

The contents of this report are subject to the terms and conditions of our appointment as set out in our engagement letter dated 1 May 2015.  This report is made solely to the ARC Committee, Board of Directors and Management of Post Office Limited in accordance with our engagement letter. Our work has been undertaken so that we might start to the ARC Committee, Board of Directors and Management of Post Office Limited those matters we are required to state to them in this report and for no other purpose.	te
To the fullest extent permitted by law we do not accept or assume responsibility to enyone other than the ARC Committee, Board of Directors and Management of Poet Office Limited for this report or for the opinions we have formed. It should not be provided to any third party without our prior written consent.	ie



[Document title]

## 1 | Executive summary



## Our opinion and status of our audit

Our audit work in respect of the group and parent company is substantially complete. The significant open items required to finalise our audit procedures are detailed in Appendix A.

We have included an update on the status of matters which were included in our Audit Results Report (dated 14 May 2016) within sections 2 and 3 of this report.

On the basis of our work performed to date, we anticipate issuing an anqualified audit opinion in the form that is included in section 7 of this report. After our internal consultations there will be no Emphasis of matter included as considered in section 2 - Provision for tegal claims in particular the Herizon sub-postmasters claim.

Our sudit of the group's financial statements for the year ended 25 March 2018 has been performed in accordance with international Standards on Auditing (IM) in order to provide reasonable assurance that your financial statements are free of material insistatements.

Audit scope and audit approach for the year ended 25 March 2018

There has been no change to our audit scope and approach from that reported in our Audit Results Report

## Accounting matters and judgements

There has been no change to the significant risks or other accounting matters or judgements from those identified in the Audit Results Report.

In Sections 2 and 3 of this report we have included an update on the status of matters which were open at the time that our previous Audit Results Report was issued including more extensive discussion on impairment of goodwill and other long-fived assets, capitalisation and disposal of fixed assets, provision for legal claims in particular the Horizon sub-postmasters' claim. Pensions valuation and disolosure, and VAT accounting, given the majority of the work on these tisks had not been performed at that stage.

### Summary of audit differences

We have identified some audit differences which were greater than our threshold for reporting audit differences of £482,000. Further detail, including the lumaround effect of prior year adjustments, can be found in Section 4 of this report.

## Control environment

We finalised our testing and the final conclusion on our evaluation of IT general controls was that we are able to vely on the IT process for the relevant applications for our 2017/18 audit. Further details can be found in Section 5 of this report. We will issue a management letter in the course.

## independence, non-audit services and fees

There has been no change to our independence and non-audit services fees from that presented in the Audit Results Report.

Our audit fee discussions remain ongoing and need to be finalised prior to signing.

12 September 2022

[Document title]



## 2 | Accounting matters and judgements: significant risks

## Impairment of Goodwill and other long-lived assets

Management has prepared its impairment anetysis for the purpose of impairment testing of other long-lived assets hald by POL Based on management's resting we note has troop of £242m when comparing the carrying value of the POL COUTSEN to the carrying value of assets CS04m. We have performed our audit procedures on remogement's analysis including the application of sensitivities. Based on the sensitised scenario we note has droop of 55m. Hence we concur with managements conclusion that there is no impairment.

#### What is the risk?

#### Other long-lived assets

FY2016/17 was the first financial year when Post Office generated a profit. This was achieved through the implementation of the network transformation programme together with a focus on because the implementation of the network transformation programme together with a focus on because the implementation of the network transformation programme together with a focus on because the implementation of the network transformation programme together with a focus on because the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme together with a focus on the implementation of the network transformation programme toget cost base reduction. In line with the transformation programme, management revisited their accounting estimate for impairment of intangible and fixed assets; EY reviewed this change as part of the prior year audit and agreed with the change of accounting estimate. As a result, previous impairment on long lived assets was reversed resulting in assets of £325m at 26 March 2017 now being carried forward.

We have focused on this area to confirm that the carrying value of assets at the year end is appropriate and this area involves significant judgment about the future results of the business and the assumptions (discount rates, etc.) applied to future cash flow forecasts.

Misstatements that may occur in relation to this risk would affect Non-current assets and Impairment expenses and Depreciation and Amortization in the Income Statement.

## What judgements are we most focused on?

- ▶ Reasonableness of the assumptions underlying the future cash flow forecasts for Post
- Reasonableness of the discount rate, short term and long-term growth rates.

## What did we do and our conclusions?

Our work was focused on the impairment analysis prepared by management for performing the

- We audited the POMS impairment model as part of our testing of the POMS goodwill for which our conclusions are included in our results report issued on 14 May 2018. We noted that there is significant headroom of £53m compared to POMS assets of £52m, which include goodwill of £44m. Hence the focus of our testing has been on the POL CGU which has a headroom of £240m and assets of £362m of which other long-lived assets are
- We noted that POL has used a forecast period of 3 year for the purpose of its impainment testing. We concur that this is in line with the requirements of IAS 36 which allows a forecast period of up to 5 years.
- ► We challenged the accuracy of management's cash flow forecasting by comparing the actual results for 2017/18 against budget as well as by taking the actual performance for the first 2 months of 2018/19 and extrapolating it for the full the year and comparing to budget. Based on this we note that POL is conservative in it's budgeting process and that actual performance is better than budget. As an example POL budgeted EBITDA of £28m for 2017/18 with actual EBITDA of £36m which is significantly higher.
- We engaged our valuations experts to assist with the assessment of the discount rate (9%) and long term growth rate (0%) applied to the model. Based on this we conclude that the discount rate of 9% is lower than the recommended range of 9.9% - 13.8% provided by our valuations expert. However, given significant headroom of £240m for 2017/18 this will not have a material impact.

