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Tesco at a glance

- Strengthened the foundations of the business in a challenging grocery market
- Launched Price Promise, relaunched Clubcard
- Launched Price Promise, relaunched Clubcard
• 3,378 colleagues◊

In its first full year, our mortgage business, in a weakening grocery market

Continued to focus on improving the experience for customers with continued

Highlights

We are a team of over 500,000 people in 12 markets dedicated to providing

Our strategic priorities

Our strategy has been developed to drive sustainable growth through:

Three priorities:

Sir Richard Broadbent

Chairman’s statement

“Being a leading retailer today is not a guarantee of value creation tomorrow. We need to ensure that we are tomorrow’s leading retailer.”

The future: strategic developments in retail

The backbone of both the digital and the physical store has been

Continuity and change

This has been an important year for Tesco. There has been a great deal to occupy us in

We remain focused on the present direction of the business, and resources are focused tipped from

Significantly reduced new store openings and any future investment will be

Good growth in core banking products

Strengthened the foundations of the business in a challenging grocery market

The challenging trading conditions of the past year have impacted profits and

Strategic change requires investment.

E-commerce customers make a significant contribution to our business, even

Sir Richard Broadbent

and other members of the leadership team

Group sales

£70.9 bn

Group sales growth

+0.3%

Underlying profit before tax

£2.3 bn

Underlying diluted average share price

(6.9) p

Full-year dividend

14.76p

Strategic change requires investment. G...
Chairman’s statement

Sir Richard Broadbent
Chairman

The future: strategic developments in retail
The backdrop of technology-driven change in the retail sector becomes a more insistent drumbeat every day. Boundaries between the online and offline world are becoming blurred. The challenge, and opportunity, for retailers is not just to have (and be able to operate across) multiple channels. It is to meet the rapid changes in consumer behaviour that we are seeing as technology opens up new horizons for them. The capacity for consumers to communicate instantly with each other, with us and with other retailers is driving completely different expectations for service levels, choice, convenience, indeed the whole shopping experience.

A level of customisation and personalisation, unthinkable a decade ago is becoming the norm.

Consequently, being a leading retailer today is not a guarantee of value creation tomorrow. We need to ensure that we are tomorrow’s leading retailer. We had already set ourselves on the path to becoming a leading multichannel retailer to meet this challenge. The accelerating evolution of customer behaviours reinforces us in this choice of direction and has led us in the past year progressively to intensify our actions to deliver this end. This includes not only ensuring a more seamless service for customers but also a business which matches more closely what they want, for example by making our larger stores more compelling destinations in their own right as well as ensuring we offer more convenience stores.

Strategic change requires investment. Our task is to allocate resources to compete effectively in today’s market while giving priority to ensuring that we emerge as winners in the coming multichannel, customer-centric market. Your Board is extremely focused on the need to manage this balance between current and future returns with great care, optimising both without imperilling either. The business is taking decisive steps to free up capital and operational resources, but for the time being the imperative of securing the longer-term future means that our current financial performance remains constrained.

Other business priorities
In my foreword last year, I said:

“Being a leading retailer today is not a guarantee of value creation tomorrow. We need to ensure that we are tomorrow’s leading retailer.”

Visit www.tescopl.com/ar2014 to hear more from Sir Richard Broadbent and other members of the leadership team
The future is a retail world where retailers will need to operate across multiple channels while meeting wholly different customer expectations for service levels, choice, convenience and overall experience.

The Tesco brand
Re-building the Tesco brand to become synonymous again with value, choice and quality, to be seen again as unerringly on the customers’ side, is central to our future. In the multichannel world we are moving into, what you are known for will be as important as the channels through which you sell. We have and will continue therefore the patient work to strengthen trust in our brand. This is not without its cost but we believe it is as important an investment as any other part of our strategy.

Values are central to any brand and last year we took the major step of introducing a new Value: we use our scale for good. This is evidently a long-term project but the year has seen the first steps taken to embed this sentiment as a touchstone of the business. These are reported in more detail in our separate update of “Tesco and Society” which is being published alongside this report.

International
Our priority is to deliver value to our shareholders. The last two years or so have seen us address tough decisions in relation to the international business. That said, we continue to see opportunity to create value internationally by leveraging our skills and scale in relatively rapidly growing economies with less developed modern retail sectors where the rate of economic growth coupled with switching to modern retail outlets can generate attractive returns.

Such opportunities need to be taken with focus, flexibility and care. The completion in the past year of our exit from the US underpins the importance of piloting new ventures; of being open to partnership especially in new markets; to selecting rigorously those markets that meet tightly-drawn criteria for investment; and to ensure close management and control of the investments. Many of our choices this year, to enter partnerships in China and India or to invest modestly in an internet start-up in South East Asia, reflect this philosophy of establishing a position of opportunity and testing returns against our criteria as a basis for building long-term, value-enhancing positions.

Governance
In common with other public companies, we are meeting this year new standards of disclosure. Our Remuneration Policy is set out on pages 41 to 61 for shareholders to consider. Our accounts as a whole have been considered by the Board in the light of the new test to be “fair, balanced and understandable.” We have taken seriously the spirit as well as the letter of the new Regulations, which are seeking to build trust between the corporate sector and society generally through levels of transparency and disclosure which are undoubtedly now world-leading.

We were pleased to welcome Mark Armour to the Board in September last year and the expertise, rooted in a long business career, that he brings to our discussions.

