# Independent auditor's report to the members of Tesco PLC

## Opinion on financial statements of Tesco PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 February 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (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, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group income statement, the Group statement of comprehensive income (loss), the Group and Parent Company balance sheets, the Group and Parent Company statements of changes in equity, the Group cash flow statement, and the related Notes 1 to 34 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. 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 (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

## Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Directors' report and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 27.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 24 to 27 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in Note 1 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

## Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

## Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee requested that whilst not currently required under International Standards on Auditing (UK and Ireland), we include in our report any key observations in respect of these assessed risks of material misstatement, in anticipation of the EU Regulations which will require such disclosure from the Group's 2017/18 financial year.

The description of the risks below should be read in conjunction with the significant matters considered by the Audit Committee discussed on page 46.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

The key risks we identified are:

- store impairment review;
- recognition of commercial income;
- inventory valuation and provisions;
- pension obligation valuation and accounting for the pension curtailment;
- provisions and reserves in Tesco Bank;
- compliance with laws and regulations;
- management override of controls; and
- retail technology environment, including IT security.

# Independent auditor's report to the members of Tesco PLC
continued

## Store impairment review

### Risk description

As described in Note 1 (accounting policies) and Note 11 (property, plant and equipment), the Group held £17,900m (2014/15: £20,440m) of property, plant and equipment at 27 February 2016.

In light of the continued competitive environment in which the Group operates, there is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. When a review for impairment is conducted, the recoverable amount is determined based on the higher of 'value in use' and 'fair value less costs of disposal':

- value in use is calculated from cash flow projections for five years using data from the Group's internal forecasts and as such relies upon the Directors' assumptions, such as the estimates of future trading performance, longer-term growth rates and discount rates utilised; and
- fair value less costs of disposal, reflecting the market valuation of the Group's stores less costs which would be incurred on disposal, is determined on a sample basis by independent valuation specialists where appropriate.

As a result of the Group's impairment review completed during the year, an impairment charge of £18m (2014/15: £4,116m) was recognised.

### How the scope of our audit responded to the risk

Our audit procedures included testing the design and implementation of key controls around the impairment review processes and assessing the appropriateness of the methodology applied by the Directors in calculating the impairment charges, and the judgements applied in determining the cash generating units ("CGUs") of the business, which the Group has determined as being individual stores and, in the UK, the general merchandising online business.

In relation to the completeness of the Group's impairment review process, we have assessed the completeness of the Group's impairment charges and impairment reversals with reference to CGU performance.

In relation to the Group's 'value in use' valuations, we have assessed the review completed by the Group by:

- assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 Impairment of Assets and checking the integrity of the impairment model utilised by the Group;
- challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and our understanding of the Group's strategic initiatives;
- assessing the long-term growth rates and discount rates applied to the impairment review for each country, comparing the rates utilised to third party evidence and in relation to the discount rate, our independently estimated discount rates; and
- completing sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular relating to forecast future cash flows, including any sub-lease income received, long-term growth rates and discount rates applied.

In relation to the Group's 'fair value less costs of disposal', we have challenged the assumptions used by the Group in determining the fair market value of the assets, including those completed by external valuers, using internal property valuation specialists and assessing whether appropriate valuation methodologies have been applied.

### Key observations

We note that cash flow forecasting, impairment modelling and property values are all inherently judgemental. Nevertheless, whilst we note further actions are required by the Group to achieve these forecasts over the medium term, we concluded that the assumptions applied in the impairment models were within an acceptable range, and that the overall level of net impairment recognised was reasonable.

We also agree that the disclosure of the net impairment as an exceptional item is in accordance with the Group's policy on exceptional items and is reasonable.