12 September 2022

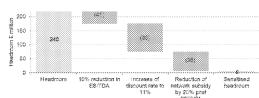
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# 2 | Accounting matters and judgements: significant risks (continued)

Impairment of Goodwill and other long-lived assets (continued)

- ▶ We also note that one of the key assumptions in the cash flow forecast is the receipt of the network subsidy payment of £50m p.a. for a period beyond 2020/21. POL has government confirmation of this till 2020/21 but not for any period beyond that. However, they have included this in the model on the basis that they have no indication from the government that such amounts will not be received going forward. We note that our impairment model is sensitive to this assumption i.e. an impairment of £208m will arise keeping all other variables constant should this subsidy not be received. On the basis that there is no contradictory evidence we consider the inclusion of this network subsidy payment to be appropriate. We have also requested specific representation on this within the management representation letter.
- We performed sensitivities on the model by varying each of the inputs i.e. increase in discount rate, reduction in EBITDA and reduction in network subsidy payment and note that it provides the following headroom.



Based on the procedures performed we note there is no impairment of other long-lived assets.

12 September 2022

[Document title]

## 2 | Accounting matters and judgements: significant risks (continued)



## Capitalisation and disposal of fixed assets

We have completed our audit procedures in relation to assets capitalised of £151m and leased disposals of £10m. Seeed on our testing we identified an asset that for which departiation was over provided by £3.48m which remains unadjusted, in addition, we also identified an asset with a value of £0.5m to be impaired which was adjusted for . Based on our procedures we note assets are capitalised and disposed appropriately.

#### What is the risk?

In March 2017, management revisited their accounting estimate for impairment of all assets, and reversed impairment of £272m. As part of £1's review of this reversal we performed detailed work on the fixed asset register and identified a number of errors requiring adjustment.

These included 'assets under construction' (AUC) projects (with costs totalling £59m) which had been closed without a final asset being produced, AUC projects which had been completed where assets were created and were in use but not capitalised, and assets on the fixed asset register which were no longer in use and could not be located.

Given our findings in FY2016/17, there are the following risks:

- ► Costs are incorrectly capitalised where no asset has been created;
- ▶ Genuine assets are not capitalised on a timely basis; and
- Asset disposals are not appropriately recorded.

Misstatements that may occur in relation to this risk would affect the balance sheet accounts (Non-current assets) and income statement expense accounts (expenses capitalised to balance sheet, rather than charged to profit and loss expense accounts).

What judgements are we most focused on?

- ▶ Reasonableness of costs capitalised i.e. do costs meet the capitalisation criteria
- ► Completeness of costs capitalised
- ▶ Reasonableness of costs for assets disposed or no longer in use
- ▶ Completeness of costs for assets disposed or no longer in use

### What did we do and our conclusions?

We selected a sample of additions to both tangible and intangible items obtaining supporting documentation and making inquiries of responsible individuals to confirm items meet the capitalisation criteria as per IAS 16.

We obtained an understanding of the process followed by the Group to confirm the completeness of capitalised costs including information received from branches.

We tested a sample of Assets Under Construction (AUC) to compare the Go Live date as per the project managers with that noted in the Fixed Asset Register. Based on our testing we identified an AUC for which an earlier Go Live date was applied and as a result there were over depreciated. We proposed the following adjustment which was not adjusted for by management and included in our audit differences in section 4:

DR Fixed Assets £0.49m

CR Depreciation £0.49n

We reviewed the aging of AUC and selected a sample of AUC items to test for which the last capitalisation date was 2016 or earlier. Based on our testing we identified an item of AUC to be impaired. We proposed the following adjustment which was adjusted for by management:

DR Asset impairment £0 9m

CR Fixed Assets £0.9m

We selected a sample of capitalised costs to compare to budget investigating variances with project managers to confirm the completeness and appropriateness of capitalised costs

We compared the branch codes associated to assets in the fixed asset register to that in the list of open branches to identify any assets to be impaired.

Based on the procedures performed and subject to the adjustments noted above we conclude that assets have been appropriately capitalised and disposed.

12 September 2022

[Document title]



## 2 | Accounting matters and judgements: other risks

Provision for legal claims, specifically the Horizon Sub-postmasters' claim

We have audited reanagements detailed assessment of the claim. We have corroborated the facts and conclusions via independently obtaining a response to a legal letter sent to the external lawyers as well as undertaking meetings with the external lawyers, in addition, we have consulted infernally. Based on these procedures we concur that the claim considures a contingent liability and that the updated proposed disclosures in the financial statement are adequate. We also conclude that no Emphasis of Marter is required in our auditor's report on the 2017/18 financial statements.

## What is the risk?

The ongoing group action brought by Sub-postmasters against the Post Office continues to be an area of judgement.

### What judgements are we most focused on?

- Reasonableness of the assumptions underlying management's assessment that no provision is required
- ▶ Appropriateness and completeness of disclosures in the financial statements
- ► Consideration of implications on the auditor's report

### What did we do and our conclusions?

- ▶ We have reviewed management's paper which provides a detailed assessment of the claim be including the strength/merits of the defence by Post Office. As part of this we have also undertaken discussions with Post Office's in-house legal counsel. This was undertaken subsequent to the submission of the skeleton statement by Freeths providing a potential claim value of £80m-£90m (or in excess thereof). Based on our procedures we concur with management's view that the claim constitutes a confingent liability as opposed to a provision in accordance with IAS 37. This is because it is a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future not wholly within the control of the entity events (i.e. any obligation would only arise from legal proceedings that would occur following the Common Issues and Horizon trials).
- We sent a legal letter and obtained a response to that legal letter from the external lawyers (Womble Bond Dickinson) who have confirmed that management's view that POL are currently unable to estimate the amounts of the ultimate liabilities that may be incurred in respect of the Group Litigation is reasonable.
- We have also undertaken a further meeting with the external lawyers on 26 July 2018 which has supported us in confirming the assessment and conclusions in management's paper. No contrary evidence was noted.
- We have consulted internally with regards to the following: (i) the conclusion that the claim does not meet the criteria for a provision but instead is a contingent liability in accordance with IAS 37 (ii) the adequacy of the contingent liability disclosure in the financial statements and (iii) the impact, if any, on our auditor's report.