We announced on 4 April that Laurie McIlwee had resigned from his position as Chief Financial Officer. I would like to thank Laurie for his contribution to Tesco over the last 14 years. Together with Philip and the wider team, Laurie has played an important role in our process to transform Tesco and position it to be a winner in the new era of retailing. I and the Board wish him every success for the future.

Financial results
Our task is to deliver value to our shareholders and we hold this goal in mind in all our deliberations. The trade-offs at the present time are not straightforward and we continually track the balance between future value and current return, seeking to ensure an optimum balance between the two in the context of the rapid changes which the retail sector is experiencing. This is reflected in a number of one-off write-offs associated with significant business or market developments and in our results generally which have again been held back by the factors I have described. Revenues from continuing operations were broadly flat and underlying profit fell by (6.9%). We understand the importance of the dividend to our shareholders and our confidence in the strategic choices we are making is reflected in an unchanged dividend.

Conclusion
In pursuing our goals, the most important resource we have is our colleagues who are the ones who work unfailingly to anticipate and meet the needs of customers, and I and the whole Board are grateful to each and every one of them for all that they do.

The future is a retail world where retailers will need to operate across multiple channels while meeting wholly different customer expectations for service levels, choice, convenience and overall experience. You may be assured that we will compete hard in the current market but the bigger prize we seek on your behalf is to utilise the unique assets and resources of Tesco to ensure we emerge as leaders in the future world of retailing.

Sir Richard Broadbent
Chairman
Report from the Chief Executive

Our strategic priorities

Our strategy has been developed to drive sustainable growth through three priorities:

1. Continuing to invest in a strong UK business
2. Establishing multichannel leadership in all of our markets
3. Pursuing disciplined international growth

Further discussion around each of these priorities is provided within my report on the following pages.

Introduction

This year marks my 40th year at Tesco. I have found every single one of those years exciting and challenging, but I have never seen such a pace of change within the industry as I have over the past year, driven by both structural and cyclical forces.

Consumer behaviours are changing more quickly than ever before and that means we have to accelerate our rate of change too. Customers are increasingly using technology in all aspects of their everyday lives and the pace of transition to online shopping has been even faster than we expected. Since taking over as Chief Executive of your business in 2011, I have been clear of the need to transform Tesco to be a leader in the multichannel retail environment. The way the market has developed since then has underlined the importance of this strategic choice.

At the same time, consumer behaviours continue to be strongly influenced by economic conditions which have continued to be tough in the markets in which we operate. Overall, consumers are spending more carefully. They are increasingly choosing to shop online or in smaller convenience stores rather than in large stores, which presents a particular challenge for Tesco given the number of large stores we have around the world.

So we face a mix of Tesco-specific issues and broader issues affecting the whole sector and it is important that we tackle both. This is a large agenda and has kept us fully occupied over the past year.

Thanks to the foresight of my predecessors, over the course of more than 17 years, we’ve already developed strong online and convenience businesses. This has ensured we are well-positioned to address the industry-wide changes we are experiencing and we have focused our resources on building on these strengths.

Two years ago, I also outlined plans to deal with the more Tesco-specific issues by improving our offer for customers in the UK through a programme of investment in improved service, quality and price. It was important that we started when we did, and this programme of improvement continues and is being accelerated as competitive conditions intensify. With our strategy already in place, we know what we need to do, and we know that we have to do it even more quickly.

These issues do mean that our headline numbers are not where we want or planned for them to be. We have taken decisive action to improve performance, but the issues we face cannot all be fixed overnight. We need to do more, we need to go faster. I am, however, confident that we have the right strategies and the right team to compete effectively in the current market and to ensure that we emerge a leader in the multichannel world of retailing.

Progress in 2013/14

We laid out our three strategic priorities for the business in April 2013:

1. Continuing to invest in a strong UK business
2. Establishing multichannel leadership in all of our markets
3. Pursuing disciplined international growth

These priorities are even more relevant today than they were when I announced them and we have made progress on each of them.

1. Continuing to invest in a strong UK business

We launched the Building a Better Tesco plan in the UK two years ago and invested £1 billion in six key areas of the business:

- Service & Staff, Stores & Formats, Range & Quality, Price & Value, Brand & Marketing and Clicks & Bricks. As I made clear at the time, we had been running our stores ‘too hot’ for too long and this investment was long-overdue. I have described below some of the progress we have made under each of the areas of the plan.

(i) Service & Staff

Having taken on 8,000 more colleagues in our stores, this year we’ve focused on providing further customer service training. We have delivered training to more than 250,000 colleagues in the UK, helping them to make every moment with customers matter. We have rescheduled 300,000 hours in the last year with the aim of having the right number of colleagues in our stores, in the right departments and at times of the day that customers need them most.

We are seeing improvements in customer perceptions and the proportion of customers
It is essential that customers can trust our prices. We want prices to be stable, we want them to be logical and, of course, we want them to be competitive.”
A good example of the power of Clubcard and of the advocacy that it can drive is the launch of Clubcard Fuel Save.”

“The pace of the transition to online is rapid. This creates challenges for the industry but we have a market-leading, profitable grocery home shopping business.”

Establishing multichannel leadership is about putting the customer at the centre of our offer and building a seamless experience around them, whether they want to shop in a store, online, in our restaurants, at the Bank or across a combination of them all.

Accelerating our plans for customers in the UK

I am clear that we have strengthened the foundations of the UK business, but I am also clear that we need to do more. Above all else, we are focused on delivering the most compelling offer for customers and we are accelerating our plans. Consequently, over the coming months you will see a continuing focus on every day low prices on the lines that matter most, more product innovation and quality improvements that delight, new and improved general merchandise ranges and more Extra stores becoming destinations worth a trip in their own right, while our convenience stores will be best in class.

