Independent auditor's report to the members of Tesco PLC

Report on the audit of the financial statements

Opinion

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 24 February 2018 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.**

We have audited the financial statements of Tesco PLC (the Parent Company) and its subsidiaries (the Group) which 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 35 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, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

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.

We are independent of the Group and the 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- store impairment review;
- recognition of commercial income;
- inventory valuation;
- pension obligation valuation;
- contingent liabilities;
- presentation of the Group's income statement; and
- retail technology environment, including IT security.

No new key audit matters have been included in this report compared to the prior year report. Key audit matters have been updated for the current year where required.

Materiality

We have considered a number of benchmarks and determined that it is appropriate to base materiality on profit before tax. The materiality that we used for the Group financial statements was £50m (2016/17: £50m) which equates to 4.4% of profit before tax before exceptional items. Refer to page 72 for further details.

Scoping

Our audit scoping provides full scope audit coverage of 96% (2016/17: 97%) of revenue and 92% (2016/17: 91%) of net assets.

Significant changes in our approach

In our 2017/18 report the following change to the key audit matters identified has been made, compared with our 2016/17 report:

- the Tesco Bank payment fraud is no longer considered to be a key audit matter following our conclusion in 2016/17 that the Group had appropriately accounted for liabilities associated with the incident.

Conclusions relating to going concern, principal risks and viability statement

Going concern

We have reviewed the Directors' statement on page 66 to the financial statements 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 and Parent Company's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements.

We are required to state whether we have anything material to add or draw attention to in relation to that statement required by Listing Rule 9.8.6R(3) and report if the statement is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Principal risks and viability statement

Based solely on reading the Directors' statements and considering whether they were consistent with the knowledge we obtained in the course of the audit, including the knowledge obtained in the evaluation of the Directors' assessment of the Group's and the Parent Company's ability to continue as a going concern, we are required to state whether we have anything material to add or draw attention to in relation to:

- the disclosures on pages 22 to 25 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation on page 22 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; or
- the Directors' explanation on page 25 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 are also required to report whether the Directors' statement relating to the prospects of the Group required by Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.

We confirm that we have nothing material to report, add or draw attention to in respect of these matters.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team. We have determined that there was a potential for fraud through possible manipulation of commercial income due to the level of judgement involved.

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.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Store impairment review		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 11 (Property, plant and equipment), the Group held £18,521m (2016/17: £18,108m) of property, plant and equipment at 24 February 2018. Under IFRS, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. Judgement is required in identifying indicators of impairment and estimation is required in determining the recoverable amount of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods. There is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value-in-use' and 'fair value less costs of disposal'. The three areas which are key to management's impairment review are as follows: – value-in-use is derived from cash flow projections which rely upon Directors' assumptions and estimates of future trading performance, including the Group's ability to realise forecast cost savings; – value-in-use is calculated by a number of complex models. There is a risk the models are not calculating the value-in-use accurately; and – in certain circumstances the fair value of properties supports the carrying value of store assets. There is an estimation required in determining the fair value of properties in each of the Group's territories. As a result of the Group's store impairment review completed during the year, a net impairment reversal of £187m (2016/17: net impairment reversal of £6m) was recognised. The Audit Committee's discussion of this key audit matter is set out on page 42.	Our audit procedures included assessing the design and implementation of key controls around the impairment review processes. In relation to the Directors' value-in-use assessment our procedures have included: – 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; – reviewing and challenging the adequacy of management's 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 forecast cash flows and property fair values; and – assessing the accuracy of the 'value-in-use' modelling 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 value-in-use models utilised by the Group. 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.	While we note actions are required by the Group to achieve these forecasts over the medium term, we concluded that the assumptions in the impairment models, specifically in the value-in-use calculations, were within an acceptable range, and that the overall level of net reversal of impairment was reasonable.
Recognition of commercial income		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 20 (Commercial income), 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. In accordance with IFRS, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held. The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement and scope for error in accounting for such income. As such we have identified this as a key audit matter. The Audit Committee's discussion of this key audit matter is set out on page 42.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to commercial income. In addition, our substantive audit procedures across the Group's retail operations included a combination of the following: – testing whether amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample of individual supplier agreements; – testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables via balance sheet reconciliation procedures; – circularising a sample of suppliers to test whether the arrangements recorded were complete and held discussions with a sample of buyers to further understand the buying processes, where required. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; – using data analytics to profile commercial income, identifying deals which exhibited characteristics of audit interest upon which we completed detailed testing; – reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas where further investigation was required; and – also considering the adequacy of the commercial income related disclosure within the Group's financial statements.	The results of our testing were satisfactory. 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 24 February 2018.