Based on the above we concur with management's conclusion that the claim constitutes a contingent liability. Further we consider the disclosures to be adequate and that no Emphasis of matter is required in the auditor's report.

12 September 2022

[Document title]



## 2 | Accounting matters and judgements: other risks (continued)

## Pension valuation and disclosure

On 20th July 2017 management entered into a buy-in agreement in relation to the Royal Mail Penaion Plan (RMPP) with Rothesay Life PLC. As a result of this Trustees of the penaion plan have effectively bought on assert that provides income which matches closely the banefit payments for the penaion plan. Based on the procedures performed we are satisfied with management's accounting position in respect of penalons.

## What is the risk?

Post Office has both defined benefit (RMPP and RMSEPP) and defined contribution schemes
Post Office Limited closed the defined benefit pension scheme (RMPP) to future accrual with
effect from 3.1 March 2017.

On 20 July 2017, the Trustees entered into an agreement with Rothesay Life PLC in which a pension buy-in was effected for the same scheme. As a result the net pension assets (liabilities) relating to RMPP are equal to nil.

Nevertheless, Post Office is still required to include disclosures in accordance with IAS 19 (including of the pension assets and liabilities of the RMPP scheme). Therefore there is risk relating to the appropriateness of pension disclosures.

Finally, there is a high level of estimation, subjectivity and management judgement in determining pension obligations thus this is area of focus for the FRC's audit inspection unit.

## What judgements are we most focused on?

- Reasonableness of the actuarial assumptions determined by management and underpinning the valuation of the defined benefit obligation.
- ▶ Reasonableness of the assumptions and the valuation of the pensions buy-in asset.
- ► Reasonableness of the valuation of the plan assets.

## What did we do and our conclusions?

- Assessed the independence, competence and objectivity of Willis Towers Watson, the actuary performing the work calculations for Post Office Limited.
- With the assistance from EY technical specialists we reviewed management's accounting paper, particularly the accounting applied to the pensions buy-in by Rothesay Life PLC. The surplus in the scheme (before the limitation to zero) reduces being the difference between the insurance premium and the IAS 19 value of the insured liabilities. POL has recognised this loss through the statement of Other Comprehensive Income (OCI). As a result of the assict esting £181m), there is then an equal and opposite entry through OCI reflecting the reduction in the asset ceiling. In the Balance sheet POL now has Bulk annuity policy assets that matches the Defined Benefit Obligation. As a result the net effect through OCI is nil and there is no change in the net asset position for the Group.
- We engaged EY pensions specialists to consider whether Post Office Limited's key
  assumptions are within an acceptable range. As a result of the procedures we have not noted
  significant issues.

12 September 2022

[Document title]



# 2 | Accounting matters and judgements: other risks (continued)

Pension valuation and disclosure (continued)

We presented below a summary of key assumptions including acceptable range for each assumption:

(efered evaluation	255% pa.	1,050pa 2,370 p.s		9	*		Ų
Productivanasce is populately (1866)	2 405 p.s.	3,00% (12	0	8	0	0	0
52 100 Å	5284A 5255A 5285255	8399A-8009A-0882998,	0	0	*	411	0
	1959.00.	5,680 p.c.	-	1,000			100

- We received confirmations for plan assets to confirm the existence and valuation as at 25 March 2018 noting no material differences.
- For valuation of plan assets we have also performed independent valuation procedures for a sample of pension assets.
- We reviewed the disclosures in the financial statements for consistency with that in the report produced by Willis Towers Watson and IFRS requirements.

Based on the procedures performed and subject to the matters noted above we conclude that pensions have been valued and disclosed appropriately.

12 September 2022

[Document title]



## 2 | Accounting matters and judgements: other risks (continued)

## VAT accounting

We employed our VAT specialises to suid the VAT provisions and returns for 2017/13. This has included assessing the appropriateness of the VAT positions taken with regards to new arrangements as well as considering challenges/agreements with HMRC with regards to VAT tradment of specific transactions. Based on the procedures undertaken we conclude VAT accounting to be appropriate.

## What is the risk?

Post Office Limited's VAT recovery ('partial exemption') method is a key area which involves a material level of reporting risk.

The partial exemption method of recovery was agreed with HMRC during FY2014/15. The new method resulted in a residual VAT recovery percentage of approximately 60%.

However, Post Office Limited continued to apply a provisional recovery rate of 40% throughout FY2013/14 and FY2014/15 to calculate residual input VAT recovery. This resulted in material VAT recoveries in FY2013/14 and FY2014/15. During FY2015/16 and FY2016/17, management increased the recovery rate applied in the system from 40% to 55%. We understand that a provisional VAT recovery rate of 55% will be applied in FY2017/18.

In addition to this we understand a HMRC review over the VAT status of Bill Payments revenue is in progress.

Therefore VAT accounting remains an area of audit emphasis as it will be important to check that the assumed VAT recovery rate is appropriately monitored and adjusted.

What judgements are we most focused on?

- ► Reasonableness of the recovery rates
- Completeness of provisions in relation to the HMRC inquiry over status of Bill Payments revenue.

## What did we do and our conclusions?

We involved our indirect tax specialists to support with the VAT audit procedures. We preformed all the procedures in our Audit Planning Report.

