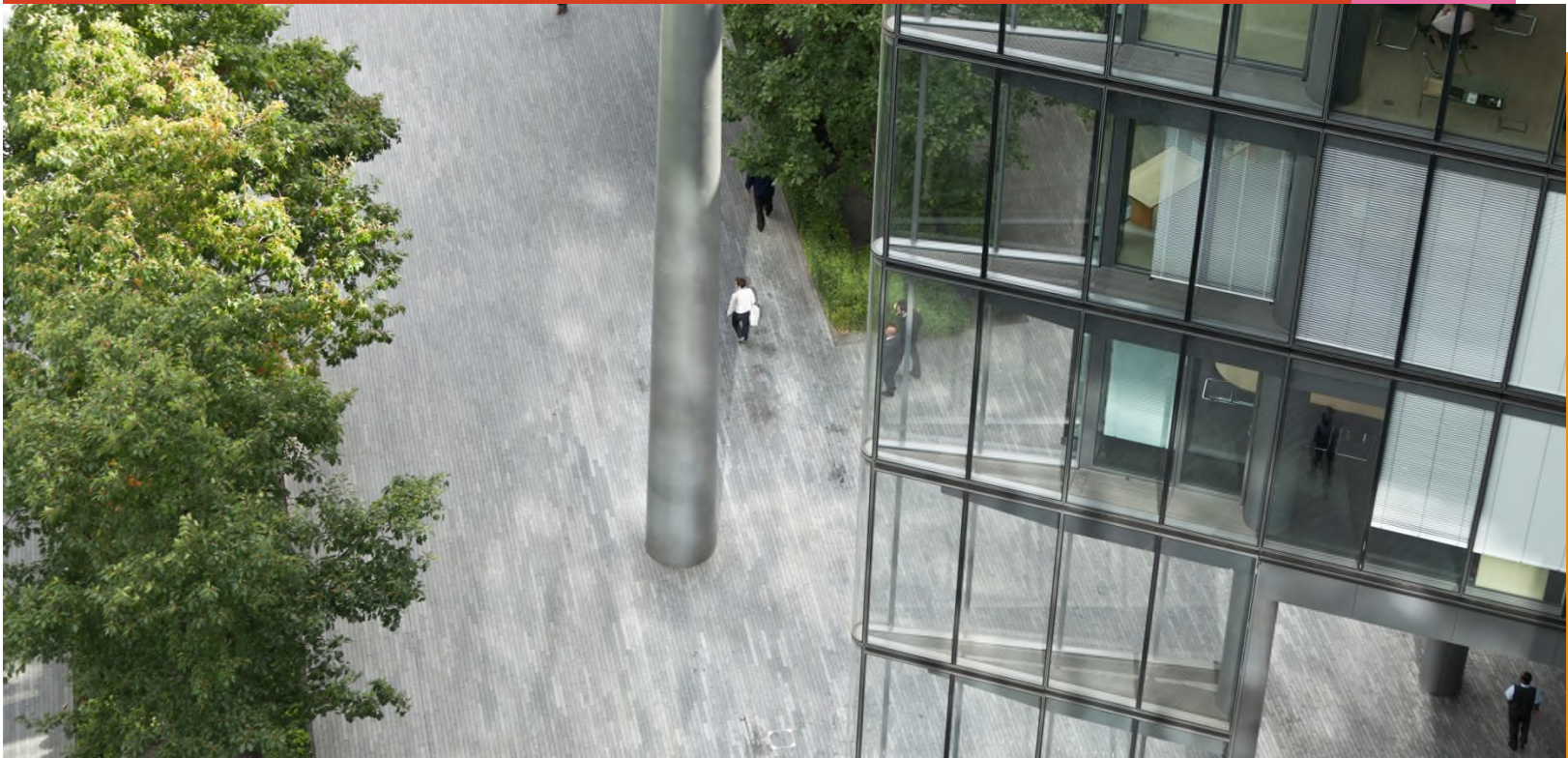


Non Executive Director Briefings

Update on corporate reporting and
assurance matters

28/29 January 2014



Contents

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- Accounting update
- Audit tendering and mandatory firm rotation



Summary of 2013 reporting changes

Demonstrating stewardship

BIS narrative reporting regulations	BIS remuneration reporting regulations	FRC UK Corporate Governance Code	FRC Sharman – going concern	FRC audit reports – ISA (UK&I) 700
Strategic report replaces Business review	Remuneration report in two parts: - Forward-looking policy part - Backward-looking implementation part	Directors statement that the annual report, taken as a whole, is ‘fair, balanced and understandable’	Distinguishes between financial reporting and stewardship purposes of going concern	Audit report to provide more insight into judgements made as ‘inputs’ to the audit process
Strategic, forward-looking focus for quoted companies				
Strategic report part of initiative to drive up quality of annual reports	Corresponds to votes under Enterprise and Regulatory Reform Act 2013 - binding on policy; advisory on implementation	Audit committee reports how it has addressed the key judgements and estimates in the financial statements	Going concern is part of ongoing risk management; liquidity and solvency risk both relevant; and looks beyond the current horizon	Company-specific information on audit risks, materiality and group audit scope reported publicly
Proposed Guidance from FRC issued for consultation				
Also replaces summary financial statements	New disclosures on both policy & implementation, including single total figure for pay	Audit tenders at least every ten years on comply-or-explain basis	Combined consultation with updated guidance on internal control and risk management issued on 6 November 2013	
Final – published August 2013		Final – published September 2012	In the meantime companies are encouraged to ‘consider and abide by ‘the Sharman principles’	Final – published June 2013

FRC UK Corporate Governance Code

Pulling the stewardship agenda together

A 'fair, balanced and understandable' annual report

"The directors should explain in the annual report their responsibility for preparing the annual report and accounts, and state that they consider the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy..."

[UK Corporate Governance Code provision C.1.1]

Advisory role for audit committee on fair, balanced and understandable

"Where requested by the board, the audit committee should provide advice on whether the annual report and accounts, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy..."

[UK Corporate Governance Code provision C.3.4]

The audit committee report should include...

"the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed"

[UK Corporate Governance Code provision C.3.8]



Fair, balanced and understandable

FRC UK Corporate Governance Code

Fair, balanced and understandable – FAQs

- Fair, balanced and understandable all pre-existed
- Case-by-case judgement, in the context of the annual report *taken as a whole*
- Also opportunity to re-visit particular aspects of the annual report
- ‘Understandable’ is in relation to a reasonably informed reader

What is new about this?

What are companies doing in practice?

- Making formal statement based on Code provision, usually in the Directors’ responsibilities statement
- Sometimes outlining the process used to support the statement
- Audit committees acknowledging their role, where they have advised the board

- Build in enough time to review the report as a whole and for changes to be processed
- Ensure appropriate information will be provided on which to base judgements
- Have right people involved and provide direction early – preparers need encouragement to innovate or be transparent
- Check progress regularly
- Extent of change depends on current process

What process is needed to support the statement?

What are the auditors’ responsibilities?