Our attention to service levels will intensify and we will deliver exceptional value for customers through Clubcard, just as we are doing through the recent launch of Clubcard Fuel Save.

It is this combination of accelerating growth in new channels while investing in sharper prices, improved quality, stronger ranges and better service that places a strain on short-term results. But it is also this combination of actions and strategic choice that will deliver sustainable long-term value. Where we have moved – for example in ending the UK space race, in focusing on cash and capital discipline, in developing grocery home shopping – others in the sector have followed. Our aim is to continue to lead, recognising that structural change on this scale is a long game and it is in our interest – and your interest – to be a long-term winner.

2. Establishing multichannel leadership in all of our markets

Against the backdrop of an accelerating shift to online shopping, our priority of establishing multichannel leadership in all of our markets has never been more relevant. Customers’ behaviours are changing, their expectations of retailers continue to rise and they want to be able to shop however, whenever and wherever they want. We are moving from the first curve of retailing – one of bricks and mortar – to the second curve built around a seamless blend of bricks and clicks.

Establishing multichannel leadership is about putting the customer at the centre of our offer and building a seamless experience around them, whether they want to shop in more channels with us spend more and are more loyal to Tesco. Identifying our most valuable customers and enabling them to shop with us however, whenever and wherever they want is our opportunity.

We have some ambitious goals and bold plans for our multichannel business in
Report from the Chief Executive continued

2014/15: to provide market-leading delivery pricing, twice the number of Click & Collect locations, including alternative locations such as London tube stations, and 2,000 added-value products and services, including Tesco Bank’s current account and digital wallet.

In the medium term, we will offer one-hour delivery slots to the whole of the UK, for non-food as well as food, and for third-party sellers as well as our own products. By doing so, we will effectively create an e-commerce infrastructure not just for Tesco but for others as well. It is because we have the potential to innovate on this scale that we believe your company will emerge a winner in the coming multichannel world of retailing.

3. Pursuing disciplined international growth

Last year, I described our international markets in three cohorts:

• South Korea, Malaysia and Thailand – markets with significant future potential
• Ireland, Czech Republic, Hungary, Poland and Slovakia – markets where we are focused on holding our position and improving returns
• China, India and Turkey – markets where we know we must refocus on a more profitable approach to growth

Through our international businesses we have the opportunity to create value for customers and shareholders by leveraging the know-how that we have gained from nine decades of retailing. In addition to using our scale to better effect across the Group.

As well as doing even more to improve our customer offer across all our markets, we’ve taken action to ensure that this value is realised across each of these three cohorts.

In line with our third strategic priority, we have applied an even greater level of capital discipline. While we continue to allocate capital to markets where we see greatest potential for growth, our investment is lower than previous years and will fall even further as part of our commitment that Group-wide capital expenditure will be no more than £2.5 billion for at least the next three financial years. We are spending more on our existing space due to our accelerated refresh programme, we are maintaining our level of spend on technology and we’re spending significantly less on new space.

Taking our Asian businesses first, we have a strong position in South Korea and it remains a high-returning business for us, but the sales trends have not been as we would have wanted them to be in the last two years. The regulatory restrictions on store opening hours have continued to impact our sales.

Our work, however, to refresh seven of our largest stores, including our stores in Dongduwon and Yuseong, has delivered encouraging results. We also continued to grow our convenience portfolio, with the opening of 71 ‘365 plus’ franchise stores.

We have had a challenging year in Thailand, reflecting the impact of the recessionary conditions on consumers and the political unrest. Thailand is one of our largest international markets and we have implemented a strong plan to improve our offer. We have continued to build a strong multichannel business, growing our grocery home shopping and convenience businesses to almost 1,400 convenience stores.

In Malaysia, our performance has been more resilient. We opened two new stores during the year and grew our grocery home shopping business in its first year of operation.

In Europe, we faced weak momentum running into the start of the year and the challenges were common across our markets with larger stores under-performing. Addressing these challenges we have tailored our plans in each market to provide a more compelling fresh offer, focusing on seasonal events and leveraging our sourcing scale and supply chain capability. We have also used our strengths in Clubcard and F&F to drive further improvements in our offer for customers.

Turkey in particular has faced very challenging economic and competitive conditions and our focus is on finding a profitable model for a country with excellent long-term potential. We are in early stage discussions with potential partners and, should that not prove successful, we also have a range of realistic alternative options.

An excellent example of our strategy in action is our partnership with China Resources Enterprise Ltd. Subject to the usual regulatory approvals, it will give Tesco a 20% ownership stake of the largest food retail business in China. The joint venture, which will be self-funding going forward, will secure significant cost and operational synergies, and will move us more quickly to profitability in what is one of the world’s most exciting retail markets alongside an expert local partner.

We have entered into an agreement with Trent Limited, part of the Tata Group, to form a 50:50 joint venture with Trent Hypermarket Limited, developing our presence in the Indian market.

We firmly believe that our partnerships in both China and India will allow us to capitalise on these enormously exciting markets in a way which is disciplined in our use of capital and focused on profitable growth.

“Through our international businesses we have the opportunity to create value for customers and shareholders by leveraging the know-how that we have gained from nine decades of retailing.”
“We firmly believe that our partnerships in both China and India will allow us to capitalise on these enormously exciting markets in a way which is disciplined in our use of capital and focused on profitable growth.”

Measuring our progress
The single most important theme running through all the developments I have discussed is that stores are no longer necessarily the central point of our relationship with customers. Consequently we are re-orientating the indicators we use to measure and judge our progress to centre them firmly on the customer.