Subject to the resolution of the outstanding point noted in the open items based on the procedures performed we conclude VAT accounting to be appropriate.

12 September 2022

[Document title]

		Control of the Contro	Updated conclusion as al 27 July 2019
Improper reventues recognition	Picase refer to the Audit Results Report ested 14 May 2015 for the details of the risk and the work performed.	As at the date of this report we have the following les open items, audit procedures: Support from management with the lie through of commission rathes for a sample of 169 transactions to which contracts have been provided.  • Receipt of revenue innoices for a sample of 1.2 transactions obtained por requiring further clastification, payments for 4.2 transactions obtained por requiring further clastification, supplemental information.  • Testing of material top side manual journals posted to revenue to certim that the service was provided in the financial year. It must be model that at this point so information with regards to this has been requested from management. Procedures will be performed as part of the management override procedures which we have not started yet.  • Finalisation of revenue cut off procedures i.e. accrued and deferred revenue testing and testing of post year not credit memos provided by management.	We have received the outstanding information and completed our sucitive procedures in relation to reserve. Based on the procedures performed we have noted the following: Meanagement released a provision of £2.1m in relation to additional commission income from Bank of Ireland (BOI). This was on receipt of comfirmation from BOI that PUL was entitled to receipt of this commission income. The acjustment postes by management was as follows:  DR Accrued Income £2.1m CR Revenue £2.1m We have audited the supporting information and concur with management conduction.  Meanagement also reversed £5.2m of accrued telco line rental revenue. The adjustment posted by management was as follows:  DR Revenue £5.2m CR Accrued income £5.2m This was on discovery of an error in the Fujitsu report relied upon by management for revenue recognition purposes. It was noted was that fine rental revenue is relation of a number customers was being double counterwithis this report.  Management also considered the prior year implication of this error which was noted to be only £0.6m i.e. insignificant on the basis that this report only being used since January 2017. Hence, there is no prior year adjustment equited.  In addition, an independent review was commissioned from PwC to considered the tell and the properties of the revenues from Fujitsus additional issues were identified following this review.

[Document title]

	enterned.	Conclusion in our Audit Results Report dated 14 May 2018	11000
Improper revenue recognition (continued)		Based on the audit procedures performed to date we have identified one adjustment above our summery of audit differences thresheld. For details please refer to the audit differences section of the report.	We have audited the supporting information including the PwC report and concur with management's conclusion.  Based on the procedures performed and subject to the matters identified above along with the sudfa distingent reported in our Audit Results Report dated 14 May 2018 (included in the SAD in section 4) we conclude that reverue has been recognised appropriately.
Risk of management override	Key areas that we consider to be particularly susceptible to management override are revenue recognition and key judgements and estimates made by management such as those applied in the pensions valuation, classification of capital and investment items and the annual impairment assessment for the carrying value of goodwill and long lived assets.		We have completed our journal entry testing procedures. Based on that work we have not identified any instances of management override.

[Document title]

		Conclusion in our Audit Results Report dated 14 May 2018	Openhad constitution result of days
Improper valuation of the Postmasters' Compossation prevision including completeness	Please seter to the Audit Results Report dated 14 May 2018 for the details of the risk and the work performed.	As at the date of this report we have the following key open items/sudit procedures:  • Historical hard to place branches conversion numbers:  • Support for the sample of 5 branches for which there is no pay out:  • Support for the sample of 5 branches with known payment dates:  • Support to confirm utilisation of the provision for a sample of 21 branches selected for feeting:  • Subsequent events procedures i.e. post year end pay out for a sample of 5 branches provided in the year for which final signed agreements were in place.  • Further clarification/follow ups on the provision roll ionized enables provided by management.  Bessed on the audit procedures performed to date, we have not identified any differences above our summary of audit differences threshold. Further subject to the completion of our audit procedures, we conclude the Postmasters' Compensation provision to be reasonable.	We have received the outstanding information and completed our audit procedures. Based to our audit procedures we have identified the following: We obtained management's acticulation of the SO be senches with known compensating payments and 52 be senches with known compensating payments and 52 bearshes with known conversion but no compensation as per the this balance. We noted an overprovision as per the this balance. We noted an overprovision for which the following adjustment was raised which was not adjusted for.  DR Provisions £0.76m  CR Postmesters' compensation £0.76m  We performed as independent exaconstitutes the sense of the provision of £0.75m. We have raised the total sense of £0.75m. We have raised the totalwing adjuncted of £0.75m. We have raised the totalwing adjuncted of £0.75m. We have raised the totalwing adjuncted for £0.75m.  DR Postmesters' compensation £0.75m  CR Provisions £0.75m  It must be noted the two adjustments impact the same line in the financial statement and not off. Hence these were not adjusted for. The adjustments are included is section 4.  Based on the procedures performed and subject to the frem noted above we conclude the provision to be complete and valued appropriately.

[Document title]

Classification of Capital and Investment items	Please refer to the Audit Results Report used 14 May 2018 for the ustails of the risk and the work performed.	As at the date of this report we have the following open frems/sucit procedures:  Finalization of audit procedures related to restructuring provisions and the Postmacters' compensation provision including agreeing to capital send investment frems  Support or further detail on 3 transactions selected in our sample.  Audit of the information received in relation to 32 transactions selected in our sample.  Finalization of subsequent events procedures i.e. post year and cash payments.  Based on the audit procedures performed to date we have not identified any differences above our summany of audit differences threshold.	We have received the outstanding information and completed our audit procedures in relation to Capital an Investment items.  Based on the sudit procedures performed we have not identified any audit adjustments in relation to Capital an Investment items.
Impairment of Goodwill and other long-lived assets (POMS Goodwill)	Please refer to the Audit Results Report dated 14 May 2018 for the details of the risk and the work performed.	Based on our audit procedums we performed on POMS goodwilk, which included (i) an essessment of the reasonableness of the forecast used by agreeing it to the strategic plan and assessing the historical accuracy of the forecasting and (ii) performing sensitivity analysis by flexing key management assumptions on discount rate and long-term growth rate which showed headroon of £10m, we concur with the conclusion that there is no goodwill impairment as at 25 March 2018.	No change to our conclusion from that included in our Audit Results Report.