- Matters on which to report by exception on ‘fair, balanced and understandable’ statement (and significant issues reporting) under ISAs (UK&I) 700
- Along with the formal statement by the directors, this will raise the bar on borderline issues

Competition Commission final report – establishes advisory vote on the audit committee report

What we're seeing

Findings from survey of September 2013 year-ends

Audit committees usually advising the board



***70%: audit committee
advising board on FBU
statement***



***90%: FBU statements in the
Directors' responsibilities
statement***



***30%: audit committee
describes FBU process in
annual report***

FRC UK Corporate Governance Code – examples

Directors' statement – fair, balanced and understandable

Responsibility statement of the directors in respect of the Annual Report and financial statements

Each of the directors listed below confirms that to the best of their knowledge:

- the financial statements, prepared in accordance with the applicable set of accounting standards, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company, and the undertakings included in the consolidation taken as a whole; and
- the Directors' Report includes a fair review of the development and performance of the business, and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face.

In addition, each of the directors considers that the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy.

On behalf of the Board

Dick Olver
Chairman
20 February 2013

BAE 2012
Directors' responsibilities statement

One of the key governance requirements of a group's financial statements is for the report and accounts to be fair, balanced and understandable. The co-ordination and review of the Group-wide input into the Annual Report and Accounts is a sizeable exercise performed within an exacting time-frame which runs alongside the formal audit process undertaken by the external Auditors.

Arriving at a position where initially the Audit Committee, and then the Board, are satisfied with the overall fairness, balance and clarity of the document is underpinned by the following:

- comprehensive guidance issued to contributors at operational level;
- a verification process dealing with the factual content of the reports;
- comprehensive reviews undertaken at different levels in the Group that aim to ensure consistency and overall balance; and
- comprehensive review by the senior management team.

The Audit Committee has also championed efforts to 'declutter' the document by stripping out duplication and sequencing information in as logical a manner as possible without compromising compliance with UK regulatory and accounting requirements.

BAE 2012 - Audit committee report

Supporting the fair, balanced and understandable statement

The audit committee's role

Overview checks

- Annual report reflects the storyboard or key messages
- Messages are credible and realistic

Linkage checks

- The links through from strategy to performance to pay are clear
- The story is joined up across the annual report

Insight checks

- Difficult messages have been identified and handled appropriately
- Challenges have been anticipated and addressed

Fair, balanced and
understandable

Changes to audit committee reporting

Changes to audit committee reporting

Reporting Lab project report

Focused on provision C.3.8

- Significant issues
- Auditor appointment & safeguarding independence around non-audit services
- Effectiveness of the external audit process

Assessing external audit effectiveness

- Investors expect ACs to report concisely the activities performed, together with the outcome, and to avoid cluttering the annual report with extensive disclosure of policies.
- If the AC reviews inspection reports from independent audit regulators and considers the outcome of internal company surveys on auditor performance, investors encourage ACs to describe these and any resulting actions.

Appointing the auditor and safeguards on non-audit services

- Participants acknowledge that external audit tendering will become part of the normal business cycle and represents good governance.
- Investors appreciate disclosure of the company's policy on tendering, and, in advance, any intention to tender, as this will provide an opportunity to engage in the process.
- Investors prefer that a summary of the company's policies to preserve auditor independence be included in reporting by the AC, though the full policy could be made available on the company's website.
- Investors agree that they would like any change to the company's policy on non-audit services to be disclosed together with the reason for the change.
- Disclosures detailing the nature and amount of the non-audit services – beyond generic classifications – are favoured by investors.
- Investors indicate that it would be useful to have disclosure of non-audit services fees as a percentage of audit fees as this is a clear and measurable outcome.

Specific observations

- The AC will need to exercise judgement in deciding which of the issues it considered in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern.

A number of investors also consider that if the AC spends time considering significant internal financial control matters, they should communicate also how they have satisfied themselves that any associated financial reporting risks have been addressed.

Some investors commented that any financial reporting issue, or combination of issues or judgements, that materially affect management compensation should also be disclosed in the AC's reporting as a significant issue.



Investor Views:

"We do not dwell a lot on Audit Committee reports but we would if they had more content."

"The traditional lack of engagement of the investment community in matters addressed by the AC comes as a result of the lack of 'hooks' to form a discussion around."

"If the audit committee, management and auditors have spent time dealing with an issue that should mean that the issue is significant enough to be disclosed."

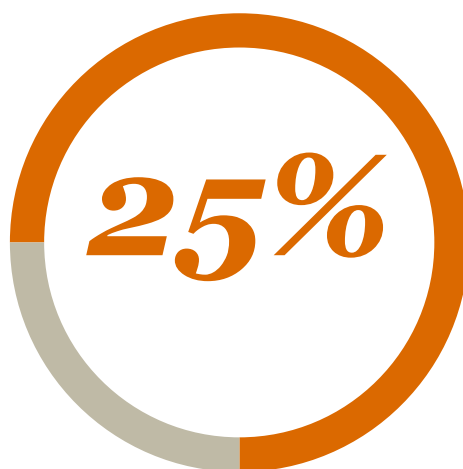
What we're seeing

Findings from survey of September 2013 year-ends

Focus is on significant issues



70%: reported between 2 and 5 significant issues



25%: consistently met the FRC Reporting Lab criteria

70% goodwill impairment

45% tax

40% provisions

25% going concern

Changes to audit committee reporting

Significant issues reporting – what investors will value most (per the Lab report)

Context:

- Quantification of the financial reporting issues [Next], especially if the related amounts are not provided elsewhere.
- Identification of the related product, business or geography [Aveva, Barclays, Old Mutual, Vodafone]

AC's actions in the year:

- Summary of the work performed by the AC illustrating how the AC satisfied itself of the appropriateness of the estimates and judgements made by management. [Aveva, Old Mutual]
- Indication of the sources of evidence that the AC referred to in performing their duties. [Barclays, Vodafone]

Conclusion/Outcome:

- Clear indication of the outcome, including the AC's conclusion. [Aveva, Barclays, Old Mutual, Next]

Reason for conclusion:

- Explanation of the key factor(s) leading to the conclusion. [Aveva, Old Mutual]

Integration:

- Cross references to the related financial statement information. [Old Mutual]

Use of active language and past tense:

- Indication of positive action by the AC using words such as "examined" or "agreed". [Aveva, Barclays, Old Mutual]

Changes to audit committee reporting

Audit committee reporting of significant issues

Significant judgements, key assumptions and estimates

The Audit Committee pays particular attention to matters it considers to be important by virtue of their impact on the Group's results and remuneration of Senior Management, or the level of complexity, judgement or estimation involved in their application on the consolidated financial statements. The main areas of focus during the year are set out below:

TABLE 48

Matter considered	Action
<p>Valuation of the investment property portfolio</p> <p>Although conducted externally by independent valuers, the valuation of the investment property portfolio is inherently subjective, requiring significant judgement. The outcome is significant for the Group in terms of its investment decisions, results and remuneration.</p>	<p>The Audit Committee reviewed the methodology and outcomes of the valuation. The valuers presented their valuation at the half and full year results meetings. The valuers proposed significant increases in the values of our completed developments, which were discussed by the Committee in detail and accepted on a case-by-case basis. The valuers were also asked to highlight any significant judgements and any significant disagreements with management. The objectivity of the independent external valuers, Knight Frank LLP, was also monitored by the Committee and more information on this can be found on page 69.</p>
<p>Bankside</p> <p>In December 2005, the Group sold land on London's South Bank to a residential property developer in return for an upfront payment and a share of any development profit. As the development has now been completed and the vast majority of flats sold, the Group is required to consider how much of the profit it should recognise.</p>	<p>The Committee reviewed a recommendation from management on the amount of profit to be recognised, taking into account the likelihood of the flats selling, their likely selling prices and the timing of sales. Scenarios produced by management were considered by the external auditors and debated with the Committee. The Audit Committee supported management's judgement to recognise profit of £15.4m, which it was felt was prudent at this stage of the sales process.</p>
<p>X-Leisure</p> <p>The Group acquired a further 41.8% holding in the X-Leisure Unit Trust (X-Leisure) in January 2013 and an additional 5.6% investment in March 2013, taking the Group's total holding in X-Leisure to 59.4%. As a result of the transactions, the Group acquired control of X-Leisure and the Committee considered how it would be accounted for, going forward. The matter was made more complex as X-Leisure is a fund, with a number of obligations to other investors.</p>	<p>The Audit Committee reviewed a paper presented by management, on which the external auditors had commented. The paper described the transaction, the accounting standards and any options in terms of how the acquisition might be treated. The subsequent discussion, which involved our external auditors, explored the proposed accounting treatment, how it would differ from our joint ventures and whether the disclosures within our financial statements would enable our investors to properly consider the performance of the asset. The Audit Committee was satisfied by the accounting treatment proposed by management. For more information, please see note 29.</p>

Further details on significant judgements, key assumptions and estimates can be found in note 3 to the financial statements on pages 104 to 105.

Changes to audit committee reporting

Audit committee reporting of significant issues

1.5 Significant issues considered by the Audit & Risk Committee (continued)

Impairment of non-financial assets (excluding inventories and deferred tax)

As more fully explained in note 1 to the financial statements, the Group's principal non-financial assets are grouped into cash generating units (CGUs) for the purpose of assessing the recoverable amount. The Group has two key CGUs, being Marikana and Akanani. Marikana includes goodwill, and therefore is tested for impairment on an annual basis. Akanani is an exploration and evaluation asset, and was impaired in 2012. Any change in assumptions could lead to further impairment or a reversal of impairment. Akanani, like Marikana, has been subject to an impairment assessment at the year-end.

In performing their impairment tests, management determined the recoverable amount of each CGU, and compared this to the carrying amount. Management reported to the Committee the results of its impairment assessment, noting to the Committee that future cash flows for each CGU had been estimated based on the most up to date business forecasts or studies for exploration and evaluation assets and discounted using discount rates that reflected current market assessments of the time value of money and risks specific to the assets. Management highlighted to the Committee how they arrived at the key assumptions to estimate future cash flows for the CGUs, specifically PGM metal prices, foreign exchange rates and discount rates.

Management also brought to the attention of the Committee the sensitivity analysis to be disclosed in note 1 of the financial statements with regards to the recoverable amount of the Akanani CGU.

The Committee interrogated management's key assumptions to understand their impact on the CGUs' recoverable amounts. The Committee was satisfied that the significant assumptions used for determining the recoverable amount of non-financial assets had been appropriately scrutinised, challenged and were sufficiently robust. The Committee was further satisfied with the impairment disclosures in the financial statements.

The auditor explained their audit procedures to test management's impairment assessment and considered the Group's disclosures on the subject. On the basis of their audit work, the auditor considered that the carrying value of non-financial assets was materially appropriate in the context of the financial statements as a whole.

New style audit reports – ISA (UK&I) 700

FRC audit reports – ISA (UK&I) 700

Providing more insight into audit to facilitate engagement

- The auditor's report on the financial statements includes company-specific information on the auditor's assessment of risks and materiality and how the scope of the audit addressed those assessed risks
- This introduces non-template wording to audit reports for the first time
- The changes are to audit reporting rather than audit procedures

What will be reported?

- Aim is to facilitate engagement between investors and companies about the audit process
- The FRC believes this complements the audit committee's disclosure of significant issues
 - The FRC proposal preserves the principle that the auditor does not directly report information on the company; international initiatives do not do so as clearly

What's the purpose?

- A number of the same areas will appear in the audit committee list of 'significant issues' and in the audit report
- Need to plan for consistency
- Will be differences – e.g. audit risks that do not give rise to accounting judgements or estimates

Link to audit committee report

- The FRC proposals do not go far enough – and do not provide the information that engaged investors are asking for
- Investors want auditors' views on outcomes not just on audit process

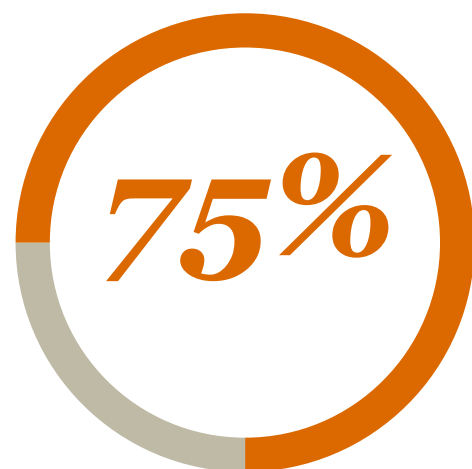
Our view

Investor views to be sought on new-style reports over the coming months

What we're seeing

Findings from survey of September 2013 year-ends

Consistency with audit committee significant issues



***70%: of audit reports
included between 2 and 5
areas of focus***



***50%: of Big 4 include
presumed significant risks
– fraud in revenue
recognition and
management override of
controls***

65% goodwill impairment

45% provisions

35% revenue

25% tax

10% going concern

FRC audit reports – ISA (UK&I) 700

Thomas Cook Group plc - audit committee reporting of significant issues

Committee activities

Significant issue considered by the Committee	How the issue was addressed by the Committee		
Going Concern: The appropriateness of preparing the Group financial statements for the half year and full year on a going concern basis.	The Committee considered papers prepared by management and, taking into account the external auditors' review of these papers and their assumptions, concluded that management's recommendation to prepare accounts on a going concern basis was appropriate.	Aircraft lease accounting and provisioning: The Group holds a number of its aircraft fleet on lease from third parties. The designation of aircraft leases as operating leases or finance leases impacts on several aspects of reported results.	The Committee considered a paper prepared by management dealing with the impacts of lease accounting and related aircraft maintenance provisions and accepted management's proposed treatment.
The Group's recapitalisation and treatment of costs: The appropriate accounting treatment of the costs and fees of £7.3 million in relation to the completion of the Group's Capital Refinancing Plan in June 2013.	The Committee reviewed a paper prepared by management on the proposed accounting treatment of costs associated with the Group's recapitalisation. Having reviewed the paper, the Committee was comfortable with the treatment proposed and subsequently adopted.	Control environment during Transformation: The Group is currently engaged in a fundamental Transformation encompassing most aspects of its activities.	The Committee considered the broader risks associated with this Transformation as well as focusing on the operation of the Group's control environment throughout the Transformation period. The Committee also considered a report by management on the operation of financial and non-financial controls throughout the year.
Impairment and deferred tax: In view of the Group's losses in recent years, the Committee considered whether there was a need to impair certain asset values, including goodwill and the reasonableness of the Group's recognition of deferred tax assets.	The Committee considered a paper presenting management's intended approach and having taken input from the auditors, agreed with management's proposals.	Disposal of Thomas Cook North America: In the year the Group disposed of its businesses in North America.	The Committee considered a proposal by management to account for its North America businesses under IFRS 5 as a "discontinued operation" and agreed with the proposed treatment.
Separately disclosed items: The Group has an established policy of separately disclosing items that are either exceptional or detract from the reader's understanding of the underlying performance of the Group.	The Committee considered management's presentation of separately disclosed items and in particular items relating to the Group's Transformation and certain non-cash finance allocations. Having considered the matter, the Committee agreed to adopt management's proposed presentation.		