Our customers are at the centre of all our strategic decisions. Quite simply, everything we are doing is designed to retain our loyal customers and attract more new ones who shop across our channels and brands. That is how companies build enduring like-for-like sales. We are prioritising five key performance indicators which will help us measure and communicate our progress against our strategy. These measures place customers, and how they want to shop today right at the heart of everything we do. Focusing on driving customer loyalty and improving sales will lead to sustainable profits, returns and growth over the medium term.

You can read more about our new key performance indicators and how we are measuring performance of the business on pages 16 to 18.

Tesco Bank
Our vision is to be the bank for Tesco customers and to offer simple, transparent and convenient products which reward our customers’ loyalty and strengthen their bond with our business.

This year we have seen good growth in our core banking products with customer accounts for credit cards, loans, mortgages and savings up 14%. In its first full year of trading, our mortgage product has made good progress with balances reaching £0.7 billion. We remain on track to launch current accounts in the first half of 2014/15.

Using our scale for good
Last year we embraced a new Value for the business, recognising that when you are a large company, there is a particular responsibility to be aware of how your actions affect others. This Value is: we use our scale for good. It is based on the recognition that if we harness the breadth of our skills and scale and work together with our partners in the supply chain, we can make a major contribution to some of the biggest challenges facing the communities in which we operate, across the world. As part of this, we chose to take a lead in addressing three challenges which are particularly relevant to us as a large global retailer and are important to our colleagues and customers: reducing food waste globally, improving health and providing opportunities for millions of young people.

We have started the journey of tackling these issues and we are embedding this new Value throughout the business. One of the biggest changes we have made over the last year is in the scale of our engagement. We are joining the global conversation around each of the issues and are working hard to move to a more open, transparent conversation, sharing details of our activities, progress and challenges through our different channels.

We want to make significant, lasting changes, not launch short-term superficial initiatives, and that’s why the focus of this year has been gathering the best possible insights to set long-term direction.

This insight-to-action approach holds the key to our success for the future. It’s the theme of this year’s Tesco and Society report, which is published alongside this report. I’m confident that if we continue down this path over the coming years, we can use our scale for good across society and make what matters better, together.

Management
I would like to thank Laurie McIlwee for his contribution as CFO over the last five years, in particular to the progress we have made on our strategic priorities in the last three years, and before that his very good work on UK distribution. I wish him all the best for the future.

Our Executive Committee has grown stronger this year, welcoming Steve Rigby and David Hobbs, and I am confident that we have the right team to deliver our strategy.

Conclusion
While we do face short-term challenges, I am excited about the future. We see many more opportunities for the medium term and beyond. As customers’ expectations of retailers evolve and we move into the new era of retail, we believe we are uniquely placed to lead.

Tesco has always innovated for its customers. We have the building blocks which will be essential for us to lead in the future: an industry-leading online offer, unrivalled customer insight through Clubcard, a first-class portfolio of stores, and an outstanding team of over 500,000 colleagues around the world who are working harder every day to deliver for our customers. In a rapidly changing market, retaining flexibility is essential and we are confident that we have a business plan which is right for today’s market, and that we are making the strategic decisions to deliver leadership in tomorrow’s market.

Philip Clarke
Chief Executive
Market overview

As customers increasingly choose to shop across different store formats and online, they are looking to retailers to provide a truly seamless, multichannel offer. These changes to customer behaviour and shopping habits come in the context of continuing economic pressure on household budgets and competitive environments in all 12 of our markets.

Macro trends

The economic environment has continued to be challenging in all of our markets. Although there are signs of improvement beginning to appear, we don’t yet see consumers spending more.

In the UK, we use our unique insight from dunnhumby to track how British consumers feel about the economy in general, as well as their own individual situations. Our latest quarterly Consumer Today report shows that although some consumers are starting to feel more upbeat about an improving economy, they are yet to feel the benefit in their own pockets. That is why we remain very focused on helping customers to manage their budgets by offering them great value for money across their shop.

In Central Europe, after a prolonged period of economic pressure, employment levels and consumer confidence are rising, albeit from historically low levels, and real incomes are starting to benefit from lower inflation. Nonetheless, household expenditure is yet to improve significantly.

Although some economies in Asia are rapidly expanding, Thailand fell into recession during the year and consumers struggled with higher levels of debt. Thai consumer confidence was further affected by the escalation of political unrest in the second half of the year. In South Korea consumer confidence has been on a marked upward trend through the year but household debt has reached record highs. Consumer confidence in Malaysia has fallen due to concerns over inflation, low wage growth and a proposed sales tax.

Populations are ageing and household sizes are declining across our markets. In Asia for example, 50% of South Korean households comprise one or two people – a trend also seen in Thailand, in part due to rapid urbanisation. This changing household composition is one factor leading to an increasing preference for convenience shopping.

We believe that in the longer term rising populations, rapid urbanisation and a growing demand for agricultural products present a risk to global food security and highlight the importance of building sustainable supply chains.

* More information about our work to increase the sustainability of our supply chain is available in the Tesco and Society Report.