[Document title]

	Summary of the Est and work performed		
Going Concern	Please refer to the Audit Results Report dated 14 May 2018 for the details of the risk and the work performed.	We are in the process of completing our audit procedures in relation to the cash flow forecast provided by management. Subject to the completion of those procedures, we conclude that there are no issues with regards to the use of the Going Concern basis in the preparation of the financial statements.	We have completed our sudit procedures in melation to the cash flow forecast supporting the use of the Going Concern basis in the preparation of the financial statements.  We note Post Office Limited is forecasting cash inflows of £110m for PY18 / 19 and £23m for PY19 / 20. It has also accured government functing for PY18 / 19 to PY20 / 21 on 20 February 20 15 which provides it scores to Network Subsidy Payments and Network Transformation Payments.  Post Office also has access to a working capital foan facility with the Department for Business, Energy and Indicatrial Strategy (BSIS) with a limit of £500m of which £327m is undrawn at 25 March 2018.  We conclude it is appropriate to use the Going Concern basis in the preparation of the financial statements.
			Misticula Scalements.

[Document title]

	Summary of the risk and work performed	Conclusion in our Audil Results Report dated 14 May 2019	Updated conductor as all of sale 2010
Network Cash	Please refer to the Audit Results Report dated 14 May 2018 for the details of the risk and the work performed.	As at the date of this report we have the following open isoms for which audit procedures are outstanding: Completion of audit procedures in relation to the reliforward of the results of network cash count procedures up to year and provided by management Receipt of support for 4 trading statements to complete testing of network cash controls Finalisation of other substantife sudit procedures based on information received to date. Accordingly we are yet to complete our procedures with respect to Network Cash.	We have received the outstanding information and completed our controls and substantive audit procedures.  Based on the procedures performed we have not identified any sudfl adjustments required in relation to Retwork Cash on the believe the disclosures included in the financial statements is reasonable.
		<ul> <li>Finalisation of other substantive sucit procedures based on information received to date.</li> <li>Accordingly we are yet to complete our procedures with</li> </ul>	

[Document title]

A Common	work performed	Control of the Contro	Updated conclusion as at 19 27 July 2618
Acquisition of New Call	Please refer to the Audit Results Report dated 14 May 2018 for the details of the risk and the work performed.	As at the data we note the following key outstanding points:  Audit of management's assessment of the CGU to which the good will and intemplates should be s	<ul> <li>We have received the outstanding information and completed our audit procedures. Based on the procedures performed we have noted the following:</li> <li>No Gnockvill arises on the acquisition of New Call, instead additional consideration ever and above the identified assets and liabilities acquired represents the Customer Relationship intengible. As a result we have proposed the following algorithment processing Consideration to a displanment for ecclosisty Conditional to Customer Relationship intengibles which management has adjusted for.</li> <li>DR Customer Relationship intengibles £2.25m</li> <li>CR Goodwill £2.25m</li> <li>We conclude the impact of the reclassification adjustment above on the americation of the customer relationship intengible to be insignificant.</li> <li>Having audited management's assessment we concur with the conclusion that the Customer Relationship intengible is artificiated by the FOL CBL.</li> <li>Based on the audit procedures we have performed with regulars to the POL GBL we conclude there is no impairment of the Customer Relationship Intengible.</li> </ul>

[Document title]

EY

# 4 | Summary of audit differences

We sentified six suckledifferences imparting profit that were individually greater it as £487,000, including the difference which were not corrected. We also identified sea reclassification difference behinds ably greater than £482,000, which was corrected. As required by sociality placed units, we requested these largest becomes believe that they are immaterial, individually and is appropriate to the financial statements as a whole, as confirmed in the management agreementation letter. We agree that users stores of the financial statements would not be affected by the son-adjustment of those amounts. Our audit planning materiality was £6.6m.

Account 25 Seach (619 (7.700))				
Unrecorded audit differences Known differences Correction of excess depreciation due to incorrect go-live date (Fixtures and Equipment) (Trading column - non tracing profit affecting) Correction of overprovision of Postmasters' compensation as a result of difference between underlying calculation and the trial balance (investment column)	(496) (799)		490	799
Judgemental differences Judgemental difference in depreciation/amortisation charge on tangitise and intangible assets (Trading column) Under provision of postmasters' compensation provision in relation to unknown branches (Investment oolumn – non facing profit affecting)	(675) 780		675	(780)
Under provision of Gift Voucher accrued income (Trading column – trading profit affecting)	(1,107)	1,107		
Total effect of uncorrected misstatements, before turnaround effect and tax	(2,271)	1,107	1,165	(1)
Turneround effect of audit differences which were unrecorded in the prior year before tax *  Details of adjustments provided on the next page	1.571			
Cumulative effect of uncorrected misstatements, after turnaround effect and tax	(567)			

12 September 2022

[Document title]

# 4 | Summary of audit differences (continued)



## Unrecorded audit differences (centinued)

## Reclassification differences

Non

## Disclosure differences

- Difference identified in cost of item disposed (understatement of cost with similar understatement of accumulated depreciation, no effect on net book value) £606k
  Cash flow differences
- Difference in "Increase/(decrease) in trade and other payables" due to incorrect opening working capital used in the calculation additional operating cash out flow £3,000k
- We stid not identify any additional adjusted or unadjusted ausit differences in the parent company over and above those presented.

