UK の主要小売企業の監査報告書に記載されている KAM　【2017/2018 年の年次報告書から】

	会社名 連結売上高 監査人	KAM の個数	KAM の項目								a.監査人の見解等の記載 b KAM の前年からの変化の説明
			固定資産の減損	仕入業者からのリベート等	その他の資産の評価	年金負債の評価	引当金 偶発債務	収益認識	IT 環境	その他	
1	Tesco £38.7bn (5.6 兆円) Deloitte	7	① 店舗の固定資産の減損	② リベート等の認識	③ 棚卸資産の評価	④ 確定給付年金の負債の評価	⑤ 偶発債務(訴訟関連)	⑥ 損益計算書の表示 (営業利益の操作の可能性)	⑦ 小売業の IT 環境 (IT セキュリティを含む)	-	a あり b 新しく KAM に加えた項目はない旨記載
2	Sainsbury’s £27.9bn (4 兆円) EY	5	-	① 仕入業者との契約	-	-	③ 金融サービスの顧客に対する債権の評価	② 売上調整のマニュアル仕訳、内部統制の無効化リスク	⑤ IT 環境 (IT システムが複雑で、インテグレションのレベルが様々)	④ 当期買収した Nectar の会計処理	a あり b あり (昨年買収した会社の会計処理を削除し、当期買収した会社の会計処理を加えた)。
3	Wm Morrison £17.3bn (2.5 兆円) PwC	6	① 所有店舗資産の減損 ② リース資産(店舗)の評価等	③ 仕入リベート等及び販促活動への賛助	④ ソフトウエア等の無形資の評価 ⑤ 棚卸資産の評価	⑥ 確定給付年金の会計	-	-	-	-	a あり b なし

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			固定資産の減損	仕入業者からのリベート等	その他の資産の評価	年金負債の評価	引当金 偶発債務	収益認識	IT環境	その他	
4	John Lewis £10.2bn （1.5兆円） KPMG	5	① 有形固定資産の評価（Waitrose(スーパー事業)の減損リスク）	- （今年は認識しない旨の記載あり）	④ 無形資産（ソフトウエア）の評価	② 確定給付年金負債	③ 4つの引当金（長期休暇、サービス保証、返品、最低賃金）	-	-	⑤ 親会社の単体FSの監査におけるKAM－子会社投資の評価	a. あり b. あり
5	Marks & Spencer £9.6bn （1.4兆円） Deloitte	6	③ UK店舗資産の減損	- （今年は認識しない旨の記載あり）	④ 棚卸資産（衣料品及び家庭用品）の評価	⑤ 確定給付年金負債	② 店舗合理化プログラム（閉鎖、縮小、移転など）の会計処理	⑥ (ギフトカード、返品など)売上調整のためのマニュアル仕訳	-	① 調整後利益（NON-GAAP指標）	a. あり b. あり

￡1＝145円で換算

注） KAMに振られた番号は監査報告書における記載の順番を表す。

その他の国の主要小売企業の監査報告書に記載されている KAM

	国名 会社名 連結売上高 監査人	KAM の個数	KAM の項目								a.監査人の見解等の記載 b KAM の前年からの変化の説明
			固定資産の減損	仕入業者からのリベート等	その他の資産の評価	年金負債の評価	引当金 偶発債務	収益認識	IT 環境	その他	
6	フランス Carrefour €79 bn (9.9 兆円) Deloitte KPMG MAZARS	3	-	① リベート等の認識	③ イタリア及びポーランドの暖簾の評価	-	② ブラジル子会社の税金引当及び偶発債務	-	-	-	a なし b なし
7	オランダ Ahold Delhazie €63 bn (7.9 兆円) PwC	3	-	② 仕入業者からのリベート等の認識	① のれん (Delhaize 関連) の評価	③ 従業員向け確定給付年金にかかわる測定と注記	-	-	-	-	a.あり b.あり (2016 年に合併した Delhaize の会計処理については削除し、代わりにのれんの評価を追加した。また、店舗資産の減損についても、2017 年は重要なトリガーイベントがなかったため削除した。)
8	オーストラリア Wesfarmers A$ 67bn. (5.2 兆円) EY	4	① Target に関する無形資産を含む、固定資産の減損	② 仕入業者からのリベート	-	-	③ Curragh の廃止事業 ④ 英国及びアイルランドの Bunnings の廃止事業	-	-	-	a なし b なし

€1＝125 円、A＄1＝78 円で換算

注) KAM に振られた番号は監査報告書における記載の順番を表す。

KAMの経年比較　ーTESCO Plc.

2016･2 期	2017･2 期	2018･2 期
①店舗の固定資産の減損 Store impairment review	①店舗の固定資産の減損 ⇔ Store impairment review	①店舗の固定資産の減損 Store impairment review
②リベート等の認識 Recognition of commercial income	②リベート等の認識 ⇔ Recognition of commercial income	②リベート等の認識 Recognition of commercial income
③棚卸資産の評価及び引当 Inventory valuation and provisions	③確定給付年金の負債の評価 ⇔ Pension obligation valuation	③棚卸資産の評価 Inventory valuation
④確定給付年金の負債の評価及び年金制度の縮小 Pension obligation valuation and accounting for the pension curtailment	④偶発債務(訴訟関連) ⇔ Contingent liabilities	④確定給付年金の負債の評価 Pension obligation valuation
⑤Tesco 銀行の引当(貸倒引当、保険請求に対する積立て等) Provisions and reserves in Tesco Bank	⑤棚卸資産の評価 ⇔ Inventory valuation	⑤偶発債務(訴訟関連) Contingent liabilities
⑥法令遵守 Compliance with laws and regulations	⑥経営者による内部統制の無効化 ⇔ Management override of controls	⑥損益計算書の表示(営業利益の操作の可能性) Presentation of the Group's income statement
⑦経営者による内部統制の無効化 Management override of controls	⑦Tesco 銀行の不正なカード支払い ↑ Tesco Bank payment fraud	⑦小売業の IT 環境(IT セキュリティを含む) Retail technology environment , including IT security
⑧小売業の IT 環境(IT セキュリティを含む) Retail technology environment , including IT security	⑧小売業の IT 環境(IT セキュリティを含む)⇔ Retail technology environment , including IT security	-
KAMの前年度からの変化についての説明		
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 recognized 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).	Within this report, any new risks are identified with ↑ and any risks which are the same as the prior year, updated where required, are identified with ⇔. Significant changes in our approach In our 2016/17 report the following changes to the risks identified have been made compared to our 2015/16 report: - we have included a new risk relating to the Bank's November 2016 external payment fraud; - provisions and reserves relating to the Bank are identified as a significant risk for the audit, however it has not required the same level of focus as those matters included in our report and therefore we no longer report on this risk here	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. 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

2016・2 期	2017・2 期	2018・2 期
	- we continue to report on the pension obligation valuation risk, however accounting for the pension curtailment was only applicable to 2015/16; - the inventory valuation risk has been revised and does not include the capitalisation of directly attributable costs due to the reduced level of judgement exercised by management; and - the risk relating to compliance with laws and regulations has been refined to only relate to contingent liabilities since this is where the key risk lies.	

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.

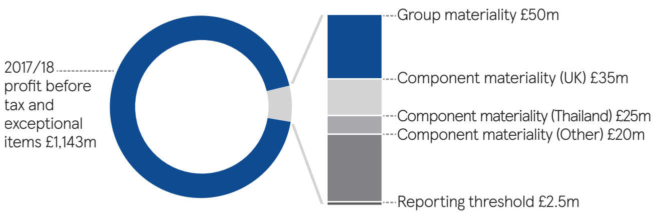
Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
Presentation of the Group's income statement		
One of the Group's key performance indicators is 'Group operating profit before exceptional items'. The key audit matter is that Group management may 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

Independent auditor's report to the members of J Sainsbury plc

In our opinion:

- J Sainsbury plc's consolidated financial statements and parent company financial statements (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 10 March 2018 and of the Group's profit for the year 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; 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 J Sainsbury plc's financial statements for the 52 weeks ended 10 March 2018 which comprise:

Group	Parent company
Consolidated income statement	Balance sheet
Consolidated statement of comprehensive income	Statement of changes in equity
Consolidated balance sheet	Related notes 1 to 11 to the financial statements
Consolidated cash flow statement	
Consolidated statement of changes in equity	
Related notes 1 to 38 to the financial statements including a summary of significant accounting policies	

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and International Financial Reporting Standards (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 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 as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

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

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.

Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs(UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report set out on page 30 that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation set out on page 62 in the Annual Report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement set out on page 35 in the Annual Report 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 entity's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation set out on page 35 in the Annual Report as to how they have assessed the prospects of the entity, 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 entity 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.

Overview of our audit approach

Key audit matters

- Supplier arrangements
- Aspects of revenue recognition
- Financial Services customer receivables impairment
- Nectar acquisition
- IT environment

Audit scope

- We performed a full scope audit of the complete financial information of the following components: J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank. We performed audit procedures on specific balances including for Argos Financial Services, Nectar, the property companies, material joint ventures and the insurance company due to the size and risk of certain individual balances within these components.
- The components where we performed full or specific audit procedures accounted for 92 per cent of Profit before tax before one off items, 99 per cent of Revenue and 96 per cent of Total assets.

Materiality

- Overall Group materiality is £30.8 million which represents five per cent of profit before tax and before non-recurring Argos integration costs, Sainsbury's Bank transition costs and restructuring costs. A reconciliation is provided below.

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

Changes from the prior year

The Group acquired three UK entities and the remaining share of the Insight 2 Communication LLP joint venture from Aimia Inc. (referred to as the "Nectar acquisition"). We have reflected this in our risk assessment, the results of which are below. We have designated the significant Nectar balances as specific scope. We have included the Nectar acquisition as a key audit matter.

In the prior year because of the acquisition of HRG in that year we included "HRG acquisition purchase price allocation" as a key audit matter. We have removed this risk for this year.

Risk

Supplier arrangements

Refer to Accounting policies (page 103); and note 2 of the Consolidated Financial Statements (page 103)

The Group receives material discounts from suppliers, referred to as supplier arrangements. The accounting for some of these supplier arrangements is complex since management applies judgement, processing is either manual or more complex and the quantum of agreements is high. We focused our audit procedures on these complex supplier arrangements.

Complex supplier arrangements recognised in the income statement for the financial year are £450 million (2016/17: £343 million).

Our response to the risk

- We walked through the controls in place within the supplier arrangements process. We were able to take a controls-reliance approach over certain aspects of the process, testing the key controls, although there are areas where we cannot as the process for recording deals is manual.
- We selected a sample of suppliers to whom we sent confirmations across all "deal" types to confirm key deal input terms. Where we did not receive a response from the supplier, we performed alternative procedures, including obtaining evidence of initiation and where possible settlement of the arrangement.
- We tested the existence and valuation of balance sheet amounts recognised in accounts receivable and as a contra-asset in accounts payable by reviewing post-period end settlement. We also performed a 'look-back' analysis of prior period balance sheet amounts to check that these amounts were appropriately recovered.
- We tested the settlement of a sample of supplier arrangements recognised in the income statement, which included settlement in cash or by off-set to accounts payable.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries and other adjustments to supplier arrangements to corroborating evidence.
- We tested deals recorded post period end and obtained the supplier agreement to validate that the deal was correctly recorded post period end.
- We read management's disclosure in respect of supplier arrangements amounts recorded in the income statement and balance sheet to confirm completeness and accuracy of amounts disclosed.

Key observations communicated to the Audit Committee

Supplier arrangement amounts are appropriately recognised in the income statement and balance sheet and the disclosure in the financial statements is appropriate.

Risk

Aspects of revenue recognition

Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 4 of the Consolidated Financial Statements (page 106)

Our assessment is that the vast majority of the Group's revenue transactions are non-complex, with no judgement applied over the amount recorded. We focused our work on the manual adjustments that are made to revenue.

Our procedures were designed to address the risk of manipulation of accounting records and the ability to override controls.

Our response to the risk

- We obtained a detailed understanding of these manual adjustments. Due to the manual nature of these adjustments, we performed substantive audit procedures.
- We used our computer-aided analytics tools to identify those revenue journals for which the corresponding entry was not cash. These entries include Nectar points, coupons, vouchers and commission arrangements.
- We obtained corroborating evidence for such corresponding entries. For the Nectar points adjustment we obtained evidence from the administrator of the scheme. For third party coupons and vouchers we obtained evidence of collection and settlement.
- Using data extracted from the accounting system, we tested the appropriateness of journal entries impacting revenue, as well as other adjustments made in the preparation of the financial statements. We considered unusual journals such as those posted outside of expected hours, or by unexpected individuals and, for large or unusual amounts.

Key observations communicated to the Audit Committee

Adjustments to revenue have been appropriately recognised.

Risk

Financial Services customer receivables impairment

Refer to the Audit Committee Report (page 61); Accounting policies note 15b; and note 15c of the Consolidated Financial Statements (page 122)

Financial Services customer receivables relate to Sainsbury's Bank credit cards, loans and mortgages; and Argos store cards. Total amounts recognised at year end are £5,692 million (2016/17: £4,602 million). The provision for impairment is £132 million (2016/17: £89 million).

The risk of collectability of Financial Services customer receivables, through either credit cards, loans, mortgages or Argos store cards is significant. There is judgement in the assumptions applied to calculate the loan provisions against outstanding balances.

Our response to the risk

- The loan impairment methodology was reviewed, to confirm it was consistent with both the IFRS requirements and that previously applied.
- The completeness and accuracy of the data from underlying systems that were used in the impairment models were tested.
- Key assumptions including the probability of default and the size of the loss if default occurred were assessed against internal and external evidence. The key assumptions within the models were compared to knowledge of assumptions used and also with internal historical trends, concluding that, based on the evidence obtained, management's conclusions were supportable.
- Changes to the modelling assumptions were assessed to confirm these were appropriate and in line with accounting standards.
- The accuracy of prior year impairment reserves was considered to assess the quality of management's estimation process.

Key observations communicated to the Audit Committee

The provision for impairment of Financial Services receivables due from customers is appropriately recognised.

Risk

Nectar acquisition

Refer to the Audit Committee Report (page 61); Accounting policies (page 109); and note 2e of the Consolidated Financial Statements (page 103)

The Group acquired Nectar during the year. The provisional business combination fair values are outlined in note 31 to the financial statements.

We focused our audit effort on the IFRIC 13 accounting treatment for the loyalty points and the acquisition accounting of the acquired companies, with a particular focus on the valuation of the Nectar points liability, including the breakage assumption.

Our response to the risk

- We walked through the controls in place within the purchase price accounting process including specifically around the fair value of acquired assets and liabilities and the estimates applied in the recognised intangibles.
- We understood management's processes and controls surrounding the Nectar points liability and verified the inputs to the calculation.
- We corroborated management's estimate on the breakage assumption and understood how management arrived at a reasonable range.
- We understood the underlying accounting model IFRIC 13, and verified its application to the Nectar points accounting.

Key observations communicated to the Audit Committee

The Nectar acquisition has been appropriately recognised.

Risk

The IT environment

The IT systems across the Group are complex and there are varying levels of integration between them. The systems are vital to the ongoing operations of the business and to the integrity of the financial reporting process.