![UK consumers: how do you expect the financial position of your household to change over the next few months? Will it...](source: 'The Consumer Today', dunnhumby, February 2014)

Consumer trends

More frequent shopping

| Proportion of UK customers shopping three or more times a week for food and groceries |
|----------------------------------|---|
| 29% in 2009                       |
| 49% in 2013                       |

The rise of technology

Technology is changing the way we consume. The role that it plays in customers’ lives has changed as it becomes a fundamental, essential part of everyday life – a way to stay connected, to manage banking and bills, a part of education and often essential for work. While the pace of adoption of online shopping, particularly for groceries, across our markets is unclear, the transition is certainly well underway. It is not just transactional – consumers are increasingly using the internet to research purchases. In the UK, for example, over half of purchases are influenced by digital channels, 63% of shoppers use their smartphone in store and 43% of customers use a mobile phone to compare prices or look up customer reviews while shopping in store. The influence of the internet is rising across all our markets; two thirds of Malaysians have access to the internet, for example, while almost half of Czechs own a smartphone.

![Technology is changing the way we consume.](source: 'The Consumer Today', dunnhumby, February 2014)
Multichannel cuts across the digital and the physical. It is transactional and non-transactional. It is not just about selling products but also about the way we interact with and engage customers. Being truly multichannel is not just about having a website – it is about putting the customer at the heart of our business and giving them one seamless, joined-up relationship, be that through media, social media or even a customer service desk in store.

With this rise of technology and digital capabilities, consumers are changing the way they shop. Customers want to be able to shop however, whenever and wherever they want. They want to shop across store formats, on smartphones and on tablets. They are no longer choosing just a simple trip to a store, but are making much more dynamic and complex journeys to purchase. They are bouncing between channels, placing an order online and picking it up in store, for example. They are combining fewer big shopping trips with more frequent, top-up shops at convenience stores. As their behaviour is changing their expectations of retailers are changing too and they are looking to retailers to provide a truly multichannel offer – one that joins up all the different channels to give them a seamless experience.

Value continues to be a priority for consumers across our markets and they are changing the way they shop in order to find the best value for money. They are on the look-out for the best prices, promotions and deals. The sharp rises in fuel prices across the world coupled with pressure on disposable income has amplified a shift to smaller, more frequent, convenience shopping missions. In the UK, the proportion of customers shopping three or more times a week for food and groceries is up from 29% in 2009 to 49% in 2013.

Health and wellbeing is also a growing trend. Over half of the UK population worry about their health and food is at the centre. Quality fresh food and provenance are priorities for customers across our regions. In Europe and the UK, interest in and awareness of provenance have intensified since the meat contamination issues last year. In Asia wet-markets continue to be a popular choice for fresh meat, fish and poultry.

### Industry trends

**In the UK, food retail sales growth has remained subdued over the last year, reflecting the challenging economic environment and continuing pressure on consumers.**

In the UK, food retail sales growth has remained subdued over the last year, reflecting the challenging economic environment and continuing pressure on consumers. Although new space has been a key driver of top-line growth for many in the industry, we have seen a reduction in large store openings. In the UK net new space among the largest four grocery retailers in 2013 was 38% lower than in 2009. In many of our markets performance of larger stores has been more challenged.

In response to a consumer desire to shop more frequently and closer to home, many retailers are focusing their opening programmes on the convenience market and smaller format stores. An acceleration in openings of small format stores is something we have also observed in our European and Asian markets.

In the UK the online grocery market has continued to grow strongly, with all the major UK food retailers now operating a grocery home shopping service. We have also seen a rapid growth in Click & Collect over the last year, including trials of non-store collection locations. While online grocery is still in its infancy in Central Europe and Asia we expect it to continue to grow. In Poland, for example, the value of the online food market doubled in size from 2008 to 2011, and is expected to have more than doubled again by 2014.

Across our markets the industry remains highly competitive. In the UK and Europe the discounters continue to grow market share and open new stores. Promotional intensity has remained elevated in the UK and couponing has been a feature in many of our markets.

We have seen continued development of own-brand products by retailers across the globe as they seek to appeal to broader groups of consumers and respond to demand for better value.
Our business model explains what we do and how we deliver our core purpose for customers. It is built up around four core retail activities, insight, buy, move and sell. Our key enablers make us unique and help us to continually do these things better.
As a retailer, our business model is based on four core activities. Using our unrivalled insight to understand what customers want, we buy products and services from suppliers, move them through our distribution network and sell them to customers. Most importantly, our core purpose is at the heart of these activities. It is by improving these activities for customers each time they shop with us that we make what matters better, together.

Across the Group, our customers visit us in store, online, or through a combination of different formats and channels. They come to buy their groceries, clothing, general merchandise and services such as telecoms, digital entertainment and banking. We are focused on providing customers with the most compelling offer and the best shopping trip. We work with our suppliers to offer an excellent range of products and services. We move the products through our modern and efficient supply chain into our well-located, multi-format store network, ready for customers to shop with us 24 hours a day.

The core activities form a cycle. To keep customers coming back, we are constantly strengthening our operation. This starts with insight. We listen to customers in a number of ways, including through our monthly Customer Viewpoint surveys in UK stores, in-depth focus groups with our Tesco Families and dedicated Customer Question Time sessions. Combining this feedback with our data, including the unique insight we gain from Clubcard, and acting on it is crucial to our success.

Our seven key enablers are our business strengths. They help us to sustain and improve our core activities. These elements are what make us different and it’s because of these that we are uniquely placed to win.

For example, establishing multichannel leadership and building a seamless offer will enable customers to shop however, whenever and wherever they want, which will mean that we stand out for customers.

Another example is leveraging our Group skill and scale, which is all about sharing our experiences across our operations. We trial in one area of the business and transfer the learnings to another, whether it’s sharing the loyalty scheme blueprint internationally or building capital-efficient grocery home shopping businesses in new markets. Being able to leverage our Group skill and scale makes us unique and helps us to perform the core activities even better.