## Corrected differences

#### indemental and factual differences:

- Disposal of aged assets AUC £906k (debit to income statement Trading column non trading profit affecting)
- Deferred tax adjustment in relation to acquisition of New Call £1,065k (no impact on income statement)

#### Reclassification differences:

- Reclassification of New Call Goodwill to Customer Relationship Intangibles £2,250k

#### Turnaround effect of audit differences which were unrecorded in the prior year

- Under accrual of GRT Voucher income in relation to January June 2016 invoiced in 2017/18 £640k debit to current year income statement (Trading column trading profit affecting)
- Overstatement of finance expenses in 2016/17 reversed in 2017/16 £554k debit to corrent year income statement (Trading column non trading profit affecting)
- Adjustment of onerous and vacant lease provision due to incorrect discount rate netted against overprovision of two embedded leases £663k credit to current year income statement (Investment column non tracing profit affecting)
- Adjustment for inaccurate accrual rate for Gift Youther income £1,640k debit to current year income statement (Trading column trading profit affecting)

12 September 2022

[Document title]



## 5 | Control environment

We have been able to rely on the group's IT general controls over the print ipal systems impacting the financial statements for our 2017/18 audit. As pan of our audit work, we identified a number of control deficiencies and recommendation which were summarised in our Audit Results Report. We understand management is working on a plan to address these recommendations for 2018/19. We will issue a management letter in due course.

## Зсоре

The scope of our work on the internal control environment was explained in our  $\operatorname{Audi}$  Results Report.

We tested the change management, user access and IT operations controls over the applications listed in the table below. We performed additional procedures to mitigate the impact on our audit of the deficiencies identified which were communicated in our Audit Results Report.

Our conclusion is that we are able to rely on the IT process for the relevant applications for our 2017/18 audit.

System	Oversii	Manage access	Manage change	Manage IT Operations	ITCAs/ ITDBs
HNGX	*	Effective	Effective	Effective	Effective
CFS	0	Reliable*	Reliable*	Effective	Effective
SAP HR	8	Reliable*	Reliable**	Effective	Effective
POLSAP	*	Reliable*	Reliable*	Effective	Effective
Success Factors		Re	moved from Sc	ope ^	N/A
HNGA		Effective	Reliable*	Effective	Effective

 $<sup>^{\</sup>star}$  - Conclusion was finalized after the completion of additional substantive testing

## 12 September 2022

[Document title]

 $<sup>^{\</sup>rm ax}$  - Work is on-going to finalise the IT sudit work

<sup>« -</sup> no recommendations were noted.

<sup>« -</sup> control deficiencies/recommendations were identified.

 $<sup>^{\</sup>rm A}-$  Work over this application was de-scoped from the iT audit and a substantial audit approach was adopted



## 6 | IFRS 15 - Revenue recognition

We have understood the process undertaken by management with regards to the convension to IFRS 15. Management have considered each revenue product against the five step criteris under IFRS 15. based on the procedures performed management conclude that there is no ampact of IFRS 15 other than on the Post Office Card Account (POCA) revenue stream. We have not performed any audit procedures with regards to this on the basis that we will not be the auditor for the next financial year when the standard is effective.

We have understood the process undertaken by management with regards to conversion to IFRS 15, which is effective for Post Office Limited for FY18/19, which is noted as follows:

- Management identified each revenue product and evaluated it against the five step criteria under IFRS 15 with the divisional Finance Directors.
- For each product, with the exception of POCA, it was concluded by management that there was no impact of #RS 15
- ▶ It was concluded that the POCA revenue stream would be impacted by IFRS 15 although management have not yet quantified the financial impact.
- ➤ The above conclusions were discussed and agreed with the CFO.

We have not performed any audit procedures with regards to management's IFRS 15 impact assessment on the basis that we will no longer be the auditor for Post Office for FY18/19 as this is a matter that should be considered by the successor auditor.

12 September 2022

[Document title]



# 7 | Audit Opinion

We have included below the draft of the audit opinion we plan to assure for the 2017/18 financial statements. Based on the audit procedures performed which have taken into consideration our conclusions in relittion to the Horizon class we plan to insue an unquilified audit opinion (e. no Emphasis of Matter is required in the audit opinion.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF POST OFFICE LIMITED

#### Opinion

Opinion

We have audited the financial statements of Post Office Limited ('the parent company') and its subsidiaries (the 'group') for the 52 week period ended 25 March 2018 which comprise the Group Consolidated Income Statement, the Group Consolidated Statement of Congretensive Income, the Group Consolidated Statement of Cast Hows, the Group Consolidated Statement of Cast Hows, the Group Consolidated Statement of Changes in Equity and the related notes [1 to 26], including a summary of Consolvated Statement of Changes in Equity and the related noise [1 to 2-b], including a summary or significant accounting policies, the Company Statement of Comprehensive Income, the Company Balance Sheet, Company Statement of Changes in Equity and the related noise [1 to 20], including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IRRSs) as adopted by the European Union and, as regards the parent company financial statements, as applied in accordance with the provisions of the Companies Act 2006. The financial reporting framework that has been applied in the preparation of the parent company financial statements is applicable law and United Kingdom Accounting Standards, including FRS 101 "Reduced Disclosure Framework" (United Kingdom Generally Accepted Accounting Practice).