For Sainsbury's Bank the key system relating to the customer loan receivable impairment as described above, is provided by an external party.

Our response to the risk

- We held discussions with management to understand the IT environment and walked through the key financial processes to understand where IT systems were integral to the Group's controls over financial reporting. From this we identified which IT systems to include in the scope for our detailed IT testing.
- We assessed the IT general controls environment for the key systems impacting the accurate recording of transactions and the presentation of the financial statements.
- We designed our IT audit procedures to assess the IT environment, including an assessment of controls over changes made to the system and controls over appropriate access to the systems.
- Where we found that adequate IT general controls were not in place, we performed additional substantive testing to mitigate the risk of material misstatement.
- For Sainsbury's Bank we received a report from the auditors on the general control environment of the outsourced systems and followed up on matters arising, performing further procedures as necessary.

Key observations communicated to the Audit Committee

We have not identified any misstatements in the financial statements due to the limitations of the IT environment.

An overview of the scope of our audit

Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for each entity within the Group. Taken together, this enables us to form an opinion on the consolidated financial statements. We take into account size, risk profile, the organisation of the Group and effectiveness of Group-wide controls, changes in the business environment and other factors such as recent Internal Audit results when assessing the level of work to be performed at each entity.

In assessing the risk of material misstatement to the Group financial statements, and to ensure we had adequate quantitative coverage of significant accounts of the components of the Group in the Group financial statements, we selected the head office company J Sainsbury plc, Sainsbury's Supermarkets, Argos and Sainsbury's Bank components to perform full scope procedures. These represent the principal business units within the Group based on their size and risk characteristics.

For other entities including Argos Financial Services, Nectar, the property companies, material joint ventures and insurance components we performed audit procedures on specific accounts which we considered had the potential for the greatest impact on the significant accounts in the financial statements either because of the size of these accounts or their risk profile.

The audit scope of these components may not have included testing of all significant accounts of the component but will have contributed to the coverage of significant accounts tested for the Group.

Of the remaining balances, none are individually greater than five per cent of the Group's profit before tax excluding one off items. For these accounts, we performed other procedures, including analytical review, testing of consolidation journals and intercompany eliminations, to respond to any potential risks of material misstatement to the Group financial statements.

Involvement with component teams

In establishing our overall approach to the Group audit, we determined the type of work that needed to be undertaken at each of the components by us, as the primary audit engagement team, or by component auditors from other EY network firms operating under our instruction. Of the full scope components, audit procedures were performed on the head office company, J Sainsbury plc, Sainsbury's and Argos trading entities and consolidation of the Group by the primary team. The work at the specific scope locations was performed by EY components in Edinburgh, the Isle of Man and the primary team.

For the Sainsbury's Bank full scope component this was our first year as auditor. During the current period's audit cycle, the Senior Statutory Auditor visited Sainsbury's Bank and held discussions with management. The team discussed the audit approach with the component team and significant issues arising from their work, reviewing key audit working papers on risk areas. The closing discussion was attended by the primary team. This, together with the additional procedures performed at Group level, gave us appropriate evidence for our opinion on the Group financial statements.

Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

Materiality

The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.

We determined materiality for the Group to be £30.8 million, which is five per cent of profit before tax excluding the items described below. We believe that this materiality basis provides us with the best assessment of the requirements of the users of the financial statements. This is consistent with the approach taken in the prior period.

Starting basis	Profit before tax	£409m
Adjustments	Argos related non-underlying costs	£85m
	Sainsbury's Bank transition costs	£38m
	Restructuring costs	£85m
	Total	£208m
	Profit before tax and adjustments	**£617m**
Materiality	Materiality of £30.8 million (five per cent of profit before tax and after making the adjustments noted above).	

We determined materiality for the Parent Company to be £155 million (2016/17: £145 million), which is two per cent (2016/17: two per cent) of net assets. The materiality of the parent company is greater than the Group because the Parent Company is a holding Company with significant net assets.

Performance materiality

The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.

On the basis of our risk assessments, together with our assessment of the Group's overall control environment, our judgement was that performance materiality was approximately 75 per cent (2016/17: 75 per cent) of our planning materiality, namely £23 million (2016/17: £25 million). We have set performance materiality at this percentage due to our assessment that the risk of material misstatement is not high.

Audit work at component locations for the purpose of obtaining audit coverage over significant financial statement accounts is undertaken based on a percentage of total performance materiality. The performance materiality set for each component is based on the relative scale and risk of the component to the Group as a whole and our assessment of the risk of misstatement at that component. In the current year, the range of performance materiality allocated to components was £4 million to £17 million (2016/17: £5 million to £19 million).

Reporting threshold

An amount below which identified misstatements are considered as being clearly trivial.

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £1.5 million (2016/17: £1.7 million), which is set at five per cent of planning materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

Other information

The other information comprises the information included in the Annual Report as set out on pages 1 to 86 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 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 the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- Fair, balanced and understandable set out on page 88 – 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 performance, business model and strategy, is materially inconsistent with our knowledge obtained in the audit; or
- Audit Committee reporting set out on page 56 – 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 set out on page 47 – 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.

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.

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 the 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
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited 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 88, 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 and 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.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are; to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

We obtained an understanding of the legal and regulatory frameworks that are applicable to the Group and determined that the most significant are:

- those that relate to the form and content of the financial statements, such as the Group accounting policy, International Financial Reporting Standards as adopted by the EU (IFRS), the UK Companies Act 2006 and the UK Corporate Governance Code;
- those that relate to the payment of employees; and
- industry related such as compliance with the requirements of the Grocery Supply Code of Practice.

We understood how J Sainsbury plc is complying with those frameworks by observing the oversight of those charged with governance, the culture of honesty and ethical behaviour and a strong emphasis placed on fraud prevention, which may reduce opportunities for fraud to take place, and fraud deterrence, which could persuade individuals not to commit fraud because of the likelihood of detection and punishment.

We assessed the susceptibility of the Group's financial statements to material misstatement, including how fraud might occur by making an assessment of the key fraud risks to the Group and the manner in which such risks may manifest themselves in practice, based on our previous knowledge of the Group as well as an assessment of the current business environment.

Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Where the risk was considered to be higher, we performed audit procedures to address each identified fraud risk. These procedures included testing manual journals and were designed to provide reasonable assurance that the financial statements were free of fraud or error. We evaluated the design and operational effectiveness of controls put in place to address the risks identified, or that otherwise prevent, deter and detect fraud. We also considered performance targets and their influence on efforts made by management to manage earnings.

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.

Other matters we are required to address

- Following the recommendation of the Audit Committee we were appointed by the Company at its Annual General Meeting on 8 July 2015. We have been the statutory auditor since that date.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the parent company and we remain independent of the Group and the parent company in conducting the audit.
- The audit opinion is consistent with the Financial Statements.

Nigel Jones
(Senior statutory auditor)
For and on behalf of Ernst & Young LLP
Statutory Auditor
London
1 May 2018

1 The maintenance and integrity of the J Sainsbury plc website is the responsibility of the Directors; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

2 Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

Independent auditors' report

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

Report on the audit of the financial statements

Opinion

In our opinion,

- Wm Morrison Supermarkets PLC's Group financial statements and Company financial statements (the 'financial statements') give a true and fair view of the state of the Group's and of the Company's affairs as at 4 February 2018 and of the Group's profit and cash flows for the 53 week period (the 'period') then ended;
- the Group financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union;
- the Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards, comprising FRS 101 'Reduced Disclosure Framework', and applicable law); 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, included within the Annual Report and Financial Statements (the 'Annual Report'), which comprise: the consolidated balance sheet and Company balance sheet as at 4 February 2018; the consolidated statement of comprehensive income; the consolidated cash flow statement; the consolidated statement of changes in equity; the Company statement of changes in equity for the 53 week period then ended; the general information; and the notes to the financial statements, which include a description of the significant accounting policies.

Our opinion is consistent with our reporting to the Audit Committee.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under ISAs (UK) are further described in the Auditors' responsibilities for the audit of the financial statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We remained independent of the Group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, which includes the FRC's Ethical Standard, as applicable to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

To the best of our knowledge and belief, we declare that non-audit services prohibited by the FRC's Ethical Standard were not provided to the Group or the Company.

Other than those disclosed in note 1.6 to the financial statements, we have provided no non-audit services to the Group or the Company in the period from 30 January 2017 to 4 February 2018.

Our audit approach

Overview

Materiality

- Overall Group materiality: £18.7m (2017: £16.9m), based on 5% of underlying profit before tax.
- Overall Company materiality: £16.8m (2017: £16.0m), based on the amount of component materiality allocated to the Company as part of the Group audit.

Audit scope

- We identified two reporting units, Wm Morrison Supermarkets PLC and Safeway Stores Limited, which in our view, required a full scope audit based on their size and risk. In addition, we determined that certain account balances of a further four reporting units were in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.
- The Group engagement team performed the audit procedures for each reporting unit in the scope of our Group audit, which accounted for 99% of total Group revenue and 84% of profit before tax. Our audit scope provided sufficient appropriate audit evidence as a basis for our opinion on the Group financial statements as a whole.

Areas of focus

- Impairment of property, plant and equipment (Group and Company).
- Onerous property contracts (Group and Company).
- Commercial income and manual promotional funding (Group and Company).
- Impairment of intangible assets (Group and Company).
- Stock valuation (Group and Company).
- Pension accounting (Group and Company).

Independent auditors' report continued

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

The scope of our audit

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we looked at where the Directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

We gained an understanding of the legal and regulatory framework applicable to the Group and the industry in which it operates, and considered the risk of acts by the Group which were contrary to applicable laws and regulations, including fraud. We designed audit procedures at Group and significant component level to respond to the risk, recognising that the risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error, as fraud may involve deliberate concealment by, for example, forgery or intentional misrepresentations, or through collusion. We focused on laws and regulations that could give rise to a material misstatement in the Group and Company financial statements, including, but not limited to, the Companies Act 2006, the Listing Rules, Pensions legislation and UK tax legislation. Our tests included, but were not limited to, review of the financial statement disclosures to underlying supporting documentation, review of correspondence with, and reports to, the regulators, review of correspondence with legal advisers, enquiries of management and review of internal audit reports in so far as they related to the financial statements. There are inherent limitations in the audit procedures described above and the further removed non-compliance with laws and regulations is from the events and transactions reflected in the financial statements, the less likely we would become aware of it.

We did not identify any key audit matters relating to irregularities, including fraud. As in all of our audits we also addressed the risk of management override of internal controls, including testing journals and evaluating whether there was evidence of bias by the Directors that represented a risk of material misstatement due to fraud.

Key audit matters

Key audit matters are those matters that, in the auditors' professional judgement, were of most significance in the 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) identified by the auditors, including 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. These matters, and any comments we make on the results of our procedures thereon, 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. This is not a complete list of all risks identified by our audit.

Key audit matter	How our audit addressed the key audit matter
Impairment of property, plant and equipment Refer to page 69 (sources of estimation uncertainty), note 3.1 (accounting policies) and note 3.3 (property, plant and equipment). The Group has a large freehold store estate (£5,770m at 4 February 2018). Given the challenging trading conditions in the UK grocery retail market in recent years and the subsequent adverse impact on the market value of traditional supermarket freehold stores, the possibility of impairment of these assets and the related trading assets is an area of focus for management, as is the possibility that previously charged impairments may need reversing where store trading conditions have improved. We focused on this area because of the judgemental factors involved in testing for impairment and the significant carrying value of freehold property. Management considers each store to be a cash generating unit ('CGU') and has calculated the recoverable amount of each CGU as the higher of value in use and fair value less costs of disposal. **Value in use** Value in use is based on discounted future cash flow forecasts, requiring management to make judgements on certain key inputs including, for example, discount rates and long-term growth rates. **Fair value less costs of disposal** Fair value less costs of disposal is estimated by management based on their knowledge of individual stores, likely demand from grocers or other retailers in the event those stores were for sale and also informed by a valuation performed by a third party valuer. The key judgements made by the Directors in this fair value calculation relate to the estimated rental values and the yields of the stores. Management has calculated that an impairment charge of £118m is required as at 4 February 2018. A release of impairment charged in previous years of £126m has also been calculated following an improvement in the performance of certain stores.	**Value in use** We have obtained the Group's approved budget (upon which forecasts underlying the value in use calculations are based). Our audit procedures included an assessment of management's discounted cash flow models. We tested the mathematical accuracy of the calculations derived from each forecast model and assessed key inputs in the calculations, such as the discount rate of 9%, by reference to management's forecasts, industry reports and our valuation experts. We focused on these key assumptions because small changes can have a material impact on the value in use assessment and any resultant impairment charge. We found, based on our audit work, that the key assumptions used by management were supportable and appropriate in light of the current environment. **Fair value less costs of disposal** Management has determined its own view of estimated rental values and yields for each store used in their calculation of market values. Management derived these assumptions having considered available information such as industry data on market conditions, purchase offers recently received for properties and information from an independent third party valuer. We evaluated management's supporting information, and assessed this using our own internal experts, with a particular focus on the assumptions and methodology used, obtaining third party evidence and market data to corroborate the assumptions. We determined that the valuations performed by management were reasonable. **Disclosures** In addition, we evaluated the adequacy of the disclosures made in note 3.3 of the financial statements, including those regarding the key assumptions and sensitivities to changes in such assumptions by comparing the disclosures against the requirements of IAS 36 'Impairment of assets' and found them to be consistent.

Key audit matter	How our audit addressed the key audit matter
Onerous lease provisions and onerous property contracts Refer to page 69 (sources of estimation uncertainty), note 5.1 (accounting policies) and note 5.5 (provisions). **Onerous lease provisions** Accounting standards require management to assess the Group's leasehold properties to identify where the expected future benefits from a property are less than the future lease commitments which would indicate that an onerous lease provision is required. Under IAS 37 'Provisions, contingent liabilities and contingent assets' such a provision is made for the unavoidable costs of the contract, defined in the standard as the 'least net cost of exit'. We focused on this area because of the judgements required to be made by management in identifying those stores requiring an onerous lease provision and the assumptions used in the models, such as the discount rate and those used in developing the associated cash flow forecasts. We also note that management judgement is required to assess the level of provision for lease guarantees in respect of convenience stores previously disposed of. **Onerous property contracts** The Group recognises a provision in respect of committed onerous property contracts. For example, where management believes that no economic benefit would result from developing sites, a provision is made. There are judgements involved in determining the expected realisable value of these sites and associated contract exit costs, therefore this has been an area of focus during our audit.	**Onerous lease provisions** Having considered the possibility of impairment in the value of freehold properties (see above), we also tested management's calculations in respect of leasehold stores where the estimated future benefits are not expected to exceed the future lease commitments, resulting in an onerous lease. We obtained management's onerous lease model, which includes all leased stores, and tested the accuracy and completeness of key data by agreeing inputs such as individual store cash flows. This helps provide an insight into store profitability. We agreed lease expiry dates for a sample of stores to the original signed lease agreements, noting no issues. We obtained the Group's approved budget (upon which forecasts are based) and assessed the principles of the Group's discounted cash flow model, noting no exceptions. We tested the mathematical accuracy of the calculation derived from each forecast model and assessed key inputs in the calculations such as revenue growth and discount rate, by reference to management's forecasts, analyst reports and our own valuation experts, with no issues noted. We obtained management's calculation of the required provision for former convenience store leases which reverted back to the Group in a prior year. We assessed the principles of the model and tested key inputs such as lease commitment information and sub-let assumptions, with no issues noted. **Onerous property contracts** In respect of onerous property contracts, we obtained original contracts and management's calculations and considered the accuracy of these provisions by performing recalculations and testing key inputs such as estimates of contract exit costs, contractual payments due and by reviewing evidence of the status of any negotiations with landlords. We considered the completeness of these provisions by reviewing documentation in relation to these contracts. We found no issues in this area. **Disclosures** We read the disclosures within the Annual Report in respect of onerous lease provisions and onerous property contracts, and, based on our work, determined that they are consistent with accounting standards.