FRC audit reports – ISA (UK&I) 700

Thomas Cook Group plc - auditor reporting of assessed risks and responses (1)

Carrying value of goodwill and deferred tax assets

The Group holds significant goodwill and deferred tax assets on the balance sheet and significant goodwill impairments were recorded during the prior year.

We focused on this area as it involves complex and subjective judgements by the Directors about the future results of the business.

How the scope of our audit addressed this area of focus

In evaluating whether any impairment was necessary to the remaining carrying value of goodwill, our audit work involved obtaining evidence regarding its recoverable amount and how it compared to the amount at which goodwill is currently recorded.

We evaluated the Directors' goodwill impairment calculations (including the value in use computations and discount rate) and tested both the methodology and the assumptions applied, including a critical review of the historical accuracy of forecasts and budgets. We applied sensitivity analysis to the calculations to assess the impact of variations in the key assumptions, which included the forecast underlying profit before tax.

We considered the Directors' assessment of the recoverability of deferred tax assets by evaluating the likelihood of achieving expected taxable profits against which such assets are to be utilised.

Risk of management override of internal controls

ISAs (UK & Ireland) require that we consider this.

How the scope of our audit addressed this area of focus

We assessed the overall control environment of the Group, including the arrangements for staff to "whistle-blow" inappropriate actions, and interviewed senior management and the Group's internal audit function.

We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud.

This included testing manual journal entries and evaluating significant accounting estimates (for example goodwill value in use computations) for evidence of biased judgements.

Risk of fraud in revenue recognition

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition. Because of this, we focused on the timing of revenue recognition, given the level of deferred revenue at certain times of the year, and its presentation in the income statement.

How the scope of our audit addressed this area of focus

We evaluated the relevant IT systems and tested the internal controls over the completeness, accuracy and timing of revenue recognised in the financial statements.

We tested journal entries posted to revenue accounts to identify any unusual or irregular items. We also tested the reconciliations between the revenue systems used by the Group and its financial ledgers.

We tested the deferral of revenue where cash was received in advance of travel services being provided.

We assessed whether the Group's revenue recognition policies complied with the IFRSs as adopted by the EU, and tested that, in accordance with those policies, revenue was recognised based on the date of customer departure. We also tested whether the Group appropriately recorded revenue based on whether it acted as agent or principal.

FRC audit reports – ISA (UK&I) 700

Thomas Cook Group plc - auditor reporting of assessed risks and responses (2)

Going concern

This was considered to be an area of audit focus due to the seasonal nature of the Group's cash flow.

How the scope of our audit addressed this area of focus

We evaluated whether the Group's forecast of funding requirements had taken appropriate account of the seasonal cash flows inherent in the Group's business.

We evaluated the key judgements within the Group's forecast, including transformation activities and 'cost-out' initiatives.

We considered the adequacy of the Group's revised financing structure, including forecast compliance with financial covenants, and assessed the sensitivity of the Directors' calculations to changes in key inputs, in particular forecast underlying profit before tax.

Our conclusion on going concern is below.

Aircraft leases and maintenance provisions

Material assets and provisions for leased aircraft and their related maintenance are held on the balance sheet. This was an area of focus based on the size of these balances, which have increased following recent sale and leaseback transactions.

How the scope of our audit addressed this area of focus

We reviewed the appropriateness of the maintenance provision calculations performed by management, including the assessment of new obligations and key assumptions such as the quantum and timing of maintenance expenditure.

We reviewed aircraft lease contracts to ensure that they have been appropriately accounted for as operating or finance leases.

Risks associated with the Group's transformation programme

The Group's transformation programme has given rise to significant changes to the Group's control environment and a number of accounting estimates involving subjective judgements, including store closure and redundancy provisions, and asset disposals.

How the scope of our audit addressed this area of focus

We increased our testing of balances materially impacted by the transformation programme, evaluating management's judgements used in estimating the related provisions.

We have performed additional testing where key processes and controls have been affected by transformation activities during the year.

FRC audit reports – ISA (UK&I) 700

Thomas Cook Group plc - auditor reporting of materiality and scope

Overview of our audit approach

Materiality

We set certain thresholds for materiality. These helped us to determine the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole.

Based on our professional judgement, we determined materiality for the Group financial statements as a whole to be £1.5m. In arriving at this judgement we have had regard to underlying profit from operations because, in our view, this is the metric against which the performance of the Group is most commonly measured.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £1m as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Overview of the scope of our audit

The Group is currently organised into four geographic operating divisions: UK, Continental Europe, Northern Europe and Airlines Germany. The Group financial statements are a consolidation of 97 reporting units comprising the Group's operating businesses within these divisions and centralised functions.

In establishing the overall approach to the Group audit, we determined the type of work that needed to be performed at the reporting units by us, as the Group engagement team, or component auditors within PwC UK and from other PwC network firms operating under our instruction. Where the work was performed by component auditors, we determined the level of involvement we needed to have in the audit work at those reporting units to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The reporting units vary significantly in size and we identified 21 reporting units that, in our view, required an audit of their complete financial information, due to their size or risk characteristics, providing 85% coverage of the Group's underlying profit from operations.

Specific audit procedures on certain balances and transactions were performed at a further two reporting units, comprising the Group's internal IT development company (because of material internally generated intangible assets) and Russian operations (because of its size).

FRC audit reports – ISA (UK&I) 700

Easyjet plc - audit committee reporting of significant issues

Financial reporting and significant financial issues

The Committee assesses whether suitable accounting policies have been adopted and whether management have made appropriate estimates and judgements. The Committee reviews accounting papers prepared by management which provide details on the main financial reporting judgements. For example, during the year the Committee reviews the level of provisions and accruals recorded which are judgemental in nature. The Committee also reviews reports by the external auditors on the full year and half year results which highlight any issues with respect to the work undertaken on the audit.

The two significant issues considered in the year are detailed below:

- The Committee reviewed the maintenance provision at the year end. A number of judgements are used in the calculation of the provision, primarily pricing, utilisation of aircraft and timing of maintenance checks. The Committee addressed these matters using reports received from management which underlie the basis of assumptions used. The Committee also discussed with the external auditors their review of the assumptions underlying the estimates used.
- The Committee considered whether the carrying value of goodwill and landing rights held by easyJet should be impaired. The judgement in relation to impairment largely relates to the assumptions underlying the calculation of the value in use of the business being tested for impairment, primarily whether the strategic plan is achievable and the overall macroeconomic assumptions which underlie the valuation process. The Committee addressed these matters using reports received from management outlining the basis for assumptions used. The strategic plan used in the calculation was approved by the Board.

The Committee is satisfied that the judgements made by management are reasonable, and that appropriate disclosures have been included in the accounts.

Easyjet plc 2013, page 71

FRC audit reports – ISA (UK&I) 700

Easyjet plc - auditor reporting of assessed risks and responses

Area of focus

Aircraft maintenance provisions

The Directors have included a provision of £252 million for aircraft maintenance costs in respect of aircraft leased under operating leases (refer to notes 1 and 16 to the accounts).

