of the four scope areas.	13 th May 2016

Scope Areas

The four "Scope Areas" specified by POL are:

Scope Area #	QC's Advice	Proposal
3	POL consider instructing a suitably qualified	POL will instruct Deloitte to
	party to carry out an analysis of the relevant	determine whether such an
	transaction logs for branches within the Scheme	analysis/review is feasible, and
	to confirm, insofar as possible, whether any	if it is, to provide an indication
	bugs in the Horizon system are revealed by the	of the cost, time and process
	dataset which caused discrepancies in the	that would be incurred.
	accounting position for any of those branches.	
4	POL instruct a suitably qualified party to carry	POL will instruct Deloitte to
	out a full review of the use of Balancing	determine whether such an
	Transactions throughout the lifetime of the	analysis/review is feasible, and
	Horizon system, insofar as possible, to	if it is, to provide an indication
	independently confirm from Horizon system	of the cost, time and process
	records the number and circumstance of their	that would be incurred.
	use.	

Scope Area#	QC's Advice	Proposal
5	POL instruct a suitably qualified party to carry	POL will instruct Deloitte to
	out a full review of the controls over the user	undertake this review,
	and capability of authorised Fujitsu personnel	throughout the lifetime of the
The second	to create, amend or delete baskets within a	Horizon system, insofar as is
	sealed audit store throughout the lifetime of the	possible.
	Horizon system, insofar as possible.	
8	POL commission forensic accountants to	POL will commission Deloitte
	review the unmatched balances on POL's	to review any unmatched
	general suspense account to explain the	balances on POL's Suspense
	relationship (or lack thereof) with branch	Account.
	discrepancies and the extent to which those	
	balances can be attributed to and repaid to	
	specific branches.	

Approach

In general the procedures required during the 'Discovery Phase' to achieve clarity on the further procedures required for each Scope Area will be:

- i) Review relevant documentation.
- ii) Interview relevant stakeholders.

There are a number of further procedures which could be performed for each Scope Area. We have already identified some likely core and optional procedures in each Scope Area, which would be likely to form the nucleus of the work proposed for the subsequent Phase 1. Not all of these procedures will necessarily be required, and Phase 0 will allow decisions to be made around which of these should be adopted.

In the table below we have set out a more granular presentation with the work steps for Phase 0 together with the likely further procedures against each Scope Area, divided into 'core' and 'optional' based upon our current expectations of the relative merits of such further procedures.

NA – General procedures not linked to a specific Scope Area 2: POL consider individuals to perform further Phase 0 procedures. Scope Area 3: POL consider instructing a suitably qualified party to carry out an analysis of the relevant transaction logs for branches within the Scheme to confirm, insofar as possible, whether any bugs in the Horizon system are revealed by the dataset which caused discrepancies in the accounting position for any of those branches. Scope Area 4: POL instruct a suitably qualified party to carry out an analysis of the Horizon documents pertaining to the Horizon system are revealed by the dataset which caused discrepancies in the accounting the Horizon documents of the Horizon documents of Balancing Transactions for Dranches with relevant Fujits used assess feasibility of further data analytics. Scope Area 4: POL instruct a suitably qualified party to carry out a full review of the use of Balancing Transactions for Dranches with relevant Fujits used assess feasibility of further data analytics. Scope Area 4: POL instruct a suitably qualified party to carry out a full review of the use of Balancing Transactions to determine the history of Balancing Transactions of Balancing Transactions to determine the history of Balancing Transactions to determine the history of their usage, and the controls over their operation. Scope Area 4: POL instruct a large with relevant Fujits us staff with understanding of Balancing Transactions to determine the history of Balancing Transactions. Scope Area 4: POL instruct a large with relevant Fujits us staff in order to perform subject to the Horizon system, insofar as possible, to independently confirm from Horizon system, insofar as possible, to independently confirm from Horizon system, insofar as possible, to independently confirm from Horizon system, insofar as possible, to independently confirm from Horizon system, insofar as possible, to independently confirm from Horizon system, insofar as possible, to independently confirm from Horizon system,	Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
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I ICUUCSELLI ICASIDILLY SEIRCY IS TAYOUTADICE.		request (if feasibility study is favourable).	c) Perform analytics procedures over the usage of