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Recognition of commercial income** | | |
| As described in Note 1 (accounting policies, including disclosure within 'use of assumptions and estimates' disclosure) to the financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers for goods sold.<br><br>In accordance with IFRS, commercial income should only be recognised as a deduction from cost of sales within the income statement when the performance conditions associated with it have been met. As such, judgement exists in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements in addition to complete and accurate source data on purchase volumes and fulfilment of promotional programmes.<br><br>In light of the accounting errors identified in the prior year in this area, the Group completed a detailed internal review of the factors which gave rise to these errors and the controls associated with the recognition of commercial income amounts. | In completing our work, we obtained a detailed understanding of the work completed by Tesco, together with obtaining an understanding and evaluating the design and implementation of controls that the Group has established in relation to commercial income. This included testing the completeness and accuracy of the systematic inputs upon which the Group's controls rely, such as sales volume data.<br><br>In addition, our substantive audit procedures across the Group's retail operations included a combination of the following:<br><br>• we tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample of individual supplier agreements. We circularised a sample of suppliers to test whether the arrangements recorded were complete and interviewed a sample of buyers to supplement our understanding of the contractual arrangements. Where responses were not received, we completed alternative procedures such as agreement to underlying contractual arrangements;<br>• we used data analytics to profile commercial income, identifying key risk deals upon which we completed detailed testing; and<br>• we reviewed Groceries Supply Code of Practice ("GSCOP") reporting and correspondence to the supplier hotline in order to help identify any areas where further investigation was required. | The results of our testing were satisfactory.<br><br>We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet as at 27 February 2016. |

# Independent auditor's report to the members of Tesco PLC continued

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Inventory valuation and provisions** | | |
| As described in Note 1 (accounting policies) and Note 15 (inventories), the Group carries inventory at the lower of cost and net realisable value. As at 27 February 2016, the Group held inventories of £2,430m (2014/15: £2,957m).<br><br>The Group applies particular judgement in the following areas relating to inventory:<br><br>• following changes in the Group's inventory provisioning methodology in the prior year, the Group provides for obsolescence based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate provisioning percentages categories of inventory; and<br>• the Group capitalises certain directly attributable overheads within the cost of inventory. These overheads relate to the costs incurred in bringing inventory to its final destination for sale and in line with normal market practice includes the costs associated with the Group's distribution centres.<br><br>In addition, given the overall level of inventory across the business in multiple locations, we identified the existence of inventory to be a further area of focus for our audit work. | We tested the operating effectiveness of controls associated with the existence and condition of inventory by attending a sample of inventory counts throughout the year in all significant locations (including stores and distribution centres). Across the Group, we attended 222 inventory counts within stores and 28 inventory counts within distribution centres.<br><br>We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by:<br><br>• critically assessing the Group's inventory provisioning policy, with specific consideration given to aged inventory (especially for non-food and general merchandising products) as well as stock turn calculations including the impact of seasonality;<br>• verifying the value of a sample of inventory to confirm it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices;<br>• using data analytics in relation to the UK business to recalculate the provision based on the Group's provisioning policy; and<br>• reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year in relation to stock loss or other inventory adjustments.<br><br>In relation to the capitalisation of directly attributable costs, we assessed the nature of costs capitalised and for a sample of individual products, assessing whether costs had been correctly allocated. | The results of our audit work were satisfactory and we concur with the nature of costs capitalised within the inventory balance and the level of provision held.<br><br>In relation to the inventory provisioning policy, we concur that the total level of provision is within an acceptable range. |
| **Pension obligation valuation and accounting for the pension curtailment** | | |
| As described in Note 1 (accounting policies) and Note 26 (post-employment benefits), the Group has a defined benefit pension plan in the UK. At 27 February 2016, the Group recorded a net retirement obligation of £3,175m (2014/15: £4,842m), comprising scheme assets of £10,302m (2014/15: £9,677m) and scheme liabilities of £13,477m (2014/15: £14,519m).<br><br>During the period, the Group closed the UK scheme to new entrants and future accrual and replaced it with a new defined contribution scheme. As such, a curtailment gain of £538m (2014/15: £nil) has been recognised and treated as an exceptional item, offset by one-off payments of £58m relating to auto-enrolment and top-up payments to the new contribution defined contribution scheme.<br><br>The pension valuation and associated curtailment gain is dependent on market conditions and key assumptions made, in particular relating to investment markets, discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries. | In relation to the pension curtailment gain, we have assessed the basis of the gain recognised and tested the integrity of the calculation.<br><br>In testing the pension valuation and curtailment gain, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.<br><br>We tested the membership data utilised in the valuation of the schemes to assess whether the basis of the valuation is appropriate.<br><br>Furthermore, we have assessed the disclosure of the curtailment gain as an exceptional item. | From the work completed, we are satisfied that the methodology and assumptions applied in relation to determining the pension valuation and curtailment gain are appropriate.<br><br>We also agree that the disclosure of the curtailment gain as an exceptional item is in accordance with the Group's policy on exceptional items and is reasonable. |