Independent auditors' report continued

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

Key audit matter	How our audit addressed the key audit matter
Commercial income and manual promotional funding Refer to page 69 (sources of estimation uncertainty), note 1.1 (accounting policies) and notes 1.6 (operating profit). **Commercial income** The Group has two categories of commercial income: marketing and advertising funding, and volume-based rebates on purchases. Commercial income is recognised as a deduction from cost of sales and is earned over the period of the contractual agreements with individual suppliers, as disclosed in the Group's accounting policy on page 70. The total income recognised in the income statement in a year is based on the expected entitlement earned up to the balance sheet date under each supplier agreement. It requires management to apply judgement based on the contractual terms in place with each of its suppliers, together with estimates of amounts the Group is entitled to where transactions span the financial period end. The relative level of judgement in each category of commercial income is considered below: **Commercial income – marketing and advertising funding** This income is varied with regards to the nature and timing of the activity to which it relates, and is recognised in accordance with written agreements with suppliers. This income is based on specific agreements, and its recognition requires limited judgement or estimation by management in determining the amount that the Group is entitled to. Our focus was on assessing whether a written agreement for the marketing and advertising funding existed, whether the relevant marketing or advertising had taken place and whether the income recognised was recorded in the appropriate period. **Commercial income – volume-based rebates** Volume-based rebates are driven by the Group achieving purchase volume targets set by individual suppliers for specific products over a predetermined period. There is therefore judgement involved in estimating the volume of purchases, particularly where rebate agreements span a financial period end. In order to narrow this judgement, management endeavours to structure agreements to coincide with the Group's financial period end, thereby reducing or eliminating the degree of estimation. In instances where the rebate agreement does not fully coincide with the period end, the key judgement that we focused on was the estimate of commercial income to be accrued at the period end. **Promotional funding** The Group separately recognises promotional funding on promotions that are partially funded by suppliers. The majority of promotional funding is an automated deduction from cost of sales, triggered when a sale is recognised. The funding is recognised when the transaction occurs in accordance with the terms of supplier agreements. The amount receivable is wholly based on sales volumes achieved, multiplied by rates agreed with each supplier in advance. There are some elements of promotional funding which include a manual element to the invoicing. We focused on the manual elements of promotional funding because of the significance of the amounts to the Group's gross profit, the significant number of transactions and agreements in place with suppliers covering a range of periods, the manual nature of the invoicing process and the industry-wide focus on this area of accounting.	Our audit work in respect of commercial income and the manual elements of promotional funding comprised a combination of controls testing, substantive testing of a sample of income and funding recognised during the period, testing of amounts recognised in the balance sheet and an assessment of the Group's disclosures in this area. Each element of our work is considered in more detail below. **Controls testing** Our controls work encompassed understanding, evaluating and testing management's key controls in respect of the recognition of both commercial income and manual promotional funding. These key controls included the monitoring of invoices raised and the accuracy of confirmations from suppliers. We found no significant deficiencies in these key controls, and our testing of management's key system controls contributed to our evidence in determining whether commercial income and manual promotional funding had been recorded appropriately and in the correct period. **Income statement testing** We tested a sample of commercial income and the manual elements of promotional funding to supporting documentation including supplier agreements. We requested confirmations directly from suppliers in respect of a sample of commercial income and the manual elements of promotional funding across a large number of suppliers. The confirmations received, and documentation reviewed, allowed us to evaluate whether commercial income or the manual elements of promotional funding had been appropriately recognised in the period. No exceptions arose from this work. We also analysed commercial income and the manual elements of promotional funding recognised each month and compared it to the previous period to identify whether there were any unusual trends in the amounts or timing of commercial income and the manual elements of promotional funding recognised in each period. We used a data analytics approach to identify any unusual items in the commercial income and the manual elements of promotional funding populations. Where unusual items were identified these were agreed to supporting documentation without exception. **Balance sheet testing** We wrote to a sample of suppliers, and obtained independent evidence of the value and timing of commercial income and the manual elements of promotional funding to evaluate whether it had been recognised in the correct period. We also agreed a sample of accrued income to evidence of post-year end invoicing. We performed cut-off procedures and credit note testing to provide further evidence to support the timing of the recognition of both commercial income and the manual elements of promotional funding. Cut-off work involved testing a sample of commercial income and the manual elements of promotional funding recognised both pre and post the period end and evaluating by reference to documentation from suppliers that the timing of recognition was appropriate. We found no issues as a result of our audit procedures. Our credit note testing focused on credit notes raised after the period end in order to identify any instances of commercial income or the manual elements of promotional funding being subsequently reversed. We did not identify any exceptions from this work. We tested the recoverability of invoiced commercial income and the manual elements of promotional funding (unsettled balances included within trade debtors in note 5.3 to the financial statements and where the Group does not have the right of offset against trade creditors). This testing was performed by assessing the ageing of both outstanding commercial income and the manual elements of promotional funding debtors together with understanding the details of any disputes, and obtained explanations from management to assess whether any provisions were appropriate. We also considered management's commercial income and promotional funding Key Performance Indicators in this analysis. No exceptions were noted. **Disclosures** We read the disclosures within the Annual Report in respect of commercial income and manual promotional funding and, based on our work, determined that they are consistent with accounting standards and the guidance on the reporting of complex supplier arrangements issued by the Financial Reporting Council.

Key audit matter	How our audit addressed the key audit matter
Impairment of intangible assets Refer to page 69 (sources of estimation uncertainty), note 3.1 (accounting policies) and note 3.2 (goodwill and intangible assets). The Group balance sheet includes intangible assets of £428m, of which the majority relates to software development costs incurred in connection with the Group's technology improvement programme, details of which are shown on pages 79 to 81 of the Annual Report. We focused on this area because judgement is required to assess whether the carrying value of the existing capitalised software or systems is impaired.	We obtained management's assessment as to whether the development of new software or systems superseded or impaired any of the existing assets on the balance sheet. We re-visited the expected costs budgeted by management within the cost benefit analysis and compared them to actual outcomes in the current period and we assessed the future expected benefits of the projects, with no issues being identified from our work. We also applied our own understanding of both new and existing projects and considered whether, in our view, any existing software was no longer in use or whether its life had been shortened by development activity. We found no such items. No material impairment of the intangible assets was identified from our work. **Disclosures** We read the disclosures within the Annual Report in respect of intangible assets, and, based on our work, determined that they are consistent with accounting standards.
Stock valuation Refer to page 69 (sources of estimation uncertainty), note 5.1 (accounting policies) and note 5.2 (stock). The stock valuation of £686m (2017: £614m) was focused on due to the nature of judgements made by management when assessing the level of provisions required. As disclosed in note 5.1, the stock valuation is reduced by commercial income and promotional funding (as the stock which this income and/or funding relates to, is yet to be sold). When the stock is sold, the commercial income and/or promotional funding is recognised in the income statement. The stock valuation is additionally reduced for provisions related to estimated losses due to shrinkage, obsolescence and other known specific risks. As stock is counted by the Group on a cyclical basis, rather than in full at the period end date, the shrinkage provision at 4 February 2018 contains a degree of estimation.	We attended stock counts and performed sample counts at a number of the Group's supermarkets and petrol forecourts throughout the period. In addition to performing sample test counts, we assessed the effectiveness of the count controls in operation, with no material issues identified from our work. We also evaluated the results of cycle counts performed by management and third parties through re-performance and inspection at a sample of distribution centres throughout the period to assess the level of count variances. We found no material variances or count control deficiencies across these sites. We tested the unearned commercial income and promotional funding deduction by verifying the inputs of the calculation and methodology of the provision, noting no issues. We tested management's shrinkage assumptions determined by the count procedures and the comparison of this to historical data. The historical data included the results of the recent counts at each location, and our procedures did not identify any significant unusual fluctuations in the data. The obsolescence provision is calculated by applying a judgemental percentage to the period end stock levels, with this judgement being informed by management's view of the current stock profile and expected stock life. We considered this provision by assessing the explanations provided by management on the current profile and expected stock life noting no issues. We have assessed the other specific provisions with reference to the risks identified by management and noted no issues. **Disclosures** We read the disclosures within the Annual Report in respect of stock, and, based on our work, determined that they are consistent with accounting standards.
Pension accounting Refer to page 69 (sources of estimation uncertainty) and note 8 (pensions). We have focused on the valuation of the Group's defined benefit pension schemes because of the level of judgement required in determining the year end valuation. In addition, the size of the gross assets (£4,857m) and liabilities (£4,263m) within the schemes are significant and material.	We obtained the IAS 19 valuation reports produced by the Group's actuaries. We used our own actuarial experts to assess the judgemental assumptions used within the reports to form the valuation of the pension schemes' liabilities, such as discount rate, inflation and mortality rates. We obtained the detailed reports underlying the valuation of the schemes' assets and agreed the valuations to third party confirmations. We assessed the membership data used in valuing the schemes' liabilities and tested any significant changes since the last valuation. We agreed a sample of contributions made by the Group to bank statements. We have no exceptions to report as a result of this testing. The net surplus position of the schemes at 4 February 2018 was £594m. We have reviewed management's assessment of the right to recognise the net surplus in two of the three schemes under the requirements of IFRIC 14, including inspecting updated legal advice, and are satisfied that it is appropriate to recognise the net asset on the balance sheet. The third scheme (RSP) is recognised as a net liability and therefore this aspect of IFRIC 14 is not applicable. **Disclosures** We read the disclosures within the Annual Report in respect of pensions, and, based on our work, determined that they are consistent with accounting standards.

Independent auditors' report continued

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

How we tailored the audit scope

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole, taking into account the structure of the Group and the Company, the accounting processes and controls, and the industry in which they operate.

The Group's accounting process is structured around a Group finance function at its head office in Bradford who are responsible for the Group's reporting units. For each reporting unit we determined whether we required an audit of their reported financial information ('full scope'), or whether certain account balances of reporting units were required to be in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items.

A full scope audit was required for Wm Morrison Supermarkets PLC and Safeway Stores Limited determined as financially significant because they individually contribute more than 15% of the Group's profit before tax. We also considered that certain account balances of a further four reporting units were in the scope of our Group audit to address specific risk characteristics or to provide sufficient overall Group coverage of particular financial statement line items. All of the audit procedures have been performed by the Group audit engagement team.

In aggregate, our audit procedures accounted for 99% of Group revenues and 84% of profit before tax. In addition, the Group audit team performed analytical review procedures over a number of smaller reporting units. This included an analysis of year-on-year movements, at a level of disaggregation to enable a focus on higher risk balances and unusual movements. Those not subject to analytical review procedures were individually, and in aggregate, immaterial. This gave us the evidence we needed for our opinion on the financial statements as a whole.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and in evaluating the effect of misstatements, both individually and in aggregate on the financial statements as a whole.

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

	Group financial statements	Company financial statements
Overall materiality	£18.7m (2017: £16.9m).	£16.8m (2017: £16.0m).
How we determined it	5% of underlying profit before tax.	The amount of component materiality allocated to the Company as part of the Group audit.
Rationale for benchmark applied	Consistent with last year, we applied this benchmark because, in our view, this is the most relevant metric against which the performance of the Group is most commonly measured. Underlying profit is defined by management as profit before impairment, onerous contracts and other items that do not relate to the Group's principal activities on an ongoing basis, profit/loss arising on disposal and exit of properties and sale of investments and IAS 19 pension interest, at a normalised tax rate, as reconciled in note 1.4 of the Group financial statements.	In our view, users focus on the consolidated results of the Group rather than the individual results of the Company, therefore we determined our materiality in the overall context of the Group.

For the two reporting units in the scope of our Group audit, we allocated a materiality that is less than our overall Group materiality. The materiality allocated to the two components was £16.8m.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £0.9m (Group audit) (2017: £0.8m) and £0.8m (Company audit) (2017: £0.8m) as well as misstatements below those amounts that, in our view, warranted reporting for qualitative reasons.

Going concern

In accordance with ISAs (UK) we report as follows:

Reporting obligation	Outcome
We are required to report if we have anything material to add or draw attention to in respect of the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting in preparing the financial statements and the Directors' identification of any material uncertainties to the Group's and the Company's ability to continue as a going concern over a period of at least 12 months from the date of approval of the financial statements.	We have nothing material to add or to draw attention to. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's and Company's ability to continue as a going concern.
We are required to report if the Directors' statement relating to Going Concern in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit.	We have nothing to report.

Reporting on other information

The other information comprises all of the information in the Annual Report other than the financial statements and our auditors' report thereon. The Directors are responsible for the other information. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except to the extent otherwise explicitly stated in this report, any form of assurance 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 an apparent material inconsistency or material misstatement, we are required to perform procedures to conclude whether there is a material misstatement of 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. We have nothing to report based on these responsibilities.

With respect to the Strategic report and Directors' report, we also considered whether the disclosures required by the UK Companies Act 2006 have been included.

Based on the responsibilities described above and our work undertaken in the course of the audit, the Companies Act 2006, (CA06), ISAs (UK) and the Listing Rules of the Financial Conduct Authority (FCA) require us also to report certain opinions and matters as described below (required by ISAs (UK) unless otherwise stated).

Strategic report and Directors' report

In our opinion, based on the work undertaken in the course of the audit, the information given in the Strategic report and Directors' report for the period ended 4 February 2018 is consistent with the financial statements and has been prepared in accordance with applicable legal requirements. (CA06)

In light of the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit, we did not identify any material misstatements in the Strategic report and Directors' report. (CA06)

The Directors' assessment of the prospects of the Group and of the principal risks that would threaten the solvency or liquidity of the Group

We have nothing material to add or draw attention to regarding:

- The Directors' confirmation on page 23 of the Annual Report 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 in the Annual Report that describe those risks and explain how they are being managed or mitigated.
- The Directors' explanation on page 26 of the Annual Report 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 have nothing to report having performed a review of the Directors' statement that they have carried out a robust assessment of the principal risks facing the Group and statement in relation to the longer-term viability of the Group. Our review was substantially less in scope than an audit and only consisted of making inquiries and considering the Directors' process supporting their statements; checking that the statements are in alignment with the relevant provisions of the UK Corporate Governance Code (the 'Code'); and considering whether the statements are consistent with the knowledge and understanding of the Group and Company and their environment obtained in the course of the audit. (Listing Rules)

Other Code Provisions

We have nothing to report in respect of our responsibility to report when:

- The statement given by the Directors, on page 54, that they consider the Annual Report taken as a whole to be fair, balanced and understandable, and provides the information necessary for the members to assess the Group's and Company's position and performance, business model and strategy is materially inconsistent with our knowledge of the Group and Company obtained in the course of performing our audit.
- The section of the Annual Report on pages 34 to 37 describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.
- The Directors' statement relating to the Company's compliance with the Code does not properly disclose a departure from a relevant provision of the Code specified, under the Listing Rules, for review by the auditors.