- the financial statements give a true and fair view of the group's and of the parent company's affairs as at 25 March 2018 and of the group's profit for the 52 week period then ended;
- the group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union:
- the parent company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice in accordance with the provisions of the Companies Act 2006; and
- the financial statements have been prepared in accordance with the requirements of the Companies

#### Basis for opinion

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable
law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit
of the financial statements section of our report below. We are independent of the group and parent company in
accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK,
including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with including to the Confidence these requirements.
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to not including to report in respect, of the anomalig inected an inequality when the size (or) require as to report to you where; the directors' use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or - the directors have not disclosed in the financial statements any identified material uncertainties that may cast

significant doubt about the group's or the parent company's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised

The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion ther

12 September 2022

[Document title]

EY

## 7 | Audit Opinion (continued)

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be material pmisstated. We identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinions on other matters prescribed by the Companies Act 2006 In our opinion, based on the work undertaken in the course of the audit:

 the information given in the strategic report and the directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and

- the strategic report and directors' report have been prepared in accordance with applicable legal requirements

## Matters on which we are required to report by exception

In the light of the knowledge and understanding of the group and the parent company and its environment obtained in the course of the audit, we have not identified material misstatements in the strategic report or directors' report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- $\hbox{- the parent company financial statements are not in agreement with the accounting records and returns; or \\$
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

## Responsibilities of directors

As explained more fully in the directors' responsibilities statement [set out on page...], the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the directors are responsible for assessing the group's and the parent company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concerns also of accounding unless the directors either intend to liquidate the group or the parent company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial statements. Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UN) will always detect a material misstatement when it exists. Misstatements can see from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to inclinance the economic decisions of sures taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the

Financial Reporting Council's website at https://www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

### Use of our report

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part. 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsability to enyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Peter McIver (Senior statutory auditor)

for and on behalf of Emst & Young LLP, Statutory Auditor

London

Date

12 September 2022

[Document title]

		-
Annual Report and Accounts	<ul> <li>Management to provide final version of the Annual Report and Financial Statements.</li> <li>EY to perform the review of the final version of the Annual Report.</li> </ul>	EY and management
Management representation letter	► Management to provide EY with signed version of representation letter (please refer to Appendix B)	EY and management
Subsequent events procedures, including unrecorded liability testing	<ul> <li>Management to provide information for subsequent events review to the date of signing the audit report</li> <li>EY to complete subsequent events procedures including unrecorded liabilities testing to the date of signing the audit report.</li> </ul>	EY and management
Directors' remuneration certificates	► Management to provide signed certificates	EY and management
Commitments note	Management to provide outstanding support     EY to finalise procedures, documentation and review of commitments	EY and management
IT procedures	<ul> <li>Management to provide outstanding information on samples to complete SAP-debug procedures.</li> <li>EY to complete work once documentation provided</li> </ul>	EY and management
Pensions	<ul> <li>Management to provide the responses to additional questions raised by EY</li> <li>EY to finalise the audit procedures once the documentation and analysis have been provided</li> </ul>	EY and management
VAT	► EY to finalise the audit procedures on the difference between the TB and the original VAT return submitted.	EY and management
Audit Adjustments	Clarification and agreement with management on the two uncorrected misstatements relating to depreciation	EY and management

[Document title]



## Appendix B | Draft management representation letter

We include below our updated" draft management representation letter for the Group and Company's 2017/19 audits based on the current status of our audit work. (\* - all updated are added in bold flatfo)

#### Dear Sirs

This letter of representations is provided in connection with your audit of the consolidated and parent company financial statements of Pext Office Limited (the Group and Company) for the 62 week period ended 26 March 2018. We recognise that obtaining representations from us connecting the information contained in this test is a significant procedure in enabling you to form an opinion as to whether the consolidated and parent company financial statements give a true and fair view of for "presentfairly, in all material respects," the Group and Company financial patient of Pext Office Limited as or 25 March 2018 and of the financial performance (or operations) and its cash flows for the year then ended in accordance with, for the Group, international Financial Reporting Standard as a soldered by the European Union (FRS) and for the Company, Financial Reporting Standard 101 Reduced Disclosure Framework (FRS 101).

We understand that the purpose of your audit of our consolidated and parent company financial statements is to express an opinion thereon and that your sudit was conducted in accordance with International Standards on Auditing (UK) which involves an examination of the according system, Internationative and related data to the extert you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all finaud, shortages, errors and other

Accordingly, we make the following representations, which aretrue to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

## Financial Statements and Financial Records

- We have fulfilled our responsibilities, as set out in the terms of the audit engagement letter dated 1 May 2015, for the
  preparation of the financial statements in accordance with, for the Group international Financial Reporting Standards as
  adopted by the European Union, and for the Company Financial Reporting Standards 101 Reduced Disclosures Farmework.
- 2. We acknowledge, as members of management of the Group and Company, our responsibility for the fail presentation of the consolidated and parent company financial statements. We believe the consolidated and parent company financial statements where the consolidated and parent company financial statements referred to above give a true and fair view of (or "present fairly, in all material respects") the financial position, financial performance (or results of operations) and cleast flows of the Group in accordance with international Financial Reporting Standards as adopted by the European Union and for the Company in accordance with Financial Reporting Standard Stal Reduced Disclosure Financeous results and are free of material missatzements, including omissions. We have approved the financial statements.
- The significant accounting policies adopted in the preparation of the Group and Company financial statements are appropriately described in the Group and Company financial statements.
- 4. As members of management of the Group and Company, we believe that the Group and Company have a system of intercombols adequate to enable the preparation of accusate financial statemental in accordance with international Financial Reporting Standards as adopted by the European Union for the Group and Financial Reporting Standards 101 Reduced Disclosure Framework for the Company that are free from material misstatement, whether due to fraud or error.

6. We believe that the effects of any ora divisted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and parest company financial statements laben as a whole. We have not corrected these differences identified by and brought to the attention from the auditor on this basis. (DR There are no unadjusted audit differences identified doming the current audit and perfaming the latest period presented.)