We focused on this area because of a level of difficulty in estimating the amount of the provision as a result of the complex and subjective judgements that the Directors needed to make.

Risk of management override of internal controls

ISAs (UK & Ireland) require that we consider this.

Fraud in revenue recognition

ISAs (UK & Ireland) presume there is a risk of fraud in revenue recognition because of the pressure management may feel to achieve the planned results. We focused on the timing of the recognition of seat revenue and its presentation in the consolidated income statement, because this is dependent on the fulfilment of certain obligations.

How the scope of our audit addressed the area of focus

We evaluated and tested the Directors' maintenance provision model and calculations, including evaluating the reasonableness of the assumptions, testing the input data and reperforming calculations. We also performed sensitivity analysis around the key drivers of the model: likely utilisation of the aircraft; the expected cost of the heavy maintenance check at the time it is expected to occur; the condition of the aircraft; and the lifespan of life-limited parts. Having ascertained the magnitude of movements in those assumptions, that either individually or collectively would be required for the provision to be misstated, we considered the likelihood of such movements arising and any impact on the overall level of provision recorded in the accounts.

We assessed the overall control environment of the Group, including the arrangements for staff to 'whistle-blow' inappropriate actions, and interviewed senior management and the Group's internal audit function. We examined the significant accounting estimates and judgements relevant to the accounts for evidence of bias by the Directors that may represent a risk of material misstatement due to fraud. We also tested journal entries.

We evaluated the relevant information technology systems and tested the internal controls over the completeness, accuracy and timing of seat revenue recognised in the accounts. We tested the reconciliations between the revenue systems used by the Group and its financial ledgers and journal entries posted to revenue accounts to identify unusual or irregular items. We also tested the timing of revenue recognition, checking the necessary obligations had been fulfilled, generally that the relevant flight had taken place.

Narrative reporting and the strategic report

BIS narrative reporting regulations

Key information together, with a forward-looking emphasis

- Strategic report at same level as directors' report in the annual report – replaces business review
- Strategic report replaces summary financial statements
- A number of specific disclosures

What's new in the Regulations?

What are the specific new disclosure requirements in the Regulations?

- Strategy & business model
- Gender diversity
 - Number of directors, senior managers and employees of each sex
- Human rights issues
- Greenhouse gas emissions (directors' report)

- No 'annual directors' statement' of standing data
- No guidance on use of online reporting

What's not covered in the Regulations?

What are the auditors' responsibilities?

- Read the strategic report as "other information" issued with the financial statements
- No specific audit responsibility but will be closely related to the fair, balanced and understandable statement

Regulations not issued until August 2013; may not encourage innovation this year

FRC Exposure Draft of proposed Guidance

Implementation guidance requested by BIS

- Consultation period on Exposure Draft – ended mid November 2013
- Final Guidance expected early 2014
- Uses introduction of strategic report as catalyst to look at narrative reporting as a whole
- Content elements – consistent with Regulations

Details of consultation

Strategic report should be:

- Fair, balanced and understandable
- Concise
- Forward-looking
- Linked and signposting
- Entity specific
- Material

Communication principles

- Strategic report = ‘core’; rest = ‘supplement’
- Content of strategic report needs to be sufficiently material
- Rest as ‘appendix’ – online in future?

Core & supplement structure

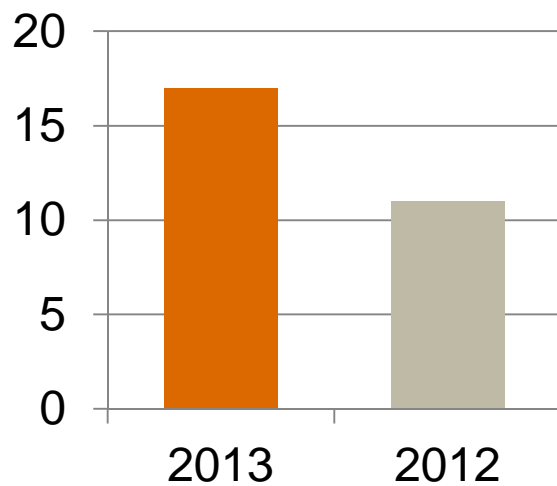
Summary

- The Regulations are the requirements
 - Possible to make minor changes and comply
- BUT*
- The Guidance indicates the real purpose
 - Need to think about structure, content and giving the report the appropriate strategic slant

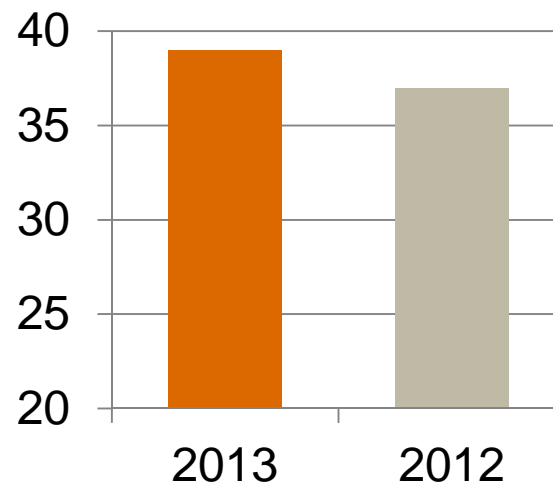
What we're seeing

Findings from survey of September 2013 year-ends

Remuneration report is the major piece of work



55%: increase in length of average remuneration report



5%: increase in length of strategic report content (compared to equivalent sections)



100%: compliance with form of regulations – but what about substance?

Core & supplement - examples

Lonmin 2013 - strategic report



Lonmin Plc
Annual Report and Accounts 2013
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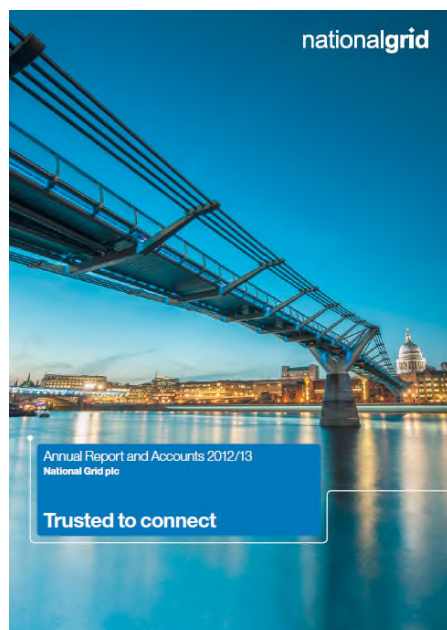
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Core & supplement - examples

National Grid 2013 - strategic report



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We have changed the way we present our Annual Report and Accounts so we can describe strategic information and our business model in a way that we believe is easier to understand. This information is set out in our Strategic Review, with more detailed information, where relevant, included in Additional Information.

We use a number of technical terms and abbreviations within this document. In the interest of saving space, we do not define terms or provide explanations every time they are used; please refer to the glossary on pages 190 to 192 for this information.

Directors' Report

The Directors' Report, prepared in accordance with the requirements of the Companies Act 2006 and the UK Listing Authority's Listing and Disclosure and Transparency rules, comprises pages 4 to 31 and 170 to 193, and is approved by the Board and signed on its behalf by:

Alison Kay
Group General Counsel & Company Secretary
Company Number: 4021162

10 May 2013

Important notice

This document contains certain statements that are neither reported financial results nor other information. These statements are forward-looking statements and are subject to the uncertainty of future events. The Board has no intention of providing any assurance as to the accuracy of these statements.