The momentum of our business model comes from the virtuous circle. By developing economies of scale and investing in an ever-improving customer offer, we drive loyalty and grow sales.

Developing and using economies of scale across our business all over the world, enables us to improve the customer offer by investing in areas such as price, range, quality and service. This year, for example, we completed the roll-out of grocery home shopping to all of our markets (except India). It is a service we developed in the UK and have rolled out in a capital-efficient way to our international businesses, with a great customer response.

Doing the right thing for customers is central to the business model. It’s why one of our Values is ‘no-one tries harder for customers’; we know that if we do the right thing for customers, they will reward us with their loyalty. The more pleased customers are with the shopping trip, the more loyal they will be and the more we will grow our sales. This combination of scale and growth is the driving force of the business model.
Group results 2013/14 (on a continuing operations basis)

<table>
<thead>
<tr>
<th></th>
<th>2013/14 Growth (actual exchange rates)</th>
<th>Growth (constant exchange rates)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Group sales (inc. VAT)*</td>
<td>£70,894m</td>
<td>0.3%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(0.2)%</td>
</tr>
<tr>
<td>Sales growth excluding</td>
<td></td>
<td>0.9%</td>
</tr>
<tr>
<td>petrol</td>
<td></td>
<td>0.4%</td>
</tr>
<tr>
<td>Group trading profit</td>
<td>£5,315m</td>
<td>6.0%</td>
</tr>
<tr>
<td>- UK</td>
<td>£2,191m</td>
<td>3.6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(3.6)%</td>
</tr>
<tr>
<td>- Asia</td>
<td>£692m</td>
<td>5.6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(6.8)%</td>
</tr>
<tr>
<td>- Europe</td>
<td>£238m</td>
<td>(27.7)%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(32.8)%</td>
</tr>
<tr>
<td>- Tesco Bank</td>
<td>£194m</td>
<td>1.6%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>1.6%</td>
</tr>
<tr>
<td>Underlying profit</td>
<td>£5,054m</td>
<td>6.9%</td>
</tr>
<tr>
<td>before tax</td>
<td></td>
<td>(7.7)%</td>
</tr>
<tr>
<td>Underlying diluted</td>
<td></td>
<td>32.05p</td>
</tr>
<tr>
<td>earnings per share</td>
<td></td>
<td>(7.3)%**</td>
</tr>
<tr>
<td>ROCE</td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>(pre-forma inc. China)**</td>
<td></td>
<td>12.1%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(64)bp</td>
</tr>
<tr>
<td></td>
<td></td>
<td>n/a</td>
</tr>
<tr>
<td>Capex</td>
<td>£2.7bn</td>
<td>0.9%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>0.6%</td>
</tr>
</tbody>
</table>

Statutory profit before tax includes:

- One-off items
  (inc. Europe asset impairment of £(734)m) (£801)m

Statutory profit before tax

<table>
<thead>
<tr>
<th></th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>China treated as</td>
<td>£2,259m</td>
</tr>
<tr>
<td>discontinued, including</td>
<td></td>
</tr>
<tr>
<td>a charge of £(540)m</td>
<td></td>
</tr>
<tr>
<td>relating to the</td>
<td></td>
</tr>
<tr>
<td>write-down of goodwill</td>
<td></td>
</tr>
</tbody>
</table>

** Group sales (inc. VAT) exclude the accounting impact of IFRIC 13.
 ***ROCE from an accounting point of view, our existing business in China has to be treated as a discontinued operation, prior to the planned completion of our partnership with CRE. The pro-forma Group ROCE of 12.1% includes our Chinese business to provide a comparable figure to the previously disclosed 2012/13 figure. It is otherwise calculated on a continuing operations basis, excluding one-off charges. Excluding our Chinese business, Group ROCE for 2013/14 was 13.6%.

Group results and strategic update

Group sales for the year were £70.9 billion, an increase of 0.3% at actual exchange rates. Full-year trading profit for our continuing operations declined (6.0)% to £3.3 billion. This was driven by a decline in UK profits and challenges overseas; specifically, the regulatory impact in South Korea, political disruption in Thailand and continuing challenging conditions in Central Europe.

Underlying profit before tax1, which excludes the contribution from property-related items, declined (6.9)% to £3.1 billion. Underlying diluted earnings per share was 32.05 pence.

During the year, we concluded our strategic review in the United States with the sale of the substantive part of Fresh & Easy’s operating business to Yucaipa. We also announced our partnership with China Resources Enterprise Ltd. (CRE), which when completed will give Tesco a 20% ownership stake in the largest food retail business in China. Both of those operations are therefore shown as discontinued.

Reflecting the challenging trading conditions and rapidly changing environments, we have also announced a number of one-off charges. £(801) million2 of these are in continuing operations. These include:

- A non-cash impairment of £(734) million to the carrying values of some stores in the Europe segment.
- An additional £(65) million provision for payment protection insurance and other customer redress at the Bank.

Our statutory profit before tax for the year was £2.3 billion. Despite these charges and a lower contribution from profits and losses on property-related items, Group profit before tax increased by 9.8%, primarily reflecting higher one-off charges last year.

Laurie McIlwee
Chief Financial Officer†

† After 14 years’ service at Tesco, Laurie resigned as Chief Financial Officer on 4 April 2014. He will continue to work with us until October 2014 while a successor is appointed.

‡ See Note 1 on page 79 in the Annual Report and Financial Statements 2014 for the definition of underlying profit before tax.