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Provisions and reserves in Tesco Bank** | | |
| As described in Note 1 (accounting policies) and Note 22 (financial risk factors) and Note 24 (provisions), the Group is required to make a number of complex judgements relating to provisions and reserves held by Tesco Bank, specifically in relation to:<br><br>• loan impairment provisioning, where judgements include estimating the level of impaired loans and the expected cash recoveries thereon;<br>• conduct risk provisioning, where judgements are required in relation to assessing the level of provision required in relation to historical payment protection insurance and the Consumer Credit Act redress programme; and<br>• insurance reserving in light of the Group's exposure to insurance claims through its investment in Tesco Underwriting Limited. | We have tested the design and implementation of key controls relating to loan impairment provisioning, conduct risk provisioning and insurance reserving. In addition, we have challenged the judgements taken by management, specifically:<br><br>• in relation to loan impairment provisioning, using internal specialists, we tested a sample of the data used in the models as well as testing the model methodology and calculations. We assessed whether the modelling assumptions used considered all relevant risks, and whether the additional adjustments to reflect un-modelled risks were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the customers as well as our own knowledge of other practices; and<br>• in relation to conduct risk provisioning, we challenged the adequacy of provisions recognised by critically assessing the key assumptions used in the provision models, comparing the assumptions to available peer and historical data. This work also included, amongst other things, reviewing regulatory correspondence and the bank's complaint logs as well as comparing the bank's position with our own knowledge and experience; and<br>• in relation to insurance reserving, using internal insurance specialists, we have understood the key judgements and assumptions used to estimate the level of claims reserves. | As a result of our work, we concluded that the provisions and reserves held by Tesco Bank in relation to loan impairment provisions, conduct risk provisions and insurance reserving were reasonable. |
| **Compliance with laws and regulations** | | |
| In light of the ongoing investigation by the Serious Fraud Office ("SFO") in the UK following the commercial income misstatements identified in the prior year (see page 46 of the Audit Committee report and Note 31 (commitments and contingencies) of the Group financial statements), the Group has a number of potential litigation and other exposures for which the outcome is uncertain.<br><br>As a result, judgement is required in assessing the nature of these exposures and their accounting and disclosure requirements. | In assessing the potential exposures to the Group, we have completed a range of procedures including:<br><br>• assessing the design and implementation of controls in relation to the monitoring of known legal exposures;<br>• reading Board and other meeting minutes to identify areas subject to Group consideration;<br>• meeting with the Group's internal legal advisors in understanding ongoing and potential legal matters impacting the Group;<br>• reviewing third party correspondence with external legal advisors, regulators and GSCOP; and<br>• reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters. | From the work completed, we concur with management's position that no provision is required and that the disclosures provided are appropriate. |

# Independent auditor's report to the members of Tesco PLC continued

| Risk description | How the scope of our audit responded to the risk | Key observations |
|---|---|---|
| **Management override of controls** | | |
| There are a number of areas within the Group's financial statements which comprise accounting estimates by management and accordingly there is a risk that the Group's results are influenced through management bias in determining such estimates.<br><br>Specifically this risk lies in those areas with high levels of judgement such as commercial income, value-in-use calculations within the impairment reviews, inventory accounting and provisioning.<br><br>Furthermore, the presentation of non-GAAP measures is judgemental, with IFRS only requiring separate presentation of material items. Management judgement is therefore required in determining the classification of exceptional items. | In order to address this risk, in addition to the procedures set out in the commercial income, impairment and inventory risks set out above, we have completed audit procedures including:<br><br>• assessing the design and implementation of controls which address the risk of management override, such as the overall 'entity level' controls which underpin the overall control environment for the Group;<br>• auditing key areas of management estimate and judgement, including consideration of exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures;<br>• using data analytics, tested journal entries for fraud characteristics by testing the completeness of the journal population reviewed and risk profiling the population to focus our work on journals of interest;<br>• assessing transactions completed outside of the normal course of business; and<br>• obtaining an understanding of the work of internal audit so as to assist us in directing our audit effort and obtain greater understanding of the controls in place across the Group. | From our work completed, we have no matters to highlight in these areas.<br><br>However, we note that consistent with other businesses of a similar scale to the Group, there are offsetting non-recurring income and expense items included within underlying profit which do not meet the Group's definition of exceptional items. We concur that these have been appropriately included within underlying profit as they do not distort the overall result reported. |
| **Retail technology environment, including IT security** | | |
| The Group's retail operations utilise a range of information systems where we identified deficiencies in certain controls at the IT infrastructure level. These could have an adverse impact on the Group's controls and financial reporting systems. | We tested the design and operating effectiveness of the Group's controls over the information systems that are important to financial reporting and identified weaknesses in the control environment.<br><br>Where these deficiencies affected applications and databases within the scope of our audit, we completed a combination of controls and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information, including:<br><br>• determined whether authorised inappropriate changes had been made to the affected databases and IT application systems; and<br>• assessed the design and operating effectiveness of any controls that mitigated the identified risks.<br><br>In addition, and where appropriate, we extended the scope of our substantive audit procedures. | We identified weaknesses in relation to user access and change management controls in relation to the Group's retail financial reporting systems and which the company is addressing as detailed within the Audit Committee Report on page 47.<br><br>Where these deficiencies affected applications and systems within the scope of our audit, we completed additional substantive testing in order to assess the completeness and accuracy of system generated information. |