As required by Section 217 of the Securities Exchange Act of 1934, an amended and restated Form 20-F is included in this document. This document contains certain statements that are neither reported financial results nor other information. These statements are forward-looking statements and are subject to the uncertainty of future events. The Board has no intention of providing any assurance as to the accuracy of these statements.

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The Corporate Governance Report, introduced by the Chairman, contains details on the activities of the Board and its committees during the year, including reports from the Nominations, Audit and Remuneration Committees, as well as details of our shareholder engagement activities.

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Current practice - how aligned is annual report content?

Observations from 2013 reporting cycle - % of FTSE 100 companies

Include strategic priorities

99%

Include the term 'business model'

94%

Identify their principal risks and how they're mitigated

94%

Explicitly identify their KPIs

96%

Base reporting on strategic themes

34%

Link their business model to other aspects of their reporting

11%

Explain how the risks have changed over time

32%

Align their KPIs to strategic priorities

38%

Linking strategy KPIs and risks

Balfour Beatty example

Strategic Imperative 1	Strategic Imperative 2	Strategic Imperative 3	Strategic Imperative 4
Grow in New Geographies and Market Sectors <p>We are already one of the largest global infrastructure players, but the growth opportunities in our traditional UK and US markets are currently limited. To achieve further growth we are looking to increase our footprint to faster growing geographies and sectors. We already have a significant presence in the Middle East and Asia; now we are looking to expand our reach further into other growth economies – Australia and Canada, where we already have a presence through Professional Services, and South Africa, India and Brazil – and intensify our focus on the buoyant transport, power and energy, water and mining sectors.</p> <p>In 2012, we have seen progress in these areas in line with our expectations.</p>	Deliver Greater Value to Clients <p>We deliver greater value to clients by leveraging our end-to-end asset knowledge. This allows us to better understand our clients' own strategic objectives and contribute through the infrastructure solutions we create. It enables us to develop infrastructure solutions that are better value, better quality and faster and safer to create and maintain. It means we can offer a full range of services – from finance and development, through design and project management to construction and maintenance.</p> <p>Every year, Roads and Bridges magazine in the US surveys 10,000 government officials and asks them which design firm they prefer to work with. In the industry, this is called the Go-To List.</p> <p>While they only cover our professional services business, these rankings are a good example of the strength of our track record and reputation with our clients.</p>	Improve Operational Performance and Cost Effectiveness <p>In recent years, our unique breadth of capabilities and geographical reach has been a result of a sustained period of expansion including a number of successful acquisitions. In 2012, recognising the more difficult macroeconomic conditions, we focused on generating efficiencies across all our operations and back office support functions to ensure we operate as efficiently and as profitably as possible.</p> <p>We aim to increase Group operating margin to a level of 3.5–4% by 2015 – mainly through better utilisation of resources, efficiency savings and improved business mix.</p> <p>Our cost reduction programmes remain on course, but margin progress in 2012 was hindered by difficult market conditions in our traditional UK and US markets and 2013 is expected to be similarly affected. We also experienced operational issues in some areas of the business which hindered progress.</p>	Continue to Show Leadership in Values and Behaviour <p>To be recognised as a global leader in infrastructure services we continue to focus on securing a sustainable, long term future for the Group and providing a legacy within the communities in which we serve. We must also be a leader in areas such as business ethics, talent management, safety and the environment.</p> <p>The safety of our people and everyone we come into contact with remains a key imperative and is embedded across our business. However, whilst most areas of the business improved in relation to safety performance in 2012, we still have progress to make and our Zero Harm activity has been reinvigorated for 2013.</p> <p>We have challenged ourselves to reduce our impact on the environment. In 2012, we made good headway in water and waste, but our target to reduce CO₂ emissions made little progress due to the mix of energy intensive projects we have worked on.</p>
Key Performance Indicators <p>63% Group order book in target market sectors (transport, power and energy, water, mining) as Group % (2011: 59%)</p> <p>48% Revenue¹ from target market sectors (transport, power and energy, water, mining) as Group % (2011: 48%)</p> <p>14% Revenue¹ from higher growth markets (outside Europe and North America) as Group % (2011: 12%)</p> <p>¹ Including joint ventures and associates. ² Before non-underlying items.</p>	Go-To List rankings for Parsons Brinckerhoff <p>No.1 In the Road & Highway and Airport categories (2011: No.1)</p> <p>No.2 In the Bridge and Mass Transit categories (2011: No.2)</p> <p>No.3 In the Design-Build category (2011: No.4)</p> <p>55 awards During 2012 the Group received 55 awards from customers and industry bodies in recognition of its achievements (2011: 29)</p>	Key Performance Indicators <p>2.8% Group operating margin^{1,2} (2011: 3.0%)</p> <p>£36m Achieved in cost efficiencies by the end of 2012 (2011: £15m)</p>	Key Performance Indicators <p>-6% Accident Frequency Rate decreased by 6% to 0.16% (2011: AFR 0.17%)</p> <p>-13% Greenhouse gas emissions reduced by 13%</p>
Risk <ul style="list-style-type: none"> ▲ Economic environment ▲ Expansion into new territories and by acquisition ▲ Legal and regulatory ▲ Bidding 	Risk <ul style="list-style-type: none"> ▲ Bidding ▲ Project execution ▲ Health, safety and sustainability 	Risk <ul style="list-style-type: none"> ▲ Economic environment ▲ Bidding ▲ Project execution ▲ Health, safety and sustainability 	Risk <ul style="list-style-type: none"> ▲ Legal and regulatory ▲ Business conduct ▲ People ▲ Project execution ▲ Health, safety and sustainability
Strategic Imperatives p16	Strategic Imperatives p20	Strategic Imperatives p21	Strategic Imperatives p23

Our Business | Strategic Imperatives | Grow in New Geographies and Market Sectors

Grow in New Geographies and Market Sectors

How are we performing?

63%

Group order book in target market sectors (transport, power and energy, water, mining) as Group % (2011: 59%)

48%

Revenue¹ from target market sectors (transport, power and energy, water, mining) as Group % (2011: 48%)

14%

Revenue¹ from higher growth markets (outside Europe and North America) as Group % (2011: 12%)

What's next?

In the year ahead, we aim to:

- increase our revenues in target geographies
- increase our share of business in target sectors.