§ See Note 2 on page 81 in the Annual Report and Financial Statements 2014 for the analysis of restructuring and other one-off items.
There is a £540 million write-down of goodwill in our Chinese business included in discontinued operations. This prudently reflects the lower end of a range of independent valuations of the proposed combination carried out in the second half of the year for accounting purposes. These valuations were, as required by the relevant accounting standards, produced on a standalone existing basis for each business. As such, they do not take account of the strategic value and significant synergies available once the businesses are merged.

Segmental results

**UK**

Full-year sales in the UK declined by (0.1)% and grew by 0.8% excluding petrol. Like-for-like sales declined by (1.3)% including VAT and excluding petrol. This reflects the weaker grocery market, lower inflation across the industry, a continuing drag from our large stores and the work to transform our general merchandise.

**UK results**

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>UK sales</td>
<td>£48,177m</td>
<td>(0.1)%</td>
</tr>
<tr>
<td>UK revenue (exc. VAT, exc. impact of IFRIC 13)</td>
<td>£43,570m</td>
<td>0.0%</td>
</tr>
<tr>
<td>UK trading profit</td>
<td>£2,191m</td>
<td>(3.6)%</td>
</tr>
<tr>
<td>Trading margin (trading profit/revenue)</td>
<td>5.03%</td>
<td>(18)bp</td>
</tr>
</tbody>
</table>

Total sales for the year included a 2.1% contribution from new space, lower than last year as we reduced our new store opening programme. We expect it to be lower again next year.

Our full-year trading margin was 5.03%, a reduction of (18) basis points. Trading margin in the first half increased by 2 basis points, but declined by (28) basis points in the second half. This is reflective of our trading performance and our determination to improve and strengthen the customer offer.

**Asia**

Although we have strong high-returning businesses in Asia with leading market positions, their performance this year reflects a number of challenges. Sales grew by 1.4% at constant rates, including a 5.9% contribution from new stores as we continue to invest in these growth markets. Like-for-like sales declined by (4.5)% and our trading margin declined by almost 60 basis points to 6.71%.

**Asia results**

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>Actual rates</th>
<th>% growth</th>
<th>Constant rates</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia sales</td>
<td>£10,947m</td>
<td>2.7%</td>
<td>1.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia revenue (exc. VAT, exc. impact of IFRIC 13)</td>
<td>£10,309m</td>
<td>2.6%</td>
<td>1.4%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Asia trading profit</td>
<td>£692m</td>
<td>(5.6)%</td>
<td>(6.8)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading margin (trading profit/revenue)</td>
<td>6.71%</td>
<td>(59)bp</td>
<td>(59)bp</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Although we have annualised the introduction of the DIDA opening hours regulations in South Korea, year-on-year changes in the days and hours of the closures have continued to impact sales. We have worked hard to mitigate the residual effects of the regulation by fully aligning our operations to the current pattern of trading.

In Thailand, our performance has been held back by our own execution as well as external pressures. We implemented a strong plan, including steps to address some parts of our offer which underperformed in the first half. This included the remerchandising and remarketing of our ‘Clubpack’ range of bulk buy products, a particularly important category for small traders who shop with us. The Thai economy also fell into recession during the year and this has since been compounded by the recent political unrest.

The full-year numbers for Asia benefited from currency, but in the fourth quarter we saw a negative impact, driven by the Thai Baht. Whilst it is difficult to predict currency movements going forward, this impact has continued into the new financial year.

South Korea, Malaysia and Thailand remain markets in which we see significant future potential and opportunities to invest in high-returning stores. We have opened 2.1 million square feet of new space in these markets this year, a reduction compared to the 2.3 million we opened last year. In the coming year we intend to be even more focused with plans to open 1.2 million square feet, with much of it in convenience.

**Europe**

Conditions in Europe have remained challenging this year, particularly for our large stores. Sales declined (2.0)% at constant rates. Like-for-like sales declined by (3.5)% excluding petrol. Our trading profit for the region declined by (27.7)% at actual exchange rates to £238 million, resulting in a 2.57% trading margin. Our decision to invest in the shopping trip through price, quality, range and service resulted in a stronger second half performance. The region’s like-for-like sales have improved through the year, from (5.3)% in the first quarter to (0.6)% in the fourth quarter.

Reflecting the year-on-year decline in the profits of our European businesses, we revised our long-term budgets. These revisions have resulted in the asset impairment of £734 million to the carrying value of these businesses.

**Europe results**

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>Actual rates</th>
<th>% growth</th>
<th>Constant rates</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Europe sales</td>
<td>£10,767m</td>
<td>(0.4)%</td>
<td>(2.0)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe revenue (exc. VAT, exc. impact of IFRIC 13)</td>
<td>£9,267m</td>
<td>(0.6)%</td>
<td>(2.2)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Europe trading profit</td>
<td>£238m</td>
<td>(27.7)%</td>
<td>(32.8)%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Trading margin (trading profit/revenue)</td>
<td>2.57%</td>
<td>(96)bp</td>
<td>(111)bp</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Poland was a particular focus for us in the year and we are pleased with the customer response to our plans, with an improved like-for-like sales trend through the year.

Ireland has continued to be a difficult market this year with severe pressure on consumer spending, strong competition from the discounters and aggressive couponing activity. Although the launch of Price Promise in the second half has helped improve customer trust in our prices, and we have been working hard to show customers the breadth and points of difference in our offer, our weaker trading performance in this market has impacted on the profitability of our European segment.

We have continued to focus on the heartland of our business in Turkey and the stores there have contributed to a gradual improvement in like-for-like sales over the year. Nevertheless, addressing our position in Turkey is very much a priority.