Directors' remuneration

In our opinion, the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006. (CA06)

Independent auditors' report continued

Independent auditors' report to the members of Wm Morrison Supermarkets PLC

Responsibilities for the financial statements and the audit

Responsibilities of the Directors for the financial statements

As explained more fully in the Statement of Directors' responsibilities set out on page 54, the Directors are responsible for the preparation of the financial statements in accordance with the applicable framework and for being satisfied that they give a true and fair view. The Directors are also responsible for such internal control as they 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 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 Company or to cease operations, or have no realistic alternative but to do so.

Auditors' 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 auditors' 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 FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditors' report.

Use of this report

This report, including the opinions, has been prepared for and only for the Company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

Other required reporting

Companies Act 2006 exception reporting

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 Company, or returns adequate for our audit have not been received from branches not visited by us; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- the Company financial statements and the part of the Directors' remuneration report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Appointment

Following the recommendation of the Audit Committee, we were appointed by the members on 5 June 2014 to audit the financial statements for the year ended 1 February 2015 and subsequent financial periods. The period of total uninterrupted engagement is four years, covering the years ended 1 February 2015 to 4 February 2018.

Andrew Paynter (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Leeds
13 March 2018

KPMG

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC

1. OUR OPINION IS UNMODIFIED

We have audited the financial statements of John Lewis Partnership plc ("the Company") for the year ended 27 January 2018 which comprise the consolidated income statement, consolidated statement of comprehensive income/(expense), consolidated balance sheet, consolidated statement of changes in equity, consolidated statement of cash flows, Company balance sheet, Company statement of changes in equity, Company statement of cash flows and the related notes, including the accounting policies in note 1.

In our opinion:

- the financial statements give a true and fair view of the state of the Partnership's and of the parent Company's affairs as at 27 January 2018 and of the Partnership's profit for the year then ended;
- the Partnership's financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union (IFRSs as adopted by the EU);
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and
- the parent Company financial statements have been properly prepared in accordance with IFRSs as adopted by the EU and as applied in accordance with the provisions of the Companies Act 2006.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. Our responsibilities are described below. We have fulfilled our ethical responsibilities under, and are independent of the Partnership in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Overview		
Materiality Partnership financial statements as a whole	£14.5m (2017: £16.0m) 5.0% (2017: 4.3%) of Partnership profit before tax, Partnership Bonus and exceptional items	
Coverage	97% (2017: 99.0%) of Partnership profit before tax	
Risks of material misstatement		**vs 2017**
Recurring risks	Carrying amount of Property, Plant and Equipment	◀▶
	Pensions defined benefit obligation	◀▶
	Rebates/supplier income	▼
	Provisions – long leave, service guarantee and customer returns	◀▶
	Carrying amount of Intangibles	◀▶
Event driven	Provisions – pay provision in respect of National Minimum Wage	◀▶

2. KEY AUDIT MATTERS: OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

Key audit matters are those matters that, in our professional judgement, were of most significance in the audit of the financial statements and include the most significant assessed risks of material misstatement (whether or not due to fraud) identified by us, including 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. 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. In arriving at our audit opinion, the key audit matters in decreasing order of audit significance, were as follows:

CARRYING AMOUNT OF PROPERTY, PLANT AND EQUIPMENT £3,971.2M (2017: £4,112.4M)

Refer to page 62 (Audit and Risk Committee Report), page 105 (accounting policy) and page 106 (financial disclosures).

The risk

Forecast-based valuation

Impairment considerations:

The Partnership has significant Property, Plant and Equipment (PPE) assets held on its consolidated balance sheet. The impairment risk relates to the Waitrose Division. The Directors perform trigger testing annually to identify any assets which may require impairment. The recoverable amount is calculated for those assets which fail the trigger tests to determine any impairment. The trigger tests take into account recent performance of the individual branches and any changes made to the business plan. If the trigger tests do not include suitable assumptions, or are incorrectly performed, branches possibly requiring impairment may not be identified. In the current year 73 branches at Waitrose failed these initial trigger tests. For all such branches, an impairment is recorded against the carrying value of the assets within that related cash generating unit to the extent that the carrying value would otherwise exceed its recoverable amount.

In relation to the Waitrose branches, an impairment charge of £38.9m has been recognised.

The key assumptions used in the value in use (ViU) calculations for estimating the recoverable amounts are short-term cash-flow forecasts, the long-term (LT) growth rate and the discount rate. These assumptions are based on forecasts which give risk to estimation uncertainty within the impairment test.

Subjective judgement

Residual values and useful economic lives:

The judgement around allocating residual values and useful economic lives (UELs) drives the depreciation charged to the income statement. In particular the valuation of the allocated residual value requires specific expertise and knowledge of the market. Given the magnitude of the PPE balance, movements in these judgements could result in a material misstatement. The Directors engage third party specialists to review a sample of the property portfolio to assist them determine the value of the residual values.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

Our response

Our procedures included:

- Assessing principles: We challenged whether the assumptions used in the trigger tests were suitable, through discussions with divisional management, our own knowledge of the business and market, inspection of Board minutes and other management information.
- Re-performance: We re-performed the calculations that management performed for the initial trigger testing and ViU, checking the source of the information was reasonable.
- Our business knowledge: For the cash flows that drive the ViU calculation forecasts, we considered the risks built into the Board approved short-term (three year) forecasts and challenged the Directors as to the achievability of the plan, taking into account the historical accuracy of previous forecasts and wider market factors (such as performance of competitors).
- Benchmarking assumptions: Evaluating assumptions used, in particular those relating to i) LT growth rate, ii) the discount rate and iii) the margin rate applied, comparing these with externally derived data.
- Sensitivity analysis: For all of the above key assumptions we performed sensitivity analysis to stress-test the assumptions.
- Our property valuation expertise: With the assistance of our property valuation specialist we examined the third party valuation reports produced for a sample of the assets to establish residual values. Our specialist critically assessed the methodology and assumptions behind the valuations, using their own expertise and market understanding.
- Assessing application: We compared the UELs on each of the categories of assets to industry averages. We also examined the Fixed Asset Register to identify any assets fully depreciated but still in use or disposals of assets which still had a Net Book Value. For those assets identified we considered whether this indicated the UEL was incorrect.
- Assessing disclosures: We considered the appropriateness of the disclosure of Waitrose impairment as an exceptional item.
- We also assessed whether the Partnership's disclosures about the sensitivity of the outcome of the impairment assessment to changes in key assumptions reflected the risks inherent in the carrying amount of PPE.

Our results:

- We found the resulting estimate of the recoverable amount of PPE and the Partnership's treatment of residual values and UELs as adopted policy to be acceptable (2017 result: acceptable).

PENSIONS DEFINED BENEFIT OBLIGATION £6,224.0M (2017: £6,059.0M)

Refer to page 63 (Audit and Risk Committee Report), page 119 (accounting policy) and pages 120 to 127 (financial disclosures).

The risk

Subjective valuation

A significant level of estimation is required in order to determine the valuation of the gross liability. Small changes in the key assumptions (in particular, discount rates, inflation, mortality rates and salary increases) can have a material impact on the gross liability. During the year management changed the methodology used to calculate the discount rate, please see page 121 for further detail.

Due to the volume of members both joining and moving categories (i.e. between active, deferred and pensioner) errors in the membership records could result in a material misstatement if not complete and accurately included in the calculation of the gross liability.

Our response

Our procedures included:

- Benchmarking assumptions: We used our actuarial specialists to challenge the key assumptions and the new discount rate methodology. This involved comparing the assumptions to available market data, our expectations and other similar UK pension schemes' assumptions.
- Assessing base data: We performed trend analysis comparing current year movement in members to historical movements. We also confirmed that there have been no changes to membership terms in the current year. We used our actuarial specialists to challenge the methodology used to roll-forward the results of the triennial valuation as at 31 March 2016.
- Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of the sensitivity of the deficit to these assumptions.

Our results:

- We found the valuation of the pensions defined benefit obligation to be acceptable (2017 result: acceptable).

PROVISIONS LONG LEAVE £139.6M (2017: £140.1M), SERVICE GUARANTEE £55.1M (2017: £64.8M), CUSTOMER RETURNS £39.4M (2017: £35.1M), PAY PROVISION IN RESPECT OF NATIONAL MINIMUM WAGE £34.6M (2017: £36.0M)

Refer to page 63 (Audit and Risk Committee Report), page 112 (accounting policy) and page 112 (financial disclosures).

The risk

Subjective estimate

The financial statements contain a number of provisions which when considered in aggregate are significant and involve estimation. The key assumptions are:

- Long leave: Assumptions relating to salary increases, staff turnover rates and discount rate.
- Service guarantee costs: Assumptions around frequency and value of the expected future service costs and use of appropriate historical data to form the assumptions.
- Customer returns: Assumptions around the expected customer returns from the sales made in the period.
- Pay provision in respect of National Minimum Wage: The use of appropriate data to form the calculation and the assumptions around the scope and associated costs of the probable settlement amount.

Our response

Our procedures included:

Long leave:

- Benchmarking assumptions: We used our own actuarial specialists to consider the key assumptions used. This involved comparing the assumptions to available market data and our expected range.
- Sensitivity analysis: We also performed sensitivity analysis over these assumptions.

Service guarantee costs:

- Assessing base data: We considered the underlying data inputs into the management's calculations, checking the source of the historical data was accurate based on our understanding of the industry and business and performing trend analysis in respect of historical costs per unit.
- Sensitivity analysis: We performed sensitivity analysis over the assumptions made, including the product repair and replacement frequency rates.
- Independent re-performance: We have re-performed the calculation using the underlying data inputs.

Customer returns:
- Historical comparisons and assessed base data: We have considered the appropriateness of the base data used in the calculation by checking the data inputs to historical data and performing a trend analysis.
- Sensitivity analysis: We have performed sensitivity analysis around the year end period over which the customer return liability is calculated.

Pay provision in respect of National Minimum Wage:
- Assessing application: We examined the legal advice from the Partnership's external legal advisers and the correspondence with HMRC.
- Our expertise: We used our own specialists to challenge the assumptions based on their experience of similar scenarios.
- Test of detail: We also re-calculated the liability, including sampling the relevant information used in the calculation back to source data.
- Assessing disclosures: We considered the disclosure of the fact that the ultimate settlement amount may change.

Assessing disclosures: We also considered the adequacy of the Partnership's disclosures in respect of these provisions.

Our results:
- From the evidence obtained, we considered the level of provisioning to be acceptable (2017 result: acceptable).

CARRYING AMOUNT OF INTANGIBLES £495.7M (2017: £432.7M)

Refer to page 62 (Audit and Risk Committee Report), page 103 (accounting policy) and page 104 (financial disclosures).

Forecast-based valuation
In order to continually improve its operating systems the Partnership develops a significant amount of software, which is capitalised on the balance sheet. For the year-ended January 2018, there were £182.5m (2017: £157.2m) of additions to computer software. When developing software the Directors have regularly to judge whether the projects are still expected to bring sufficient economic value to the Partnership. Work in progress of £239.1m (2017: £157.4m) is made up of a number of projects being undertaken in the Partnership, the most significant of which are:
- New supply chain systems;
- Enhancements to the customer-facing websites; and
- New ordering systems.

We continue to focus on the material work in progress amounts as judgement is required to assess the economic benefits that would flow from each project and whether any elements of the projects need to be impaired.

Our response
Our procedures included:
- Our business knowledge: We challenged the Directors' assessment of the economic benefits that would flow from a sample of projects, comparing this to our understanding of the business and the future strategy to confirm it was aligned.
- Personnel interviews: At a more granular level, we also met with the project managers to understand the work being undertaken and the expected benefits of the projects. Through our understanding of the business, discussions with divisional management and inspection of management information and Board minutes we challenged any changes in scope or any work performed which did not yield a successful output.
- Assessing recognition: We considered the ageing profile of work in progress to challenge whether any elements of the project previously capitalised needed to be impaired.

Our results:
- The results of our testing were satisfactory and we considered the carrying amount of intangibles recognised to be acceptable (2017 result: acceptable).

PARENT COMPANY FINANCIAL STATEMENTS – VALUATION OF INVESTMENTS £121.1M (2017: £121.2M)

Refer to page 137 (financial disclosures).

The risk
Low risk, high value
The carrying amount of the Company's investments in subsidiaries are valued at cost, less allowances for impairment. We do not consider the valuation of these investments to be at a high risk of significant misstatement, or to be subject to a significant level of judgement.

However, due to their materiality in the context of the parent Company financial statements, this is considered to be the area that had the greatest effect on our overall parent Company audit.

Our response
Our procedures included:
- Test of details: Comparing the investment carrying values to the net assets of the investment to identify whether the net asset values of the subsidiaries, being an approximation of their minimum recoverable amount, were in excess of their carrying amount.
- Assessing subsidiary audits: Assessing the work performed by the audit team on the subsidiaries and considering the results of the work on those subsidiaries' profits and net assets.

Our results:
- We found the assessment of the carrying value of investments to be acceptable (2017 result: acceptable).

REBATES AND SUPPLIER INCOME

We continue to perform procedures over rebates/supplier income across Waitrose and John Lewis. However, following our assessment of the processes in place across the two divisions around supplier income and examining the contracts in place, we consider there to be limited estimation. We have not assessed this as one of the risks that has the greatest effect on our audit and, therefore, it is not separately identified in our report this year.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF JOHN LEWIS PARTNERSHIP PLC (CONTINUED)

3. OUR APPLICATION OF PARTNERSHIP MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

Materiality for the consolidated financial statements as a whole was set at £14.5m, determined with reference to a benchmark of £289.2m which is Partnership profit before tax, normalised to exclude this year's Partnership Bonus as disclosed in note 2.6.2 'Partner pay and benefits', of £74.0m, and exceptional items as disclosed in note 2.3 'Exceptional items', of £111.3m. Materiality on this basis represents 5.0%. Audit work was performed over the exceptional items and Partnership Bonus separately.

Materiality for the parent Company financial statements was set at £3.6m, determined with reference to a benchmark of £121.1m which is total assets. Materiality on this basis represents 3.0%.

We reported to the Audit and Risk Committee any corrected or uncorrected identified misstatements exceeding £0.7m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

The Partnership has 16 reporting components each representing a statutory entity based in the UK or Channel Islands.

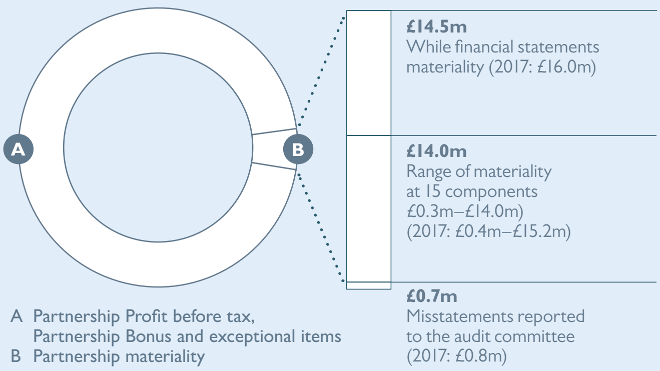
Of the Partnership's 16 reporting components, we subjected 11 to audits for group reporting purposes, including the audit of the parent Company, and one to specified risk-focused audit procedures over an account balance. The latter was not individually financially significant enough to require an audit for group reporting purposes, but did present specific individual risks that needed to be addressed. We conducted reviews of financial information (including enquiry) at the remaining four non-significant components.