## Non-compliance with laws and regulations, including fraud

- We acknowledge that we are responsible to determine that the Group and Company's business activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws or regulations, including flaud.
- We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
- We have disclosed to you the results of our assessment of the risk that the consolidated and parent company financial statements may be materially misstated as a result of fraud.
- 4. We have disclosed to you, and provided you full access to information and any internal investigation s relating to, all instances of identified or suspected non-compliance with laws and regulations, including fraud, known to us that may have affected the Chroyn or Company legardless of the source or form and including, without limitation, allegations by 'whistle-blowers'), including non-compliance matters:
- ► Involving financial improprieties
- Related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the
  consolidated and parent company financial statements
- Related to laws and regulations that have an indirect effect on amounts and disclosures in the consolidated and parent
  company financial statements, but compliance with which may be fundamental to the operations of the Group and
  Company's business, its ability to continue in business, or to avoid material pentilety.
- ► Involving management, or employees who have significant roles in internal control, or others
- In relation to any allegations of fraud, suspected fraud or other non-compilance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Information Provided and Completeness of Information and Transactions

#### 1. We have provided you with:

- Access to all information of which we are aware that is relevant to the preparation of the financial statements such as
- Additional information that you have requested from us for the purpose of the audit; and Unrestricted access to persons
  within the entity from whom you determined it necessary to obtain audit evidence.

12 September 2022

[Document title]

Appendix 3 : Oraft management representation letter



- All material transactions have been recorded in the accounting records and are reflected in the consolidated and parent company financial statements.
- 3. We have made available to you all minutes of the meetings of shareholders, directors and committees of directors (or summentee of actions of recent meetings for which minutes have not yet been prepared) held through the period to the most recent meeting on the following date. (first date)
- Level properties in montager the period on the most recent intensing an enversion gradual parties. 
  At We continue the completeness of information provided regarding the identification of related parties. 
  We have declosed to you the identity of the Group and Company's related parties and all related party relationships and transactions of which we are evers. Including sales, purchases, identify, transactions of examples of the sales and services leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the period ended, as well as related basences due to or from such parties at the period end These transactions have been appropriately accounted for and disclosed in the consolidated and parent company financial statements.
- We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
- 6. We have disclosed to you, and the Group and Company has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and parent company thrancial statements in the sevent of non-compliance, including all covenants, conditions or other requirements of all cutatanding uebt.

## Liabilities and Contingencies

- All liabilities and contingencies, including those associated with guarantees, whether written or craft have been disclosed to you and are appropriately reflected in the consolidated and parent company financial statement
- We have informed you of all culstanding and possible litigation and claims, whether or not they have been discussed with legal coursel.
- We have recorded anxion discrossed, as appropriate, all liabilities retaked fligation and claims, both actual and confligem, and have disclosed in the consolidated and parent company finencial statements at guarantees that we have given to third parents.

## Subsequent Events

Other than as described in the consolidated and parent company financial statements, there have been no events subsequent to period and which seques adjustment of or disclosure in the consolidated and parent company financial statements or notes thereto.

#### Group audits

- There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indic in the Group financist statements.
- Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst parent company, subsidiary undertakings and associated undertakings.

#### Other information

- We acknowledge our responsibility for this preparation of the other information. The other information comprises the Shategic Report, Chairman's foreward, Chief Executive a statement, Filmands and Business Review, Governance, Corporate Governance, Board of Directors, Principal risks and midigation, Directors' Report, Director's responsibility statement and Accounts.
- We confirm that the content contained within the other information is consistent with the financial statements. Other information is financial and non-financial information (other than the financial statements and the auditor's report thereon) included in an entity's annual report.

Note DQ to the consolidated and parent company financial statements discloses all of the matters of which we are swers that are relevant to the Group and Company's ability to confiture as a going concern. Including significant conditions and events, our plans for future action, and the readelithy of those clans.

#### Ownership of Assets

- Except for assets capitalised under finance leases, the Group and Company has satisfactory title
  to all assets appearing in the balance street, and there are no items or encumbrances on the
  Group and Company's assets from his say asset been placeplad as collators. All assets to which
  the Group and Company has satisfactory title appear in the balance sheet.
- We have no prace to abandon lines of product or other plans or intentions that will result in any excess or obsolete inventory, and no inventory is stated at an amount in excess of net realisable value.
- There are no formal or informal componesting balance arrangements with any of our cash and investment accounts. Except as disclosed in Note (X) to the consolidated and parent company financial statements, we have no other line of credit arrangements.

#### Income and Indirect Taxes

We acknowledge our responsibility for the tax accounting methods adopted by the Group and Company, which have been consistently applied in the current period, and for the current year income tax provision calculation.

#### Use of the Work of a Specialist

We agreewith the findings of the specialists that we engaged to evaluate the corporate trazition and pensions valuations and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and parent company financial statements and the underlying accounting records. We did not give or cause any inclusions to be given to the specialists with respect to the values or amounts deteried in an attempt to bias their work, and we are not otherwise aware of any matters that have had on effect on the independence or objectivity of the specialists.

12 September 2022

[Document title]

Appendix 3: Draft management representation letter	
Retirement benefits  1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions and enderlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement	
benefits and all settlements and curtailments have been identified and properly accounted for.	
Tangible and Intangible Assets	
<ol> <li>We believe that the assumptions used in the tangible and intangible assets impairment assessment model are reasonable and represent management's best estimate as at 25 March 2018.</li> </ol>	
<ol> <li>We confirm that it is our expectation that the network subsidy of ESOm will be available to the Company after 2010/21 if the performance of the business means that it is still required.</li> </ol>	
Horizon sub-postmasters' legal claim	
Thandal statement is complete.  Yours: faithfully,	
Yours faithfully,	

[Document title]

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