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Inventory valuation		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 15 (Inventories), the Group carries inventory at the lower of cost and fair value less costs to sell using the weighted average cost basis. As at 24 February 2018, the Group held inventories of £2,263m (2016/17: £2,301m). The Group provides for obsolescence based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate provisioning percentages to apply to inventory balances.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation. We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by: – critically assessing the Group's inventory provisioning policy, with specific consideration given to aged inventory (in particular for non-food and general merchandising products) as well as stock turn calculations, including the impact of seasonality; – verifying the value of a sample of inventory items to confirm whether they are held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices; – using data analytics to identify unusual inventory usage characteristics, completing assumption tolerance testing and recalculating the provision in totality based on the Group's policy; and – reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year in relation to stock loss or other inventory adjustments.	We concur that the total level of provision is within an acceptable range.
Pension obligation valuation		
As described in Note 1 (Accounting policies, judgements and estimates) and Note 27 (Post-employment benefits), the Group has a defined benefit pension plan in the UK. At 24 February 2018, the Group recorded a net retirement obligation before deferred tax of £3,282m (2016/17: £6,621m), comprising scheme assets of £13,235m (2016/17: £13,196m) and scheme liabilities of £16,517m (2016/17: £19,817m). The Group has, after taking actuarial advice, decided to change the methodology used for deriving the discount rate for valuing the Group's pension liabilities under IAS 19 'Employee Benefits'. Details of the change and its impact in the period are disclosed in Note 27. The pension valuation is dependent on market conditions and assumptions made. The key audit matter specifically relates to the following key assumptions: 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. The Audit Committee's discussion of this key audit matter is set out on page 42.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to the pension obligation valuation process. In testing the pension valuation, 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. We have challenged the Group's decision to change the discount rate methodology with reference to developing market practice, the age of the pension scheme and advice from our actuarial specialists.	We are satisfied that the methodology and assumptions applied in relation to determining the pension valuation are within an acceptable range. We consider the change in methodology for establishing the discount rate to be acceptable and compliant with accounting standards. The actual discount rate applied of 2.9% is within our benchmark range. We note that the methodology used by the Group applies a different approach to the observable yields on high quality corporate bonds compared with our benchmark approach, which results in a discount rate which is towards the optimistic end of our acceptable range.
Contingent liabilities		
In 2016/17 UK shareholder actions were initiated against the Group linked to the overstatement of expected profits in 2014 which may result in legal exposures. Additionally, the Group has other ongoing legal matters relating to previous corporate transactions which require management judgement to be applied in order to determine the likely outcome. Judgement is required in assessing the nature of these exposures and their accounting and disclosure requirements. The Audit Committee's discussion of this key audit matter is set out on page 42.	In assessing the potential exposures to the Group, we have completed a range of procedures including: – assessing the design and implementation of controls in relation to the monitoring of known exposures; – reading Board and other meeting minutes to identify areas subject to Group consideration; – meeting with the Group's internal legal advisors in understanding ongoing and potential legal matters impacting the Group; – reviewing third party correspondence and reports; and – reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.	We concur that the accounting and disclosures in relation to the ongoing UK shareholder actions are appropriate. In relation to other ongoing legal matters in respect of previous corporate transactions, we are satisfied no specific disclosure is required.

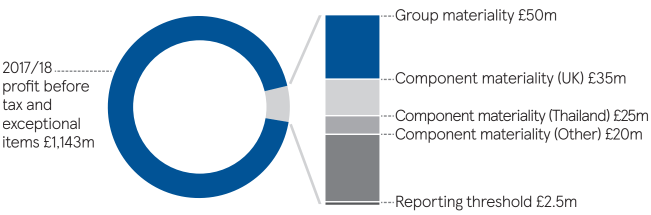
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Presentation of the Group's income statement		
One of the Group's key performance indicators is 'Group operating profit before exceptional items'. The key audit matter is that Group management may override the Group's accounting policy application guidance to manipulate this key performance indicator. Management judgement is required when applying this accounting policy and when determining classification within the Group's income statement and assessing the Group's overall quality of earnings. The Audit Committee's discussion of this key audit matter is set out on page 42.	In order to address this key audit matter we have completed audit procedures including: – assessing the design and implementation of controls which address the risk of inappropriate presentation of the Group's income statement, such as the 'entity level' controls which underpin the overall control environment for the Group and specific controls over determining the presentation of exceptional items; – 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; and – assessing transactions completed outside of the normal course of business.	We note that consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items which do not meet the Group's definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items.
Retail technology environment, including IT security		
The Group's retail operations utilise a range of information systems. In 2015/16 and 2016/17 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems. As described on page 41 within the Audit Committee report, the Group is continuing the replacement of a number of the Group's key systems and making changes to key elements of the Group's IT infrastructure to address the identified deficiencies.	We continued to challenge and assess changes to the IT environments through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes. During the year we have assessed the design and implementation of the Group's controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme. Consistent with 2016/17, in 2017/18 we were not able to take a control reliant audit approach due to the ongoing weaknesses in the IT environment. Where we noted deficiencies which affected applications and databases within the scope of our audit, we extended the scope of our substantive audit procedures.	Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment. We note that management's actions have reduced the number of deficiencies in the year relating to user access and change management controls linked to the Group's financial reporting.