The Partnership operates a shared service centre, the outputs of which are included in the financial information of the reporting components it services and therefore it is not a separate reporting component. The service centre is subject to specified risk-focused audit procedures, predominantly the testing of transaction processing and review controls. Additional procedures are performed at certain reporting components to address the audit risks not covered by the work performed over the shared service centre. The components within the scope of our work accounted for the percentages of the Partnership's results noted in the chart opposite. We have performed specific risk-focused audit procedures over a liability balance which is not totalled in the chart opposite.

The senior statutory auditor is also responsible for all of the reporting components including setting the component materialities, which ranged from £0.3m to £14.0m, having regard to the mix of size and risk profile of the Partnership across the components.

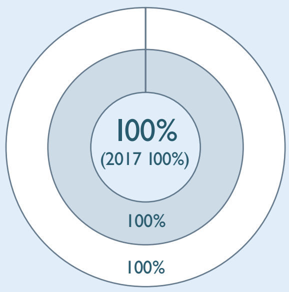
PARTNERSHIP PROFIT BEFORE TAX, PARTNERSHIP BONUS AND EXCEPTIONAL ITEMS £289.2M

MATERIALITY £14.5M



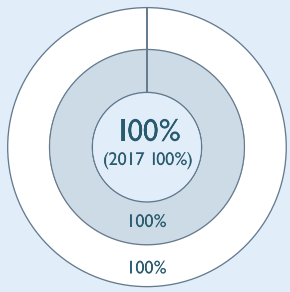
A Partnership Profit before tax, Partnership Bonus and exceptional items
B Partnership materiality

PARTNERSHIP REVENUE



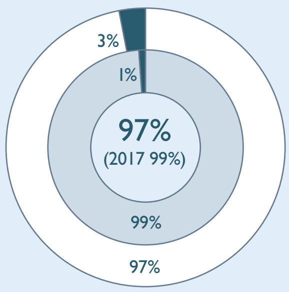
2018	100%
2017	100%

PARTNERSHIP TOTAL ASSETS



2018	100%
2017	100%

PARTNERSHIP PROFIT BEFORE TAX



2018	97%
2017	99%

4. WE HAVE NOTHING TO REPORT ON GOING CONCERN

We are required to report to you if we have anything material to add or draw attention to in relation to the Directors' statement in note 1.1 to the financial statements on the use of the going concern basis of accounting with no material uncertainties that may cast significant doubt over the Partnership and Company's use of that basis for a period of at least 12 months from the date of approval of the financial statements. We have nothing to report in these respects.

5. WE HAVE NOTHING TO REPORT ON THE OTHER INFORMATION IN THE ANNUAL REPORT

The Directors are responsible for the other information presented in the Annual Report together with the financial statements. Our opinion on the financial statements does not cover the other information and, accordingly, we do not express an audit opinion or, except as explicitly stated below, any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether, based on our financial statements audit work, the information therein is materially misstated or inconsistent with the financial statements or our audit knowledge. Based solely on that work we have not identified material misstatements in the other information.

Strategic report and Directors' report
Based solely on our work on the other information:

- We have not identified material misstatements in the Strategic report and the Directors' report;
- In our opinion the information given in those reports for the financial year is consistent with the financial statements; and
- In our opinion those reports have been prepared in accordance with the Companies Act 2006.

Disclosures of principal risks and longer term viability
Based on the knowledge we acquired during our financial statements audit, we have nothing material to add or draw attention to in relation to:

- The Directors' confirmation within the viability statement on pages 79 to 80 that they have carried out a robust assessment of the principal risks facing the Partnership, including those that would threaten its business model, future performance, solvency and liquidity;
- The principal risks and disclosures describing these risks and explaining how they are being managed and mitigated; and
- The Directors' explanation in the viability statement of how they have assessed the prospects of the Partnership, over what period they have done so, why they considered that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Partnership 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.

Corporate governance disclosures
We are required to report to you if:

- We have identified material inconsistencies between the knowledge we acquired during our financial statements audit and the Directors' statement that they consider that the Annual Report and Accounts taken as a whole are fair, balanced and understandable and provides the information necessary for members to assess the Partnership's position and performance, business model and strategy; or
- The section of the Annual Report describing the work of the Audit and Risk Committee does not appropriately address matters communicated by us to the Audit and Risk Committee.

We have nothing to report in these respects.

6. WE HAVE NOTHING TO REPORT ON THE OTHER MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under the Companies Act 2006, we are required 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
- 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.

We have nothing to report in these respects.

7. RESPECTIVE RESPONSIBILITIES

Directors' responsibilities
As explained more fully in their statement set out on page 140, the Directors are responsible for: the preparation of the financial statements including being satisfied that they give a true and fair view; such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error; assessing the Partnership and 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 they either intend to liquidate the Partnership or the parent Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities
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 our opinion in an auditor's report. Reasonable assurance is a high level of assurance, but does not 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 aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

A fuller description of our responsibilities is provided on the FRC's website at **www.frc.org.uk/auditorsresponsibilities**

8. THE PURPOSE OF OUR AUDIT WORK AND TO WHOM WE OWE OUR RESPONSIBILITIES

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.

Michael Maloney (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
15 Canada Square, London, E14 5GL
12 April 2018

INDEPENDENT AUDITOR'S REPORT

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

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 31 March 2018 and of the group's profit for the 52 weeks then ended;

the group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);

the parent company financial statements have been properly prepared in accordance with IFRSs as adopted by the European Union and as applied 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 Act 2006 and, as regards the group financial statements, Article 4 of the IAS Regulation.

We have audited the financial statements of Marks and Spencer Group plc (the 'parent company') and its subsidiaries (the 'group') which comprise:

- the Consolidated Income Statement;
- the Consolidated Statement of Comprehensive Income;
- the Consolidated and Company Statements of Financial Position;
- the Consolidated and Company Statements of Changes in Equity;
- the Consolidated and Company Statements of Cash Flows;
- the Reconciliation of Net Cash Flow to Movement in Net Debt; and
- the related notes 1 to 28 and C1 to C6.

The financial reporting framework that has been applied in their preparation is applicable law and IFRSs 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.

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:

- Reporting financial performance;
- Accounting for the UK store rationalisation programme;
- Impairment of UK store assets;
- UK Clothing & Home inventory provision;
- Retirement benefits; and
- Manual adjustments to reported revenue.

Within this report

Any new key audit matters are identified with

Any key audit matters which are the same as the prior year identified with

MATERIALITY

The materiality that we used for the group financial statements was £24.5 million which was determined on the basis of 5% adjusted profit before tax excluding certain items based on their nature. We capped materiality to £24.5 million so that it was not higher than the prior period given the group's trading performance in the current period.

SCOPING

We performed a full scope audit on three components of the business (UK, India and Ireland) representing 97% of the Group's revenue, 99% of the Group's adjusted profit before tax, 95% of the Group's profit before tax and 86% of the Group's net assets.

SIGNIFICANT CHANGES IN OUR APPROACH

Our audit approach is consistent with the previous year, with the exception of:

- Accounting for the UK store rationalisation programme has been included as a new key audit matter due to the level of estimation uncertainty (as disclosed in Note 1) and the level of audit effort required in evaluating management's estimate;
- Exit costs of certain wholly owned international businesses has been removed as a key audit matter as the Group's international closure programme is substantially complete;
- Accounting for supplier rebates has been removed as a key audit matter due to the limited level of judgement; and
- In the current period India and Ireland were subject to full scope audits and France had specific audit work performed in respect of the remaining store closure provision. The change compared with the previous period reflects the reduction in scale of the group's owned international business.

CONCLUSIONS RELATING TO GOING CONCERN, PRINCIPAL RISKS AND VIABILITY STATEMENT

GOING CONCERN

We have reviewed the directors' statement in note 1 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 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 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 22-24 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 21 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.

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.

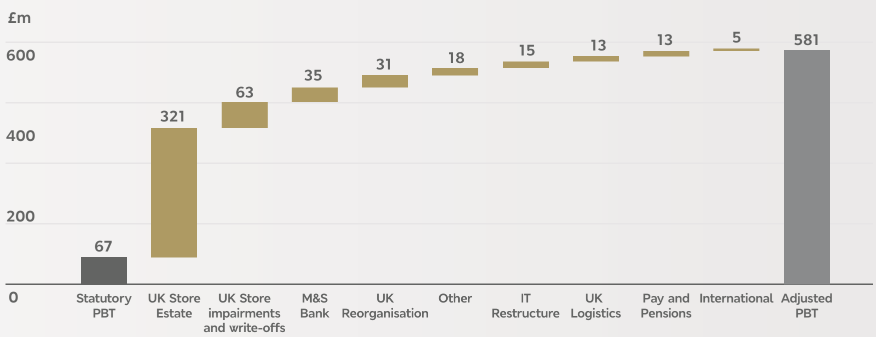
KEY AUDIT MATTER

1 REPORTING FINANCIAL PERFORMANCE

KEY AUDIT MATTER DESCRIPTION

The Group has reported adjusted profits of £581 million, which is derived from statutory profit before tax of £67 million and a number of adjustments for items which the company considers meet their definition of an adjusting item. Judgement is exercised by management in determining the classification of items as 'adjusting items'. This is a significant issue considered by the Audit Committee on page 38.

Explanations of each adjustment are set out in note 5 to the financial statements and are summarised in the graphic below:



In calculating adjusted profit, we consider that there is a risk of:

- items being included in the adjustments inappropriately, distorting the reported adjusted earnings; and
- items being omitted from the adjustments which are material, one-off or significant in nature which distort the reported adjusted earnings.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

For adjusted profits, we evaluated the appropriateness of the inclusion of items, both individually and in aggregate, within adjusting items, including assessing the consistency of items included year on year and ensuring adherence to IFRS requirements and latest Financial Reporting Council ("FRC") guidance.
We also agreed a sample of these items to supporting evidence.

We assessed all items, either highlighted by management or identified through the course of our audit, which were regarded as significant in nature or value, but included within adjusted profit to determine whether these are not material either individually or in aggregate.
For all adjustments recorded in calculating profits before adjusting items, we discussed the appropriateness of the item with the Audit Committee and any disclosure considerations.

Key observations
We are satisfied that the items excluded from adjusted profit, and the related disclosure of these items in the financial statements, are appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

2 ACCOUNTING FOR THE UK STORE RATIONALISATION PROGRAMME

KEY AUDIT MATTER DESCRIPTION

On 8 November 2017, as part of the Interim Results statement, the Group announced the acceleration of the UK store rationalisation programme, including closures, space reduction and relocations. At 31 March 2018, the Group had identified a number of stores for potential closure, space reduction or relocation, and recognised a charge of £321 million for impairments, accelerated depreciation and associated provisions. Further detail of the charge is set out in note 5. This is a significant issue considered by the Audit Committee on page 38.

For each of the stores expected to be impacted by the programme, the company prepared a discounted cash flow model to determine the required impairments and provisions to reflect the shortened economic lives of the store assets and, for certain stores, the closure of the store prior to lease expiry. Where the affected store has been formally approved or publicly announced, all associated restructuring provisions (including any lease exit and redundancy costs) have been recognised. Where the closure of the affected store has not been formally approved or publicly announced, impairment charges are recognised to the extent that the store's cash flows do not support the carrying value, with an onerous contract provision being recognised where appropriate.

We pinpointed our key audit matter to the following elements of accounting for the UK store rationalisation programme:

- The accuracy and completeness of the list of affected stores and anticipated closure dates;
- The appropriateness of specific assumptions in the discounted cash flow models, including sublet income, sublet lease incentives, void periods, freehold sales proceeds and store closure costs;
- The mechanical accuracy of the discounted cash flow models and integrity of source data (such as lease terms and rental values); and
- The accuracy and completeness of associated provisions, including provisions for dilapidations and strip out costs, onerous contracts for loss-making stores, and restructuring where closures have been publicly announced.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We focused our audit work on assessing the company's store exit model and evaluating the appropriateness of the key assumptions used in calculating the charge of £321 million. As part of our audit procedures, we:

- Made inquiries of management and reviewed property board minutes to evaluate the accuracy and completeness of the store closure list, and considered the commercial rationale for exiting certain stores whilst excluding other poor performing stores from the store closure list;
- Inspected the minutes of Board meetings and relevant sub-committees;
- Inspected supporting documentation for each assumption in the store exit model which included lease agreements, agent valuations, surveyor plans and rent invoices;
- Evaluated the company's judgements for a sample of properties in consultation with retail real estate experts and with reference to benchmarked external data;
- Tested the mechanical accuracy of the cash flow models and other key calculations;
- Checked the integrity of lease data to original lease agreements for a sample of properties;
- Recalculated the provisions required for a sample of stores and checked the mechanical accuracy of provision calculations; and
- Evaluated the completeness of required provisions for a sample of stores based on the status of the store in the closure programme.

Key observations

We are satisfied with the company's estimate of the impairment charge but note that this is at the prudent end of our acceptable range. The disclosure of the closure provisions recorded in the financial statements is appropriate.

We have reported to the Audit Committee where improvements are required to key internal review controls over store closures and significant property transactions.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

3 IMPAIRMENT OF UK STORE ASSETS

KEY AUDIT MATTER DESCRIPTION

The Group held £2,979 million of UK store assets at 31 March 2018 in respect of stores not considered for closure in the UK store rationalisation programme. The company has undertaken an annual assessment of indicators of impairment in respect of these stores and has recognised an impairment charge in the year of £12 million. This is a significant issue considered by the Audit Committee on page 38.

As described in note 15 of the financial statements, the company has estimated the recoverable amount of store assets based on value in use calculations. These rely on certain assumptions and estimates of future trading performance which involve a high degree of estimation uncertainty (as disclosed in Note 1) particularly in light of current retail market conditions.

The key assumptions applied by the directors in the impairment reviews are:

- forecast periods in the context of strategic decisions made to exit a location;
- future revenue growth;
- gross margin;
- store costs, including the impact of the National Living Wage; and
- discount rate.

The company considers that each retail store constitutes its own cash generating unit ('CGU'), with the exception of the outlet stores which are used to clear old season Clothing and Home inventories stock at a discount. The outlet stores are considered to represent one CGU in aggregate and strategic stores are evaluated as part of a country-wide impairment review.

The group's accounting policy sets out a relevant shelter period for new stores to be taken into account when assessing indicators of impairment during initial years of trading to enable the store to establish itself in the market.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We considered the appropriateness of the methodology applied by the company in calculating the impairment charges, and the judgements applied in determining the CGUs of the business. In addition, we assessed the design and implementation of controls in respect of the impairment review process, and considered the adequacy of disclosures made in the financial statements.