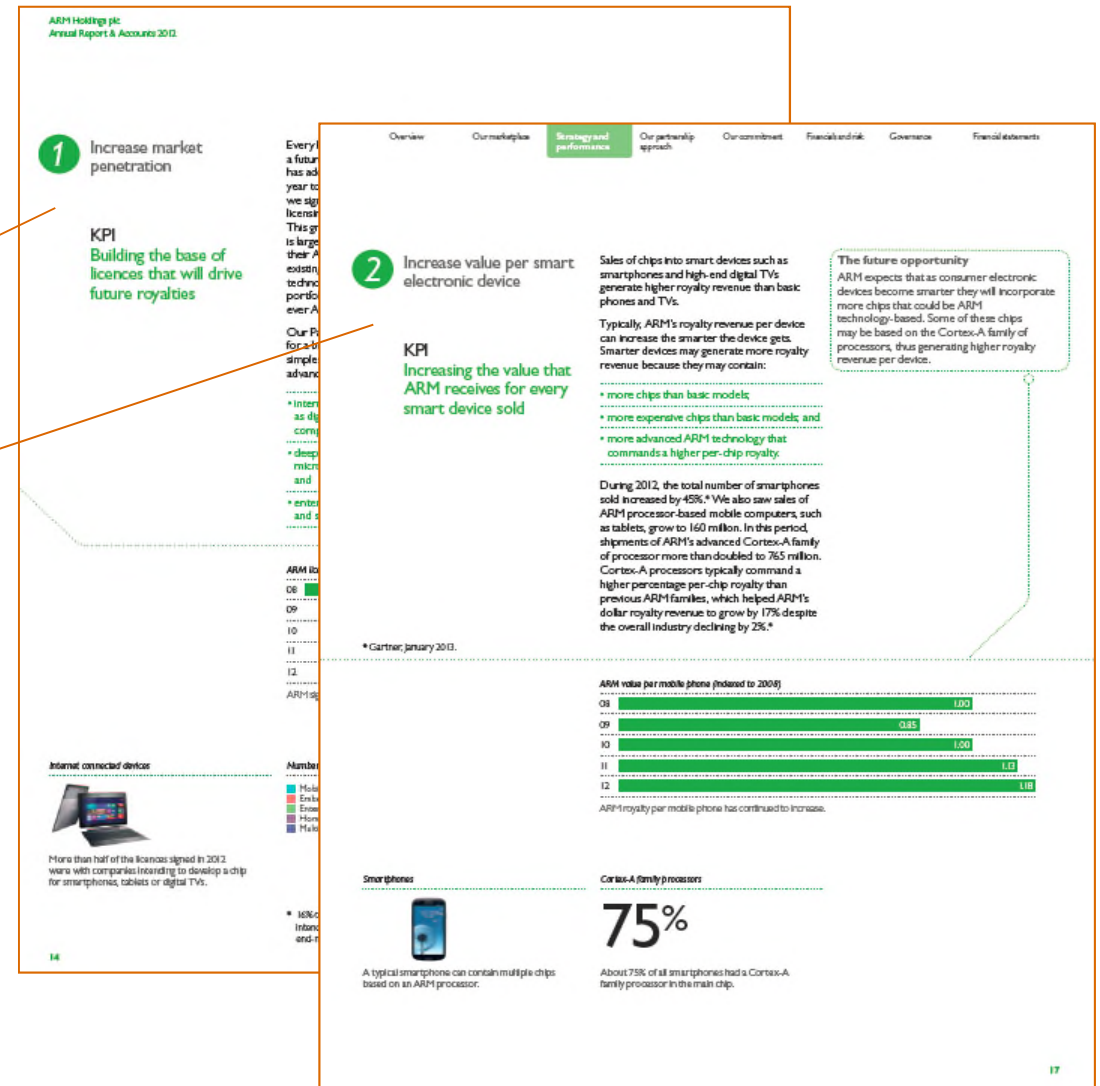
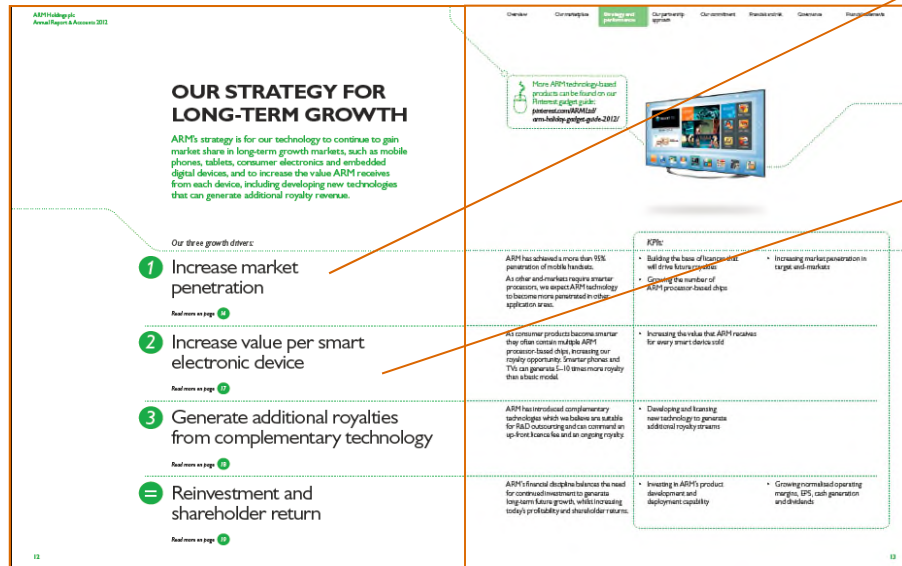
We are already one of the largest global infrastructure players, but the growth opportunities in our traditional UK and US markets are currently limited. To achieve further growth we are looking to increase our footprint to faster growing geographies and sectors. We already have a significant presence in the Middle East and Asia where we are seeing growth; now we are looking to expand our reach further in growth economies – Australia and Canada, where we already have a presence through Professional Services and South Africa, India and Brazil – and intensify our focus on the buoyant transport, power and energy, water and mining sectors.

Why is this important?

We do not want our growth to be limited by the economic and cyclical constraints in our traditional markets. The breadth of our capabilities and the extent of our international reach give us access to an exceptionally broad range of markets and clients. Our aim is to focus more of our activity where there are medium to long term opportunities for global infrastructure. But to avoid spreading our resources too thinly we need to be selective. The rationale behind our choice of target geographies and sectors is set out in the market overview on pages 10 and 11.

Development of strategic themes

ARM Holdings example



Accounting update

Spotlight on the FRRP and accounting matters

Who are the FRRP and the Conduct Committee ?

- Established as part of the FRC
- From July 2012 following reform under direction of the Conduct Committee of FRC
- Review annual reports of public and large private companies
- Compliance with law and accounting standards

How do they work?

Selection of accounts:

- risk based approach
- select from certain industries (“priority sectors”)
- complaints from the public

FRRP – Greater transparency

- Seek publicity where appropriate
- Take credit where they have effected change
 - Expect more press notices
 - Expect more committee references
- Improve transparency of reporting

FRRP – Increasing effectiveness

- Prioritise FTSE 350 cyclical reviews
- Aim to complete before publication of next accounts
- Revised opening letter to company chairman; more direct
- Copy to Audit Committee chair and Finance Director

FRRP proposals to achieve effectiveness

- Expect auditor and Audit Committee Chair engagement
- Aim for quicker turnaround of correspondence
- Anticipate response within 28 days
- Be more ready to use the FRRP power
 - to get company to respond
 - to evidence board/auditor's assertions
- Be ready to establish Review Groups at earlier stage
- Liaison with Audit Quality Review

2013 Annual report - published 17 October 2013

Panel activity	2013	2012
Accounts reviewed	264	326
Companies written to	91	130
Review groups	4	5
Press notices	1	-
Committee references	10	6

Key messages – quality of corporate reporting

- FTSE 350 – complex or unusual transactions
- Smaller listed and AIM quoted companies – focus for 2014/15
- Making annual reports and accounts more concise and relevant

FRRP – Press Notices

Pendragon – August 2012 – operating versus investing cash flows

WH Smith – October 2013 – Non-recognition of a liability in its accounts relating to a schedule of contributions agreed between a subsidiary of the company and the company's pension trustee. Following correspondence with the FRRP, the company has accepted that the schedule of contributions is a minimum funding requirement within the meaning of IFRIC 14 and should have been accounted for as a liability in its accounts for the year ended 31 August 2012. Under IAS19, the company had a unrecognised surplus of more than £100m.