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.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

	Group financial statements	Parent company financial statements
Materiality	£50m (2016/17: £50m)	£35m (2016/17: £25m)
Basis for determining materiality	In determining our materiality, we have considered the 2016/17 materiality, profit based measures and other measures. Materiality has been determined to be the same value as the 2016/17 materiality. The materiality of £50m equates to 4.4% of profit before tax before exceptional items (£1,143m). Component materiality has been determined with reference to the component's contribution to the Group's overall result. The materiality applied by the component auditors was £20m, except for UK Retail (2017/18: £35m, 2016/17: £25m) and Thailand (2017/18: £25m, 2016/17: £25m).	Materiality represents less than 1% (2016/17: less than 1%) of net assets.
Rationale for the benchmark applied	The decision to maintain the same level of materiality as that used in 2016/17 is reflective of the fact the Group continues to execute its turnaround plan and normalise profitability. The selected materiality is 4.4% of profit before tax before exceptional items, which falls within a reasonable range, and supports the quantum of materiality. Profit before tax before exceptional items is an appropriate metric since it is a key performance indicator and is not impacted by any potential volatility which may be caused by exceptional items. The materiality selected represents 0.5% (2016/17: 0.8%) of the Group's net assets.	As this is the Parent Company of the Group it does not generate significant revenues but instead incurs costs and as such net assets are an appropriate base to use to determine materiality.



We agreed with the Audit Committee that we would report to the Audit Committee all audit differences in excess of £2.5m (2016/17: £2.5m) for the Group and the Parent Company, 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. The Group has subsidiary grocery retail operations in eight countries, together with interests in a number of other businesses both in the UK 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 7 significant retail locations (UK, Republic of Ireland, Czech Republic, Hungary, Poland, Slovakia and Thailand) and Tesco Bank. The operations in Czech Republic, Hungary, Poland and Slovakia are managed as one combined business. All of these were subject to a full audit and represent 96% (2016/17: 97%) of the Group's revenue and 92% (2016/17: 91%) of net assets.

In addition, 4 other businesses (Malaysia, OneStop, dunnhumby and Tesco Mobile) 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. The four locations accounted for 4% (2016/17: 2%) of the Group's revenue and 7% (2016/17: 6%) of net assets.

In 2016/17, Malaysia was a full scope audit, however in the current year is subject to specific audit procedures, as a result of only certain financial statement lines being considered to be significant in the context of the Group. Additionally, in 2016/17 Turkey was subject to specific audit procedures, however is no longer in scope following the Group disposing of the business on 1 March 2017. 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 UK. As such, there is extensive interaction between the Group and UK audit team to ensure an appropriate level of involvement in this audit work. During the course of our audit, the UK audit team visited 50 (2016/17: 50) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 4 (2016/17: 6) distribution centre inventory counts.

We visited 7 (2016/17: 7) of the 8 (2016/17: 9) significant locations set out above, in addition to the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting 4 (2016/17: 4) of these locations. We also had a dedicated audit partner focused on overseeing the role of the component audit teams located outside of the UK and the Republic of 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 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 UK 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 part of the meeting to support these planning activities.

Other information

The Directors are responsible for the other information. The other information comprises the information included in the annual report, other than the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

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 materially misstated.

If 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 this other information, we are required to report that fact.

In this context, matters that we are specifically required to report to you as uncorrected material misstatements of the other information include where we conclude that:

- Fair, balanced and understandable – the statement given by the Directors that they consider the annual report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's position and performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee; or
- Directors' statement of compliance with the UK Corporate Governance Code – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

We have nothing to report in respect of these matters.

Responsibilities of Directors

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, 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 concern basis of accounting 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 (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users 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: 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 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.

Report on other legal and regulatory requirements

Opinions 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.

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 the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and of the Parent Company and their environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

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 in respect of these matters.

Other matters

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the year ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is 3 years, covering financial years ending 27 February 2016 to 24 February 2018.

Consistency of the audit report with the additional report to the audit committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

Panos Kakoullis (Senior statutory auditor)
for and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
10 April, 2018