We assessed the impairment models and calculations by:

- checking the mechanical accuracy of the impairment models;
- assessing the discount rates applied to the impairment reviews with support from our internal valuations specialist and comparing the rates to our internal benchmark data;
- comparing forecast growth rates to economic data; and
- evaluating the information included in the impairment models through our knowledge of the business gained through reviewing trading plans, strategic initiatives, minutes of property board and investment committee meetings, and meeting with regional store managers and senior trading managers from key product categories and our retail industry knowledge.

We assessed the appropriateness of the shelter period for each store opened within that time frame, and compared the original investment case for the store against its current trading performance. Where stores were trading significantly below the original case, we considered the evidence available to support future improvements in performance, specifically by assessing the trading plans and actions being taken on an individual store basis.

Key observations

We assessed the level of impairment recorded in respect of the UK business and are satisfied that the judgements applied by the company and the level of impairments recorded in the year are appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

4 UK CLOTHING & HOME INVENTORY PROVISION

KEY AUDIT MATTER DESCRIPTION

At 31 March 2018, the Group held UK Clothing & Home inventories of £591 million (2017: £541 million). As described in the Accounting Policies in note 1 to the Financial Statements, inventories are carried at the lower of cost and net realisable value. As a result, the directors apply judgement in determining the appropriate provisions for obsolete stock and stock below cost based upon a detailed analysis of old season inventory and net realisable value below cost based upon plans for inventory to go into sale. We consider the assessment of inventory provisions within UK Clothing & Home to require the most judgement, with the risk increased due to recent trading performance and the increase in gross inventory. This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We obtained assurance over the appropriateness of the company's assumptions applied in calculating the value of the inventory provisions by:

- performing audit analytics on stock holding and movement data to identify product lines with indicators of low stock turn and post-period negative margin sales;
- assessing the validity, accuracy and completeness of the information used by management in computing the provision;
- verifying the mathematical accuracy and logic of the models underpinning the respective provisions;
- meeting with buyers to validate the assumptions applied by the company compared to the current purchasing strategy and ranging plans; and
- testing the validity and completeness of the stock flags and season codes applied to individual inventory items.

Key observations
The results of our testing were satisfactory and we concur that the level of UK inventory provisions is appropriate.

KEY AUDIT MATTER

5 RETIREMENT BENEFITS

KEY AUDIT MATTER DESCRIPTION

As described in the Accounting Policies in note 1 and in note 11 to the Financial Statements, the Group has a defined benefit pension plan for its UK employees. This scheme is closed to new entrants and benefits no longer accrue to members following the move of all active members to deferred members on 1 April 2017.

At 31 March 2018, the Group recorded a net retirement benefit asset of £959 million (2017: £702 million), being the net of scheme assets of £9,989 million (2017: £10,135 million) and scheme liabilities of £9,030 million (2017: £9,433 million). £8,908m of this liability relates to the UK scheme.

Our key audit matter was pinpointed to the valuation of UK scheme liabilities as it is sensitive to changes in key assumptions such as the discount rate, inflation and mortality estimates.

The setting of these assumptions is complex and an area of significant judgement; changes in any of these assumptions can lead to a material movement in the net surplus.

The increase /(decrease) in scheme surplus caused by a change in each of the key assumptions is set out below:

	2018 £m	2017 £m
A decrease in the discount rate of 0.25%	**(70)**	(70)
A decrease in the inflation rate of 0.25%	**(25)**	(20)
A decrease in the average life expectancy of one year	**305**	370

This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We evaluated the directors' assessment of the assumptions made in the valuation of the scheme liabilities, and evaluated the information contained within the actuarial valuation reports for each scheme. We assessed the design and implementation of controls in respect of the pension scheme valuation process.

With support from our own actuarial specialists, we considered the process applied by the Group's actuaries, the scope of the valuation performed and the key assumptions applied and evaluated their expertise. We benchmarked and performed a sensitivity analysis on the key variables in the valuation model.

Key observations
We are satisfied that all assumptions applied in respect of the valuation of the liabilities is appropriate.

KEY AUDIT MATTERS CONTINUED

KEY AUDIT MATTER

6 MANUAL ADJUSTMENTS TO REPORTED REVENUE

KEY AUDIT MATTER DESCRIPTION

As described in the Accounting Policies in note 1 to the Financial Statements, the group's revenue recognition policies require the directors to make a number of adjustments and estimates in determining the reported revenue for the period. The most significant adjustments are:

- **gift cards and vouchers** – the directors apply an expected redemption rate to the total value of gift cards and vouchers in issue based on historic trends.
- **returns** – customers are entitled to return most products up to 35 days after purchase, giving rise to a risk that sales recognised during the period will be reversed in the next financial period. The directors apply judgement in determining the provision required for returns based on actual sales data and recent product return rates. Returns from online sales are commonly at a higher level than traditional store retailing, resulting in this judgement becoming more significant in determining the level of provision required.

There is the potential for possible manipulation of the rates applied to the company's estimate of gift card and voucher non-redemptions and customer returns given the significant amount of judgement involved.

This is a significant issue considered by the Audit Committee on page 38.

HOW THE SCOPE OF OUR AUDIT RESPONDED TO THE KEY AUDIT MATTER

We have considered each revenue-impacting manual adjustment, and assessed the appropriateness of the assumptions and judgements applied in deriving the material adjustments to revenue. We assessed the design and implementation of controls in respect of these revenue judgements, in addition to testing the effectiveness of key revenue controls operating across the UK business.

For the key assumptions used in the gift card and voucher, and loyalty scheme provisions, we assessed the historic rates of redemption and compared these to the directors' judgements.

We assessed the appropriateness of the methodology and inputs used in calculating the returns provision.

Key observations

We are satisfied that the key assumptions applied in calculating the returns, gift card, voucher and loyalty scheme provisions are appropriate although note management's judgements are at the prudent end of our acceptable range.

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.

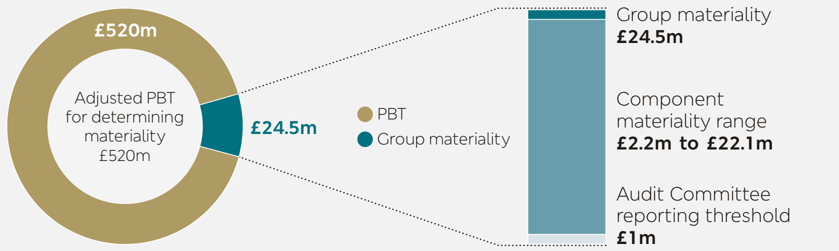
Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

The materiality applied by the component auditors for full scope audits (see below) ranged from £2.2 million to £22.1 million (2017: £2.5 million to £22.5 million) depending on the scale of the component's operations and our assessment of risks specific to each location.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £1 million (2017: £1 million) for the group and 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.

	Group financial statements	Parent company financial statements
Materiality	£24.5 million (2017: £24.5 million)	£22.1 million (2017: £22.1 million)
Basis for determining materiality	Group materiality was based on 5% reported adjusted profit before tax of £581 million excluding certain items based on their nature. The profit used in our determination was £520 million. The items we excluded from our determination are listed below and explained further in note 5 to the financial statements: – M&S Bank PPI charge – £35 million – Logistics restructuring – £13 million – UK store impairments and associated charges within £63 million adjusting item in note 5 – £13 million We capped materiality to £24.5 million so that it was not higher than the prior period given the group's trading performance in the current period.	We used 3% of net assets as the basis of materiality and then further capped this at 90% of Group materiality.
Rationale for the benchmark applied	Adjusted profit before tax has been used as it is the primary measure of performance used by the group. We have used adjusted profit measures that exclude certain items from our determination to aid the consistency and comparability of our materiality base each year.	The Parent Company acts principally as a holding company and therefore net assets is a key measure.

MATERIALITY



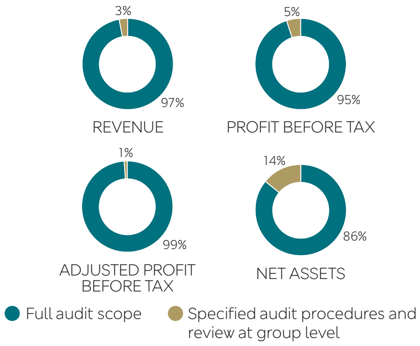
AN OVERVIEW OF THE SCOPE OF OUR AUDIT

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.

Based on our assessment we focused our group audit scope on the retail businesses in the UK, Republic of Ireland and India, which were subject to a full audit. We also performed audit procedures on specific balances for the remaining store exit provisions in France. This work was performed by the group audit team. In the prior period, China, Hong Kong and Czech Republic were also subject to a full audit but our scope changed following the group's reduction in scale of its owned international business.

These components were selected to provide an appropriate basis for undertaking audit work to address the risks of material misstatement identified above. All other wholly owned and joint venture businesses were subject to analytical review procedures. Whilst we audit the revenues received by the Group from franchise operations, which account for 3% (2017: 3%) of the Group's revenue, we do not audit the underlying franchise operations as part of our Group audit.

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 a full audit.



The most significant component of the group is its retail business in the United Kingdom, which accounts for 90% (2017: 89%) of the Group's reported revenue of £10,698 million, and generates operating profit of £23 million (2017: £328 million). The group audit team performs the audit of the UK business without the involvement of a component team. During the course of our audit, the group audit team, conducted 15 distribution centre and 35 retail store visits in the UK to understand the current trading performance and, at certain locations, performed tests of internal controls and validated levels of inventory held.

We operate a programme of planned visits to overseas locations so that a senior member of the group audit team visits each of the components subject to a full audit or specific audit procedures at least once every two years, and the most significant of them at least once a year. The programme of visits are set out below, with future years subject to change as the Group's operations continue to evolve.

Component	2017 (Last year)	**2018 (This year)**	2019 (Next year)
India	✔	✔	✔
Republic of Ireland	✔		✔

In addition to our programme of planned visits, we send detailed instructions to our component audit teams, include them in our team briefings, discuss their risk assessment, attend closing meetings, and review their component reporting.

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.

5.7 Statutory Auditors' report on the Consolidated Financial Statements

This is a translation into English of the Statutory Auditors' Report on the Financial Statements of the Company issued in French and it is provided solely for the convenience of English speaking users.
This Statutory Auditors' Report includes information required by European regulation and French law, such as information about the appointment of the statutory auditors or verification of the management report and other documents provided to shareholders.
This report should be read in conjunction with, and construed in accordance with, French law and professional auditing standards applicable in France.

For the year ended December 31, 2017

To the Carrefour Shareholders' Meeting,

Opinion

In compliance with the engagement entrusted to us by your Shareholders' Meetings, we have audited the accompanying consolidated financial statements of Carrefour for the year ended December 31, 2017.

In our opinion, the consolidated financial statements give a true and fair view of the assets and liabilities and of the financial position of the Group as at 31 December 2017 and of the results of its operations for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

The audit opinion expressed above is consistent with our report to the Accounts Committee.

Basis for Opinion

Audit Framework

We conducted our audit in accordance with professional standards applicable in France. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report.

Independence

We conducted our audit engagement in compliance with independence rules applicable to us, for the period from January 1, 2017 to the date of our report and specifically we did not provide any prohibited non-audit services referred to in Article 5 of Regulation (EU) No 537/2014 or in the French Code of ethics (*code de déontologie*) for statutory auditors.

Justification of Assessments - Key Audit Matters

In accordance with the requirements of Articles L.823-9 and R.823-7 of the French commercial code (*Code de commerce*) relating to the justification of our assessments, we inform you of the key audit matters relating to risks of material misstatement that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period, as well as how we addressed those risks.

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

Key Audit Matters	Responses as part of our audit
Measurement and recognition of rebates and service agreement (See notes 1.3 and 5.2.1 of the consolidated financial statements)	
The Group signed a significant number of purchase agreements with suppliers which include: • Commercial discounts based on the purchase volumes or on other contractual terms such as the achievement of threshold or the increase of purchase volumes (« rebates ») ; • Revenues from services provided to suppliers by the Group (« service agreements »). Rebates and service agreement received from suppliers by the Group are estimated in compliance with the contractual terms agreed in the purchase agreement with suppliers and are recorded as a reduction of cost of sales. Given the significant number of agreements and the specificities of each agreement, the measurement and the recognition of rebates and service agreement represent a key audit matter.	We have obtained an understanding on the internal controls implemented by the Group on the measurement and the recognition of rebates and service agreement. We assessed their design and implementation and we tested their effectiveness through a sample of agreement. Our other procedures based on a sample of rebates and service agreement consisted mainly of : • Matching the data used for the calculations of rebates and service agreement with the contractual terms mentioned in the agreements signed with the suppliers; • Comparing last year's estimates with actual figures in order to assess the reliability of the rebates and service agreement measurement's process; • Matching the purchase volumes used for the calculation of the expected rebates and service agreement for the year ended December 31, 2017 with the purchase volumes recorded in the Group's procurement system; • Performed substantive analytical procedures on rebates and service agreement variation.

Key Audit Matters	Responses as part of our audit

Tax provisions of Brazilian subsidiaries: estimation of provisions and contingent liabilities (See notes 1.3, 9.1, 9.2.1 and 9.3 of the consolidated financial statements)

In Brazil, the Group is involved in tax risks, in particular, to the tax on the distribution of goods and services (ICMS) and to the corresponding tax credits recorded, to the federal contributions related to the social integration programme and to the financing of the social security system (Pis-Cofins) and to the tax amortization of goodwill recognised in 2007 in the context of the acquisition of Atacadão.

The assessment of the risk related to each tax litigation is reviewed regularly by the Group's tax department and the subsidiary's Management, with the support of its external counsels for the most significant tax litigations in order to determine the need of recording a provision or not, and in the case where a provision should be recorded, to estimate the amount of the provision.

We considered the tax risk of the brazilian subsidiaries, for both the estimation of the provisions and the information disclosed in the financial statement as a key audit matter due to the amount and the number of tax risks, to the complexity of the tax legislation especially for retail companies in Brazil and the level of management judgment in the assessment of the outcome of the ongoing litigations and the amount of the provision to be booked.

We have obtained an understanding of the internal controls implemented by the Group to identify tax risks in the brazilian subsidiaries.

In order to appreciate if the provisions for tax risks in for brazilian subsidiaries have been correctly estimated, we performed the following procedures, with the assistance of our tax experts:

- Conducted interviews with the tax department in order to assess the current state of the risks identified, the investigations and reassessments made by the tax authorities and monitor the development of ongoing tax disputes;
- Analysed the opinion of the external counsels of the entities of the Group on the ongoing tax disputes and the information on ongoing procedures and their potential financial impacts that have been provided by the external counsels in response to our written confirmation requests;
- Performed a review of the estimates and positions adopted by the management to measure the provisions booked;
- Assessed the information disclosed in notes 9.2.1 and 9.3 of the consolidated financial statements.

Valuation of the recoverable amount of the Goodwill allocated to Italy and Poland (notes 1.3, 2.5, 6.1.1 and 6.3 of the consolidated financial statements)

The amount of Goodwill recorded following external growth operations is tested for impairment at the country level in which the Group operates.

As mentioned in note 6.3, the recoverable amount of Goodwill is tested whenever events or changes in the market environment indicate a risk of an impairment loss and at least once a year. An impairment loss is recognised when the carrying value of Goodwill exceeds its recoverable amount. The recoverable value is defined as the higher amount of the fair value and the value in use. The estimation of the value in use is performed through the discounted future cash flows expected in accordance with the methodology defined in note 6.3. The determination of the value in use involves significant judgments made by management, especially regarding the projected future cash flows, the discount rate and the perpetual growth rate used.