Last year the previous auditor's report included two other risks which are not included in our report this year: commercial income – impact on prior periods (there have been no such adjustment recognised in the current period) and impairment of investments in associated undertakings (following the impairment recognised in the prior period, we do not believe that this risk requires separate identification).

There are two new risks which have been detailed above in the current year: pension obligation valuation and accounting for the pension curtailment (following the closure of the Group's UK defined benefit scheme to future accrual during the year) and IT environment, including IT security (in light of the identified weaknesses in relation to user access and change management controls).

## Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £50m (2014/15: materiality determined by the previous auditor of £50m). Professional judgement was applied in determining an appropriate level of materiality and we considered a number of profit based and other measures with reference to the Group's performance. We have concluded that it was appropriate to determine materiality with reference to the Group's average profitability over a three year period (2013/14, 2014/15 and 2015/16), adjusted for exceptional items.

In our professional judgement, we believe that the use of an adjusted profit measure is appropriate as the amounts which have been excluded from the Group's profit before tax are one-off items which would otherwise skew the level of materiality determined and are not reflective of the Group's trading activity. However, we capped the materiality determined to that applied by the previous auditor in the prior year in light of the Group's lower level of profit in the current year and as a result of 2015/16 being our first year of appointment.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.5m (2014/15: £2.5m determined by the previous auditor), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

## An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Following the disposal of the Group's business in Korea, the Group has wholly-owned grocery retail operations in nine countries, together with interests in a number of other businesses both in the United Kingdom and internationally.

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our group audit scope primarily on the audit work on nine retail locations (United Kingdom, Ireland, Czech Republic, Hungary, Poland, Slovakia, Turkey, Malaysia and Thailand), Tesco Bank and dunnhumby. All of these were subject to a full audit and represent 97% of the Group's revenue.

In addition, four other businesses in the United Kingdom were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The most significant component of the Group is its retail business in the United Kingdom. As such, there is extensive overlap between the Group and United Kingdom audit team to ensure an appropriate level of involvement in this audit work. During the course of our audit, we visited 75 retail stores in the United Kingdom to attend either inventory counts or in order to complete store control visits, and seven distribution centre inventory counts.

Since this was our first year as the Group's auditor, we visited 10 of the 11 significant locations set out above at least twice and the least significant of those locations once, in addition to the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting four of these locations. We also had a dedicated audit partner focussed on overseeing the role of the component audit teams located outside of the UK and Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's International business. The audit visits by the Group audit team were timed to enable us to be involved during the transition, planning and risk assessment process in addition to during the completion of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

In addition, all key component audit teams were represented during a centralised two-day planning meeting held in the United Kingdom following our appointment and prior to the commencement of our detailed audit work. The purpose of this planning meeting was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks and workshops on our planned audit approach. Group management also attended to support these planning activities.

Going forward, we will continue to visit all key components at least on an annual basis.

# Independent auditor's report to the members of Tesco PLC
continued

## Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- 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.

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

### Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- 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
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

### Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

### Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

### Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

## Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

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 responsibility to anyone 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.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Panos Kakoullis (Senior Statutory Auditor)**
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 April 2016