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Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
		balancing transactions from identified logs.
		Additional Optional Balancing Transaction Procedures: a) Review existing legacy-Horizon documentation around the operation of Balancing Transactions. b) Catalogue and document identified controls around Balancing Transactions on the legacy version of Horizon.
Scope Area 5: POL instruct a	1. Review existing documentation around the operation and	Scope Area 5: Audit Store Proposed Procedures:
suitably qualified party to carry	controls surrounding the Audit Store data.	a) Test Controls over access to create, amend or delete
out a full review of the controls	,	baskets within the Audit Store Environment.
over the user and capability of authorised Fujitsu personnel to	around controls and processes in relation to the creating, amending or deleting of Audit Store baskets by means	b) Use data processing to summarise the baskets affected
create, amend or delete baskets	other than in branches.	by this capability for the branches at issue.
within a sealed audit store		Additional Optional Audit Store Procedures:
throughout the lifetime of the Horizon system, insofar as		a) Validate extraction process of data for investigation as a result of the allegations.
possible.	5. Understand the length of time audit store baskets remain available.	b) Review controls around data extract from audit store and custody of that data once outside of Horizon.
	6. Determine if baskets relevant to the branches at issue can	c) Review relevant 'environment' controls which would
	be identified.	allow subversion of the 'specific' Audit Store controls.
	7. Formulate whether such audit store baskets for post	
Scope Area 8: POL	masters subject to the complaint could be identified. We understand that transactions in suspense accounts largely	Scope Area 8: Suspense Account Proposed Procedures:
commission forensic	represent the end of a process that has sought to resolve the	a) Test the relevant controls.
accountants to review the	issues and not the beginning. As such we propose identifying	b) Perform procedures such as review of service desk
unmatched balances on POL's	an approach that considers how POL handle imbalances from	platform or historical process documents, to assure that
general suspense account to	the point they arise, through Suspense, and on to write-off.	the suspense account process has remained relatively
explain the relationship (or lack	1 Deviews Cocond Sight separat and -14-1-	constant for the period under investigation.
thereof) with branch discrepancies and the extent to	1. Review Second Sight report and obtain/renew understanding of the various complaints.	c) Review a sample of relevant transactions to support and
	Review Central Finance team's analysis as to the different	compliment the controls work.
attributed to and repaid to	classifications and main utilisations of the suspense	Additional Optional Suspense Account Procedures:

Scope Area	Work Steps (for Phase 0)*	Anticipated Further Procedures for Phase 1**
specific branches.	 account. 3. Determine which suspense account classifications are more likely to be aligned with post master complaints. 4. Conduct interviews and review relevant documentation, together with process walkthroughs in order to understand the relevant suspense account processes. 5. Formulation of relevant controls population and test plan. 	 a) Review suspense account processes and controls for Suspense account areas deemed less relevant to complaint submission b) Perform analytics procedures over the current suspense account population of transactions in order to highlight items of interest.

^{*} NOTE: Whilst it is our intent to conduct the procedures listed within this column, as our understanding develops we may (under your direction) perform alternate or additional procedures, using the governance mechanisms described below to control that delivery.

^{**} NOTE: Suggested procedures only for illustrative purposes, and will be subject to revision as a result of the knowledge and direction gained from Phase 0. None of the procedures highlighted in this column are planned for delivery as part of Phase 0 and so are outside the scope defined by this change order.

Governance for 'Phase 0'

Whilst we have highlighted in the table above a number of procedures which we could perform in Phase 1, we believe a certain amount of flexibility in formulating the statement of work will result in the optimum result for POL. To ensure this flexibility whilst allowing sufficient oversight by POL we propose that weekly status meetings are held and used to discuss the direction of the work, and any deviance from the proposed procedures highlighted above.

Deliverables

Our deliverable for Phase 0 will be a statement of work setting out the proposed scope and approach to Phase 1.

Usage of our Deliverables

For the avoidance of doubt, our deliverables, are for the use and review of POL only, and are not permitted to be shared with any other third party without Deloitte's prior written consent.

3 Client Responsibilities and project assumptions

Assumptions

We have made the following assumptions in constructing the budget in this Change Note which, if not correct, could impact the scope, timing and potentially the cost of this engagement. They are:

- 1. Sufficient meetings can be obtained within Fujitsu during the course of planned fieldwork;
- 2. Sufficient meetings can be obtained within POL Finance teams during the course of planned fieldwork;
- 3. Access to relevant reports and data can be granted and facilitated during the course of planned fieldwork.

4 Our Charges

Rate card

We will conduct our services under the rate card previously used under Project Sparrow but discounted by 12.5% for both Phases 0 and 1, being:

Grade	Advisory Rate / hr
Partner	£551
Director	£473
Senior Manager	£376
Manager	£350
Senior Consultant	£271
Consultant	£162
Analyst	£127

Proposed Budget for Phase 0 - Discovery Phase

We envisage a senior team mix for this phase of the work as set out below:

Name	Grade	Rate	Days	Total
Andrew Whitton	Partner	£4,408	3	£13,224
Mark Westbrook	Senior Manager	£3,008	6	£18,048
Sam Bartlett	Senior Manager	£3,008	5	£15,040
Lewis Keating	Assistant Manager	£2,168	6	£13,008
Total			20	£59,320

5 Consequential changes to the Contract

Except as expressly modified herein, all other terms and conditions of the Contract remain unchanged. Please indicate your agreement to the terms of this Change Order by signing and returning to Deloitte the enclosed copy of this Change Order.

Yours faithfully,

Andrew Whitton Partner Deloitte LLP

Agreed by Post Office Limited:		
Signed:	Jane MacLeod	
For and on beha	f of Post Office Limited:	
Printed Name:	JANE MARLHOD	
Position:	General Counsel	
Date:	14 March Polb	