The fair value is defined as the price that would be received to sell the country's activities within the ordinary course of business between market participants. It is estimated based on external data when available or analysis prepared by internal or external experts.

As of December 31, 2017, the carrying value of Goodwill allocated to Italy amounted to 253 million euros, after consideration of a 700 million-euro-impairment loss based on the calculation of a fair value with reference to a multi-criteria approach.

Poland, for which the recoverable amount of Goodwill amounted to 252 million euros, was found to be close to the carrying amount as of December 31, 2017. Sensitivity analysis on the recoverable amount of Goodwill allocated to Poland in relation to assumptions retained were performed by the management and presented in note 6.3.1.2.

In this context, we have considered the valuation of the recoverable amount of Goodwill allocated to Poland and Italy as a key audit matter given the significant part of judgment involved to assess the recoverable amounts, the impairment amount recorded on Italy, and the low headroom between the recoverable and the carrying value of Poland.

In order to review procedures performed by the management to determine the recoverable amount of Goodwill allocated to Italy and Poland, we mainly :

- assessed the appropriateness of the methodology used to determine the recoverable amount;
- analysed for the calculation of the value in use:
  - lthe consistency of the projected cash flows used with our understanding of the Group's perspectives and strategic orientations in Italy and Poland and with the latest estimations presented to the Board of Directors ;
  - the reasonableness of the financial assumptions used (discount rates and perpetual growth rates) with the assistance of our specialists in financial valuation;
- reviewed for Italy, the datas used to determine the fair value based on a multi-criteria approach valuation which took account multiples observed for comparable companies in the retail sector in Europe as well as the market value of real estate assets based on external valuations;
- assessed for Poland, the relevance of sensitivity analysis performed by the Group and reviewed the appropriateness of the information disclosed in note 6.3.1.2.

Verification of the Information Pertaining to the Group Presented in the Management Report

As required by law we have also verified in accordance with professional standards applicable in France the information pertaining to the Group presented in the management report of the Board of Directors.

We have no matters to report as to its fair presentation and its consistency with the consolidated financial statements.

Report on Other Legal and Regulatory Requirements

Appointment of the Statutory Auditors

We were appointed as statutory auditors of Carrefour by the Shareholders' Meetings held on April 15, 2003 for Deloitte & Associés, on September 5, 1968 for KPMG S.A. (considering the firm merger and acquisition during previous years) and on June 21, 2011 for Mazars.

As at December 31, 2017, Deloitte & Associés, KPMG S.A. and Mazars were in the 15th year, 50th year and 7th year of total uninterrupted engagement.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with International Financial Reporting Standards as adopted by the European Union and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the 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 it is expected to liquidate the Company or to cease operations.

The Accounts Committee is responsible for monitoring the financial reporting process and the effectiveness of internal control and risks management systems and where applicable, its internal audit, regarding the accounting and financial reporting procedures.

The consolidated financial statements were approved by the Board of Directors.

Statutory Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Objectives and audit approach

Our role is to issue a report on the consolidated financial statements. Our objective is to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with professional standards 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 consolidated financial statements.

As specified in Article L.823-10-1 of the French commercial code (*Code de commerce*), our statutory audit does not include assurance on the viability of the Company or the quality of management of the affairs of the Company.

As part of an audit conducted in accordance with professional standards applicable in France, the statutory auditor exercises professional judgment throughout the audit and furthermore:

- Identifies and assesses the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, designs and performs audit procedures responsive to those risks, and obtains audit evidence considered to be sufficient and appropriate to provide a basis for his opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtains an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluates the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management in the consolidated financial statements.
- Assesses the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. This assessment is based on the audit evidence obtained up to the date of his audit report. However, future events or conditions may cause the Company to cease to continue as a going concern. If the statutory auditor concludes that a material uncertainty exists, there is a requirement to draw attention in the audit report to the related disclosures in the consolidated financial statements or, if such disclosures are not provided or inadequate, to modify the opinion expressed therein.

- Evaluates the overall presentation of the consolidated financial statements and assesses whether these statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtains sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. The statutory auditor is responsible for the direction, supervision and performance of the audit of the consolidated financial statements and for the opinion expressed on these consolidated financial statements.

Report to the Accounts Committee

We submit a report to the Accounts Committee which includes in particular a description of the scope of the audit and the audit program implemented, as well as the results of our audit. We also report, if any, significant deficiencies in internal control regarding the accounting and financial reporting procedures that we have identified.

Our report to the Accounts Committee includes the risks of material misstatement that, in our professional judgment, were of most significance in the audit of the consolidated financial statements of the current period and which are therefore the key audit matters, that we are required to describe in this audit report.

We also provide the Accounts Committee with the declaration provided for in Article 6 of Regulation (EU) N° 537/2014, confirming our independence within the meaning of the rules applicable in France such as they are set in particular by Articles L.822-10 to L.822-14 of the French commercial code (*Code de commerce*) and in the French code of ethics (*Code de déontologie*) for statutory auditors. Where appropriate, we discuss with the Accounts Committee the risks that may reasonably be thought to bear on our independence, and the related safeguards.

The Statutory Auditors

Neuilly sur Seine, Paris-La Défense et Courbevoie, February 28, 2018

French original signed by

DELOITTE & ASSOCIÉS	KPMG S.A.	MAZARS
Antoine De Riedmatten	Patrick-Hubert Petit	David Chaudat
Stéphane Rimbeuf	Caroline Bruno-Diaz	Émilie Loreal

Other information
continued

Independent auditor's report

To: the General Meeting and Supervisory Board of Koninklijke Ahold Delhaize N.V.

Report on the financial statements for the year ended December 31, 2017

Our opinion

In our opinion:

- The accompanying consolidated financial statements give a true and fair view of the financial position of Koninklijke Ahold Delhaize N.V. as at December 31, 2017, and of its result and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union (EU-IFRS) and with Part 9 of Book 2 of the Dutch Civil Code
- The accompanying parent company financial statements give a true and fair view of the financial position of Koninklijke Ahold Delhaize N.V. as at December 31, 2017, and of its result for the year then ended in accordance with Part 9 of Book 2 of the Dutch Civil Code.

What we have audited

We have audited the accompanying financial statements for the financial year ended December 31, 2017, of Koninklijke Ahold Delhaize N.V., Zaandam ("the Company"). The financial statements include the consolidated financial statements of Koninklijke Ahold Delhaize N.V. and its subsidiaries (together: "the Group") and the parent company financial statements.

The consolidated financial statements comprise:

- The consolidated balance sheet as at December 31, 2017
- The following statements for the financial year ended December 31, 2017: The consolidated income statement, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows
- The notes, comprising a summary of significant accounting policies and other explanatory information.

The parent company financial statements comprise:

- The parent company balance sheet as at December 31, 2017
- The parent company income statement for the year then ended
- The notes, comprising a summary of accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is EU-IFRS and the relevant provisions of Part 9 of Book 2 of the Dutch Civil Code for the consolidated financial statements and Part 9 of Book 2 of the Dutch Civil Code for the parent company financial statements.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. Our responsibilities under those standards are further described in the section "Our responsibilities for the audit of the financial statements" of our report.

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

Independence

We are independent of Koninklijke Ahold Delhaize N.V. in accordance with the European Regulation on specific requirements regarding statutory audit of public interest entities, the "Wet toezicht accountantsorganisaties" (Wta, Audit firms supervision act), the "Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten" (ViO–Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the "Verordening gedrags- en beroepsregels accountants" (VGBA–Code of Ethics for Professional Accountants, a regulation with respect to rules of professional conduct).

Other information
continued

Our audit approach

Overview and context

Koninklijke Ahold Delhaize N.V. is an international food retail group operating supermarkets and e-commerce through components active in Belgium, the Czech Republic, Greece, Luxembourg, the Netherlands, Romania, Serbia and the United States and through participating in joint ventures in Indonesia and Portugal. Our group audit scope and approach is set out in ”The scope of our group audit” section. We paid specific attention to the areas of focus driven by the operations of the Group as set out below.

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the financial statements. In particular, we considered where the Management Board made important judgments; for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain.

In *Note 2* of the financial statements the company describes the areas of judgment in applying accounting policies and the key sources of estimation uncertainty. Given the higher inherent risks of material misstatement in the impairment testing of goodwill and recognition of vendor allowance income, we considered these to be key audit matters as set out in the section “Key audit matters” of this report. Furthermore, we identified the employee benefit plan measurement and disclosures as a key audit matter because of the complexity and judgment required.

Another area of focus, that was not considered to be a key audit matter was the risk fraud in revenue recognition. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by management that may represent a risk of material misstatement due to fraud.

We ensured that the audit teams both at group and at component levels included the appropriate skills and competencies which are needed for the audit of a retail company. The Group’s operations utilize a range of legacy IT systems. The adequacy and effective operation of controls over these systems is an important element of the integrity of financial reporting within the Group. We utilized IT specialists in our audit to evaluate the adequacy and effective operation of these controls. Furthermore, we included specialists in areas requiring valuation, tax and actuarial (including pension accounting) expertise.

Other information
continued

The outlines of our audit approach were as follows:

Materiality
Overall materiality: €96 million which represents 5% of income before income taxes.

Audit scope
We conducted audit work at 10 components.
Each component is audited by local engagement teams that are based in the U.S., the Netherlands, Belgium, Greece, Switzerland and Curacao.
Site visits were conducted in five countries: U.S., the Netherlands, Belgium, Greece and Switzerland.
Our audit coverage is 88% of consolidated net sales, 88% of total assets and 92% of income before income taxes.

Key audit matters
Impairment testing of goodwill
Recognition of vendor allowances
Employee benefit plan measurement and disclosures

Materiality

The scope of our audit is influenced by the application of materiality which is further explained in the section “Our responsibilities for the audit of the financial statements”.

Based on our professional judgment, we set certain quantitative thresholds for materiality, including the overall materiality for the financial statements as a whole as set out in the table below. These, together with qualitative considerations, helped us to determine the nature, timing and extent of our audit procedures on the individual financial statement line items and disclosures and to evaluate the effect of identified misstatements both individually and in aggregate, on the financial statements as a whole and on our opinion.

Overall group materiality	€96 million (2016: €66 million). Our 2017 materiality increased primarily because of the inclusion of the results from the former Delhaize entities for a full year in 2017 as opposed to five months in 2016.
How we determined it	We used our professional judgment to determine the overall materiality. As a basis for our judgment we used 5% of income before income taxes.
Rationale for benchmark applied	We used income before income taxes as the primary benchmark, a generally accepted auditing practice, based on our analysis of the common information needs of users of the financial statements. On this basis we believe that income before income taxes is an important metric for the financial performance of the Company.
Component materiality	To each component in our audit scope, we, based on our judgment, allocate materiality that is less than our overall group materiality. The range of materiality allocated across components was between €7.5 and €85 million.

We also take misstatements and / or possible misstatements into account that, in our judgment, are material for qualitative reasons.

We agreed with the Supervisory Board that we would report to them misstatements identified during our audit above €4.8 million (2016: €3.3 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Other information
continued

The scope of our group audit
Koninklijke Ahold Delhaize N.V. is the parent company of a group of entities. The financial information of this group is included in the consolidated financial statements of Koninklijke Ahold Delhaize N.V.

We tailored the scope of our audit to ensure that we performed sufficient work to be able to give an opinion on the financial statements as a whole, taking into account the management structure of the Group, the nature of operations of its components, the accounting processes and controls, and the markets in which the components of the Group operate. In establishing the overall group audit strategy and plan, we determined the type of work required to be performed at the component level by the group engagement team and by each component auditor.

Six components were subject to audits of their complete financial information, four of which were individually significant to the Group. These components include the retail operations at Ahold USA, Delhaize America, and the Netherlands as well as the Global Support Office activities in the Netherlands (which includes financing activities in Switzerland). The other two components, the Belgian and Greek retail operations, were selected to achieve appropriate audit coverage over the consolidated financial statements. Additionally, four components were selected for audit procedures to achieve appropriate coverage on specific financial line items in the consolidated financial statements. These components included the Global Support Office activities in the United States and the insurance captives located in the U.S., Ireland and Curacao.

In total, in performing these procedures, we achieved the following coverage on the financial line items:

Net sales	88%
Total assets	88%
Income before income taxes	92%

None of the remaining components represented more than 3% of total Group net sales or 3% of total Group assets. For those remaining components we attended internal quarterly closing meetings with local and Group management and performed, among other things, analytical procedures to corroborate our assessment that there were no significant risks of material misstatements within those components.

The Global Support Office activities in the Netherlands, which includes financing activities in Switzerland, Group consolidation, financial statement disclosures and a number of complex items were audited by the group engagement team at the Company's head office. This included procedures performed over financial instruments such as loans and derivatives, goodwill impairment testing, Management Board remuneration including share-based payments and compliance of accounting positions taken by the Group in accordance with EU-IFRS. For all other components we used component auditors who are familiar with the local laws and regulations to perform the audit work.

Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those components to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the consolidated financial statements as a whole. The group engagement team directed the planning, reviewed the results of the work undertaken by component auditors and assessed and discussed the findings with the component auditors during conference calls and site visits. In the current year, the group engagement team visited local management and the component auditors at the in scope locations in the U.S., the Netherlands, Belgium, Greece and Switzerland.

By performing the procedures above at components, combined with additional procedures at Group level, we have been able to obtain sufficient and appropriate audit evidence on the Group's financial information, as a whole, to provide a basis for our opinion on the consolidated financial statements.

Other information
continued

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in the audit of the financial statements. We have communicated the key audit matters to the Supervisory Board. The key audit matters are not a comprehensive reflection of all matters that were identified by our audit and that we discussed. In this section, we described the key audit matters and included a summary of the audit procedures we performed on those matters.

The key audit matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon. We do not provide separate opinions on these matters or on specific elements of the financial statements. Any comments or observations we make on the results of our procedures should be read in this context.

The context of our audit is set by the Group's 2017 results and operations. As the Delhaize merger took place in 2016, the key audit matter related to the accounting for the merger transaction and alignment of accounting policies has been removed. Instead, the impairment testing of goodwill primarily related to the Delhaize merger has been added as key audit matter. In addition we have removed the key audit matter related to store asset impairment due to absence of significant triggering events in 2017 that would require further impairment analysis at store level compared to 2016. The other key audit matters, recognition of vendor allowances and employee benefit plan measurement and disclosures, are consistent with prior year in view of their magnitude and the significant estimates and assumptions involved.