The effect of recognising the liability on the comparative amounts was to reduce net assets at 31 August 2012 from £149 million to £95 million (at 31 August 2011, a reduction of net assets from £156 million to £94 million). Profit after tax for the year ended 31 August 2012 was reduced by £4 million. There is no change to profit before tax and no impact on cash.

FRRP – What does the accounts disclosure look like?

The Group has recently concluded discussions with the Financial Reporting Council's Conduct Committee ('FRCCC') with regard to certain aspects of its asset impairment testing process. As a result, the Group has (i) amended its definition of a cash generating unit so that non-monetary assets are reviewed for impairment at a branch level, rather than at a brand level; (ii) refined its calculation of the pre-tax discount rate; and (iii) restated and extended the comparative sensitivity disclosures made below in respect of 2011.

The changes agreed with the FRCCC have not impacted the income statement, balance sheet or cash flow statement for 2011 or 2012; the Directors' original assessment that no impairment had occurred to goodwill, other intangible assets or other non-monetary assets remains unchanged.

FRRP – Key areas of questioning

Business reviews

- “Balanced and comprehensive”
- “Principal risks and uncertainties”

Revenue

Cash flow statements

- Cash flow information critical to investors particularly in difficult trading conditions

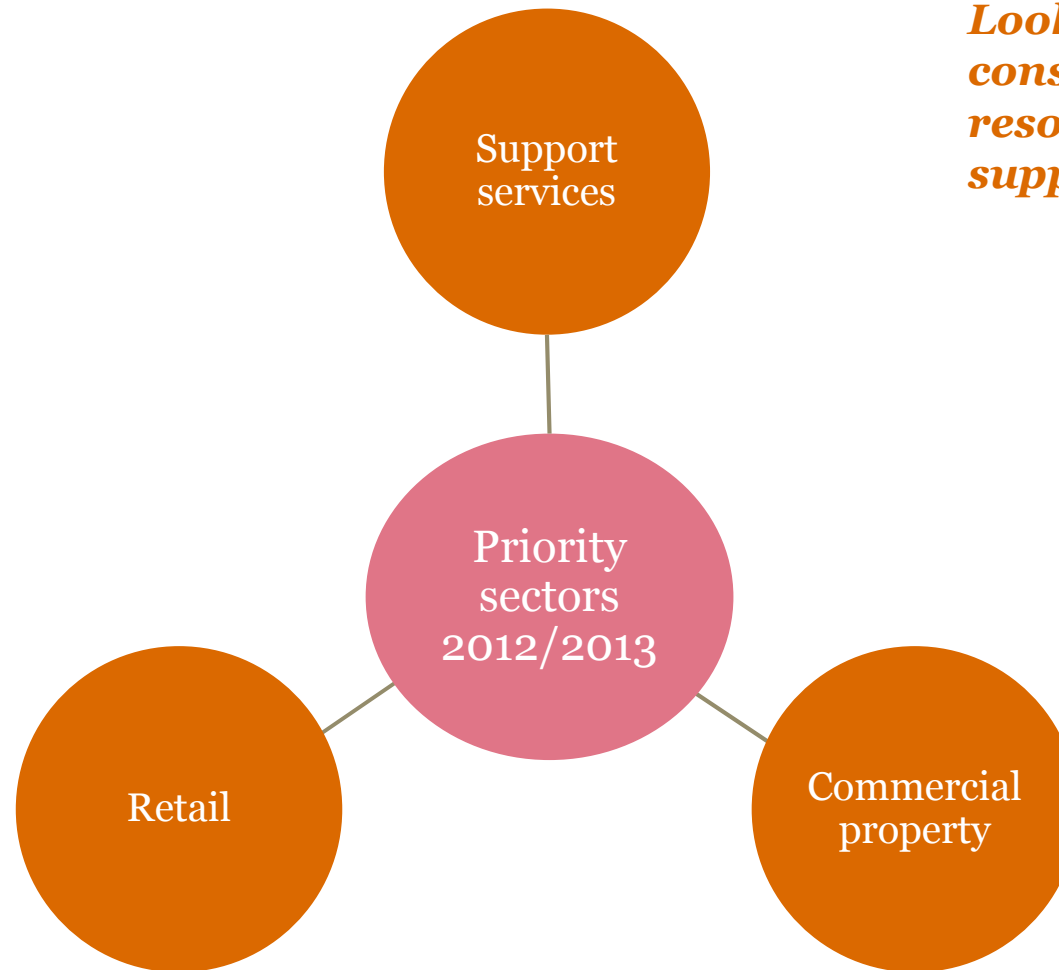
Non-GAAP measures/Financial KPIs

Business combinations

Impairment

- Focus on value in use calculations with higher risk of impairment charge

FRRP priority sectors for 2012/2013



Looking ahead? Retail, construction, natural resources and business support

Important disclosure considerations

***Business reviews –
balanced and
consistent with back
half disclosures.
Include both good
and bad news (and
watch materiality)***

***Principal risks and
uncertainties –
mitigating actions to
reduce risks***

***Accounting policies
not specific –
particularly revenue
recognition***

***Significant
judgements and
estimates generic –
need to be specific***

***Classification of cash
flows – (operating
versus
investing/financing)***

***Income taxes–
deferred tax asset
and liability
recognition***

***Impairment of assets
– significant
assumptions require
disclosure***

***FRRP Interest in
Pension
restructuring
arrangements***

What is changing in accounting standards?

For most, the only significant change is IAS 19 – defined benefit pensions accounting....

		Expected return / discount rate	Old Method	New Method
	£	£	£	£
Pension assets	800	8%	64	-
Pension liabilities	(1,000)	6%	(60)	-
Deficit	(200)	6%	-	(12)
Net income / (expense)			4	(12)

Other changes that should be on the agenda - The future of UK GAAP

- FRC has now issued three standards that will replace the current UK GAAP
 - FRS 100 ‘Application of financial reporting requirements’
 - FRS 101 ‘Reduced disclosure framework’
 - FRS 102 ‘The financial reporting standard applicable in the UK and Republic of Ireland’
- These standards must be applied for years beginning on or after 1 January 2015 – they may be early adopted.
- The options now are:

FRS 101
(RDF based on IFRS)

- EU IFRS with reduced disclosures + amendments to comply with law

FRS 102
(New UK GAAP)

- ‘New’ UK GAAP (reduced disclosures also available)

Audit tendering and mandatory firm rotation

Audit tendering and mandatory firm rotation

The Competition Commission

- Order expected to become effective October 2014
- 10 year tendering mandated
- Transition rules
 - If no tender since 1 January 2005, tender to be held within 2 years of rotation of current AEP

European audit legislation

- New Regulation will come into force during 2014
- 10 year rotation mandated
- Member State option to extend by 10 years if competitive tender at 10 year point
- Transition rules
 - If incumbent > 20 years, make first rotation within 6 years of Regulation coming into force
- Non-audit service (NAS) restrictions – applicable during 2016

Discussion points

What about the FRC's tendering regime?

Will the CC align their transition regime?

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