Key audit matter	How our audit addressed the matter
Impairment testing of goodwill As described in *Note 13* the Group had €6.9 billion of goodwill as at December 31, 2017. The majority of this balance (€6 billion) relates to the former Delhaize business acquired in 2016. This was allocated at acquisition date to individual cash generating units (CGUs). As disclosed in *Note 2* and *Note 3* to the financial statements, the Group tests its CGUs containing goodwill for impairment annually and if there is a triggering event at an earlier or later reporting date. This is done by comparing the recoverable amounts of the individual CGUs, being the higher of value-in-use and fair value less costs of disposal, to the carrying amounts. Our key audit matter focused on the goodwill allocated to Hannaford, Food Lion and Delhaize Belgium CGUs which amount to €3 billion of the total goodwill recognized in the Delhaize acquisition. This was primarily driven by the inherent limited headroom as the purchase price allocation was recently performed combined with certain market developments in the U.S. and Belgium. We also considered this to be a key audit matter due to the magnitude of the goodwill balance in these CGUs and the significant judgment involved in estimating the recoverable amounts. The recoverable amounts of these CGUs was based on fair value less cost of disposal. Such amounts are based on cash flow forecasts that include management's estimate of market participant's views of key value driver inputs and external market conditions such as inflation, volume growth and competition, capital expenditures and discount rates applied.	We evaluated management's process and design effectiveness of controls over the impairment assessment including the appropriateness of management's identification of the Group's CGUs, indicators of impairment, discount rates and forecasts. With the support of our valuation experts we challenged management's assumptions used in determining the future cash flow forecasts for the Hannaford, Food Lion and Delhaize Belgium CGUs. We benchmarked key market related assumptions (as disclosed in *Note 13*) against external data and historical performance and assessed the reasonableness of the assumptions by comparing the sum of the future cash flow forecasts of all CGUs to the market capitalization. We also verified the mathematical accuracy of management's valuation models and agreed relevant data, including assumptions on timing and future capital and operating expenditure to the five year plan. Based on our procedures, we consider management's key assumptions to be within a reasonable range of our own expectations and the related disclosures in *Note 13* to the financial statements to be adequate.

Other information
continued

Key audit matter	How our audit addressed the matter
Recognition of vendor allowances The Group receives various types of vendor allowances from its suppliers, as further disclosed in *Note 2* and *Note 3* to the financial statements. These allowances are a significant component of cost of sales. The vendor allowance receivable at December 31, 2017, amounts to €454 million (*Note 17*). The vendor allowance agreements with suppliers contain volume-related allowances, promotional and marketing allowances and various other fees and discounts received in connection with the purchase of goods for resale from those suppliers. The Group recognizes vendor allowances as a reduction in cost of sales when the performance conditions associated with the allowances have been met, for example when the product has been sold, placed or when the marketing campaign has been held. We considered this to be a key audit matter because of the magnitude of amounts involved and the judgment required from management to determine the nature and level of fulfilment of the Company's obligations under the vendor agreements and to recognize the amounts in the correct period. This requires a detailed understanding of the contractual arrangements in addition to complete and accurate data to estimate purchase and sales volumes and fulfilment of promotional programs.	Our procedures included evaluating the design and testing the operating effectiveness of management's controls around the completeness and accuracy of the contractual agreements recognized in the accounting system. Furthermore we challenged management's assumptions used in determining the vendor allowances through discussions with management and performing the following specific substantive audit procedures. On a sample basis we agreed the recorded amounts to the vendor contracts and/or supporting documentation and confirmed the related positions and terms with the vendors. In addition, to evaluate the reliability of management's estimates, we performed a retrospective review of management judgments by testing subsequent collections on prior period vendor allowance receivables. Finally we tested cut-off through assessing the obligation fulfilment of vendor allowances recorded during a period before and after year-end. Based on our procedures we did not identify material exceptions and we found management's recognition of vendor allowances to be supported by available evidence.

Other information
continued

Key audit matter	How our audit addressed the matter
Employee benefit plan measurement and disclosures The Group has defined benefit plans, primarily in the Netherlands and in and the U.S., giving rise to defined benefit obligations of €4.8 billion and €1.4 billion, respectively (*Note 23*). The Group also has a significant number of union employees in the U.S. whose pension benefits are covered by multi-employer plans (we also refer to the risk factor on pension plan funding on page 114 of the Annual Report). In *Note 23* management has disclosed a calculation, which is based on certain assumptions and leads to an estimate of the Group's possible proportionate share of the total net deficit in these plans. We considered this to be a key audit matter because of the magnitude of the amounts involved, management's significant judgment applied in estimating the actuarial and demographic assumptions (the most relevant being around salary increases, inflation, discount rates and mortality rates) and the technical expertise required to measure the resulting defined benefit pension obligation for the Group and multi-employer plan disclosure.	Our procedures included understanding and evaluating the design and testing the operating effectiveness of controls related to key inputs (such as payroll data) and key outputs of the Group's pension process. We tested the actuarial and demographic assumptions and valuation methodologies used by management to determine the Group's various pension obligations. We evaluated whether the key actuarial assumptions are reasonable (for example by comparing to the published actuarial tables) and consistently applied. We tested payroll data, through a combination of controls and test of details, and reconciled the membership census data used in the actuarial models to the payroll data. In addition, we evaluated the potential exposure under the multi-employer plans in the U.S. as disclosed in *Note 23*. We reconciled the related inputs used by management to determine the Group's possible proportionate share of the total net deficit in these plans to supporting documentation such as the latest available plan information and actuarial calculations. Finally, we assessed the adequacy of disclosures related to the employee benefit plans. Our procedures did not identify material exceptions and we considered management's key assumptions to be within a reasonable range of our own expectations.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the Annual Report contains other information that consists of:

- The Management Report as defined on page 120 of the Annual Report
- The other information included in Message from our CEO, Who we are, World around us, Business review, Governance, Sustainability performance and Investor sections and
- The other information pursuant to Part 9 of Book 2 of the Dutch Civil Code.

Based on the procedures performed as set out below, we conclude that the other information:

- Is consistent with the financial statements and does not contain material misstatements
- Contains the information that is required by Part 9 of Book 2 of the Dutch Civil Code.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Management Board is responsible for the preparation of the other information, including the Management Report and the other information in accordance with Part 9 Book 2 of the Dutch Civil Code.

Other information
continued

Report on other legal and regulatory requirements

Our appointment

We were appointed as auditors of Koninklijke Ahold Delhaize N.V. by the Supervisory Board following the passing of a resolution by the shareholders at the Annual Meeting of Shareholders held on April 16, 2013. The appointment has been renewed annually by shareholders representing a total period of uninterrupted engagement appointment of five years.

No prohibited non-audit services

To the best of our knowledge and belief, we have not provided prohibited non-audit services as referred to in Article 5(1) of the European Regulation on specific requirements regarding statutory audit of public interest entities.

Services rendered

The non-audit services, in addition to the audit, that we have provided to the company and its controlled entities, for the period to which our statutory audit relates, are disclosed in *Note 4* of the notes to the parent company financial statements.

Responsibilities for the financial statements and the audit

Responsibilities of the Management Board and the Supervisory Board for the financial statements

The Management Board is responsible for:

- The preparation and fair presentation of the financial statements in accordance with EU-IFRS and with Part 9 of Book 2 of the Dutch Civil Code;
- Such internal control as the Management Board determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Management Board is responsible for assessing the Company's ability to continue as a going concern. Based on the financial reporting frameworks mentioned, the Management Board should prepare the financial statements using the going-concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so. The Management Board should disclose events and circumstances that may cast significant doubt on the Company's ability to continue as a going concern in the financial statements.

The Supervisory Board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. Our audit opinion aims to provide reasonable assurance about whether the financial statements are free from material misstatement. Reasonable assurance is a high but not absolute level of assurance which makes it possible that we may not detect all misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Amsterdam, February 27, 2018
PricewaterhouseCoopers Accountants N.V.
D. van Ameijden RA

Other information
continued

Appendix to our auditor's report on the financial statements for the year ended December 31, 2017 of Koninklijke Ahold Delhaize N.V.

In addition to what is included in our auditor's report we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgment and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. 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. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Management Board.
- Concluding on the appropriateness of the Management Board's use of the going concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the company to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Considering our ultimate responsibility for the opinion on the company's consolidated financial statements we are responsible for the direction, supervision and performance of the group audit. In this context, we have determined the nature and extent of the audit procedures for components of the group to ensure that we performed enough work to be able to give an opinion on the financial statements as a whole. Determining factors are the geographic structure of the group, the significance and / or risk profile of group entities or activities, the accounting processes and controls, and the industry in which the group operates. On this basis, we selected group entities for which an audit or review of financial information or specific balances was considered necessary.

We communicate with the Supervisory Board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit. In this respect we also issue an additional report to the Audit, Finance and Risk Committee in accordance with Article 11 of the EU Regulation on specific requirements regarding statutory audit of public-interest entities. The information included in this additional report is consistent with our audit opinion in this auditor's report.

We provide the Supervisory Board with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Supervisory Board, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, not communicating the matter is in the public interest.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

Building a better working world

Ernst & Young
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Fax: +61 8 9429 2436
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Independent auditor's report to the Members of Wesfarmers Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Wesfarmers Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated balance sheet as at 30 June 2018, the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, notes to the financial statements and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2018 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

1. Impairment of non-current assets including intangible assets in Target

Why significant

The determination of the recoverable amounts of property, plant and equipment ("PPE"), goodwill and other intangible assets requires significant judgement by the Group.

As required by Australian Accounting Standards, the Group assesses at the end of each reporting period whether there are any triggers indicating that an asset may be impaired. Goodwill and indefinite life intangibles are assessed for impairment at least annually.

Impairment assessments are typically complex and judgemental, as they include the modelling of a range of assumptions and estimates that will be impacted by future performance and market conditions.

During the 2018 financial year, an impairment charge of $306 million was recognised in relation to Target, comprising goodwill ($47 million), brand name ($238 million) and other fixed assets ($21 million) as disclosed in Note 17 *Impairment of non-financial assets*.

There were no material reversals of impairment charges from prior years during the 2018 financial year.

Key assumptions, judgements and estimates applied in the Group's impairment assessment for Target, are set out in Note 17.

Note 17 also includes a statement that Target's recoverable value is sensitive to changes in the discount rate and the terminal value. Based upon the disclosed sensitivity analysis, changes to the key assumptions applied in the impairment test could give rise to an impairment of the carrying value of the Target cash generating unit ("CGU"). Critical to supporting the recoverability of the Target CGU, is the business' ability to achieve its planned trading results.

How our audit addressed the key audit matter

Our audit procedures included an evaluation of the assumptions and methodologies utilised in the assessments, with emphasis on those relating to the determination of CGUs, forecast cash flows, growth rates, discount rates, comparative industry valuation multiples and other market evidence.

We involved our valuation specialists to evaluate the appropriateness of key inputs, where relevant to the impairment tests, including:

- Discount rates
- Terminal growth rates
- Market evidence of industry earnings valuation multiples
- Long-term inflation and growth rate assumptions
- Forecast exchange rate assumptions.

We also considered the adequacy of the financial report disclosures regarding the impairment testing approach, key assumptions and sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

2. Supplier rebates

Why significant

Supplier rebates are rebates received by the Group from suppliers associated with its retail operations.

We determined this to be a key audit matter due to the quantum of supplier rebates recognised during the year and the judgement required to be exercised in relation to a number of factors, including:

- The commercial terms of each individual rebate
- The appropriate timing of recognition
- Consideration of the nature of the rebate and whether the amount should be applied against the carrying value of inventory or recognised in the income statement
- The accurate recognition and measurement of rebates in accordance with Australian Accounting Standards and the Group's related processes and controls.

Disclosures relating to the measurement and recognition of supplier rebates can be found in Note 6 *Inventories*.

How our audit addressed the key audit matter

Our audit procedures in respect of supplier rebates included the following:

- We gained an understanding of the nature of each material type of supplier rebate including assessing the significant agreements in place
- We assessed the effectiveness of relevant controls in place relating to the recognition and measurement of rebate amounts
- We performed comparisons of the various rebate arrangements against the prior year and budget, including analysis of aging profiles and where material variances were identified, obtained supporting evidence
- We selected a sample of supplier rebates and tested whether documentation existed supporting the recognition and measurement of the rebates in the 30 June 2018 financial statements
- We inspected a sample of material new contracts entered into, both before and after the balance date and assessed whether the treatment adopted by the Group was appropriate
- We inquired of legal counsel as to the existence of other rebate contracts or contracts with unusual terms and conditions
- We inquired of business representatives including product category merchandisers, supply chain managers and procurement staff as to the existence of any non-standard agreements or side arrangements.

3. Discontinued operations of Curragh

Why significant

During the period, the Group entered into an agreement to sell the Curragh coal mine for $700 million. The agreement also included a value share mechanism linked to future metallurgical coal prices.

Wesfarmers has recognised a $250 million profit after tax from the Curragh discontinued operation which incorporates both the trading result to the point of effective disposal and the gain on disposal. Refer to Note 20 *Discontinued operations* to the financial statements.

How our audit addressed the key audit matter

Our audit procedures included the following:

- We obtained and read the sale and purchase agreements and related documents to assess the calculation of the post-tax gain on disposal recorded during the financial year
- We evaluated the key inputs of the post-tax gain on sale calculation, being the consideration received, transaction costs incurred and working capital adjustments recognised
- We assessed whether the Group accurately determined the value of assets and liabilities derecognised as at the transaction completion date and whether the operating result to the point of effective disposal was correctly recorded
- Our tax specialists considered the tax impacts of the divestment including considering external advice obtained by the Group
- We assessed the financial report disclosures, including the classification of both continued and discontinued operations in accordance with the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

4. Discontinued operations of Bunnings UK and Ireland ("BUKI")

Why significant

During the six months to 31 December 2017, an impairment charge of $953 million after tax was recognised in relation to BUKI, comprising goodwill ($777 million), brand name ($18 million), stock ($66 million) and deferred tax assets ($92 million).

The related disclosures are included in the significant accounting policies and in Note 17.

On 25 May 2018, the Group agreed to divest the BUKI business for a nominal amount.

In the 2018 financial statements, the Group has recognised a $1.66 billion loss after tax from the discontinued operations of BUKI which incorporates the impairment charge recognised in the first six months of the year, the trading result to the point of effective disposal and the loss on disposal.

The related disclosures are included in the significant accounting policies and in Note 20.

How our audit addressed the key audit matter

Our audit procedures in respect of assessing the appropriateness of impairment recognised, included an evaluation of the assumptions and methodologies utilised in the assessments, in particular those relating to the determination of the CGU, forecast cash flows, growth rates, discount rates, comparative industry valuation multiples and other market evidence.

We involved our valuation specialists to evaluate the appropriateness of key inputs, including:

- Discount rates
- Terminal growth rates
- Market evidence of industry earnings valuation multiples
- Long-term inflation and growth rate assumptions
- Commodity price assumptions
- Forecast exchange rate assumptions
- Performing sensitivity analysis on the model forecasts and key assumptions.

Our audit procedures in respect of the discontinued operations included the following:

- We read the sale and purchase agreements and related documents to obtain an understanding of the key provisions of the sale and to assess the calculation of the post-tax loss on disposal recorded during the financial year
- We assessed whether the Group accurately determined the value of assets and liabilities derecognised as at the transaction completion date and whether the operating result to the point of effective disposal was correctly recorded
- Our tax specialists considered the tax impacts of the divestment including considering external advice obtained by the Group
- We assessed the financial statement disclosures, including the classification of both continued and discontinued operations in accordance with the requirements of Australian Accounting Standards.

INDEPENDENT AUDITOR'S REPORT

to the Members of Wesfarmers Limited

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's Annual Report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

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. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

INDEPENDENT AUDITOR'S REPORT
to the Members of Wesfarmers Limited

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Wesfarmers Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Ernst & Young

D S Lewsen
Partner
Perth
14 September 2018

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