We continue to be very disciplined in our allocation of capital to Europe. We have reduced capital expenditure in the region by nearly 40% this year, and expect to maintain a similar or lower level of spend in 2014/15. Going forward, new investment will be scarce and focused only on targeted opportunities, primarily in convenience and online.
Financial review continued

Tesco Bank
Tesco Bank generated £194 million trading profit this year. Excluding income from the legacy insurance distribution agreement which terminated in 2012/13 and fair value releases resulting from the unwind of an acquisition accounting adjustment, it grew by 19%.

We have seen good growth in our core banking products with customer accounts for credit cards, loans, mortgages and savings up 14%. After the first full year of trading, mortgage balances have grown to £0.7 billion and we have helped over 4,000 customers to own their homes. Those customers have borrowed an average of just under £170,000 with a loan-to-value ratio of just over 50%. Reflecting the challenging market conditions, with increased competition driving a marked reduction in premiums across the industry, the profit contribution of our Insurance business was down (17)% this year (excluding legacy income).

Tesco Bank results

<table>
<thead>
<tr>
<th></th>
<th>£m</th>
<th>% growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tesco Bank revenue (exc. VAT, exc. impact of IFRIC 13)</td>
<td>£1,003m</td>
<td>(1.8)%</td>
</tr>
<tr>
<td>Tesco Bank trading profit</td>
<td>£194m</td>
<td>1.6%</td>
</tr>
<tr>
<td>Tesco Bank trading margin (trading profit/revenue)</td>
<td>19.34%</td>
<td>63bp</td>
</tr>
</tbody>
</table>

The Bank will soon complete its suite of products with a current account launching in the first half. We expect the growth in underlying trading profit in 2014/15 to be broadly offset by the investment in current accounts.

Within one-off items, the Bank has made a further increase to the provision for payment protection insurance of £(20) million and a provision of £(43) million for other customer redress.

The Bank’s balance sheet remains strong with good levels of liquidity. Although customer deposits remain the primary source of funding, the funding base was diversified during the year with a credit card securitisation and participation in the Funding for of funding, the funding base was diversified during the year with a loan-to-value ratio of just over 50%. Reflecting the challenging market conditions, with increased competition driving a marked reduction in premiums across the industry, the profit contribution of our Insurance business was down (17)% this year (excluding legacy income).

Property
The market value of our property across the Group currently exceeds £34 billion, with the most significant driver of the reduction since last year being the impact of foreign exchange rates.

Historically, by acquiring and developing high-quality stores we grew the value of our property significantly and unrealised property profits built up. We have had an active programme of releasing value from our property portfolio over many years. We continue to look at our property portfolio in order to maximise value in the most appropriate way for the business as a whole. Excluding one-off items, profits arising from property-related items declined to £180 million this year, in line with the reduction of our sale and leaseback programme outlined last year. This year we have focused on South Korea and we completed a sale-and-leaseback in January comprising four Homeplus stores and accompanying mall space.

Pension
Our pension is an extremely valuable benefit for colleagues and one we are proud to offer. IFRS accounting gives a marked-to-market measure of our pension liabilities, based on market conditions which of course can be volatile in the short term, whereas the liabilities are clearly long-term in nature.

Our after-tax IAS 19 pension deficit this year has risen to £2.6 billion, mainly due to a reduction in real corporate bond yields with a subsequent fall in the discount rate used to measure our liabilities. A triennial actuarial valuation will be carried out to measure our liabilities as at 31 March 2014 and this will be completed in 2015.

Return on capital employed
When we complete our partnership with CRE, our Group return on capital employed will reflect our share of the partnership’s assets and profits or losses. Given that we expect to complete the partnership in the first half of 2014/15 we have given a pro-forma Group ROCE including our Chinese business. On this basis, our Group ROCE was 12.1%, which is a comparable figure to the 12.7% we reported last year. Excluding our Chinese business based on its current accounting treatment as a discontinued operation, our Group ROCE would be 13.6%.

The UK continues to earn the highest returns in the Group and our businesses in Asia are high-returning. Europe’s returns remain below cost of capital. We will continue to limit capital expenditure in this region and focus our efforts on improving our offer for customers in existing stores.
After 14 years’ service at Tesco, Laurie resigned as Chief Financial Officer on 4 April 2014. He will continue to work with us until October 2014 while a successor is appointed.

**Our approach to growth and returns**

We laid out this financial framework in April 2013 and it continues to inform our decisions. The framework helps ensure an appropriate balance of growth, returns and cash generation, and outlines what shareholders can expect from Tesco from a financial perspective in the medium term.

<table>
<thead>
<tr>
<th>Financial disciplines</th>
<th>Guiderails</th>
</tr>
</thead>
<tbody>
<tr>
<td>Generate positive free cash flow</td>
<td>Trading profit growth</td>
</tr>
<tr>
<td>Allocate capital within range of 4% down to 3.5% of sales</td>
<td>Sustainable ROCE</td>
</tr>
<tr>
<td>Maintain a strong investment grade credit rating</td>
<td>Dividend growth</td>
</tr>
</tbody>
</table>

The changes we have announced to capital expenditure underpin our commitment to this framework. This moves capital expenditure to the bottom of our 4% down to 3.5% of sales guiderail. This even greater focus on capital discipline will help maintain the commitment to generate positive free cash flow, maintain a strong balance sheet, and continue to maintain a strong dividend.

I wish Philip and the team well and am absolutely confident that Tesco will emerge from this period of unprecedented change in the industry stronger than ever.

*After 14 years’ service at Tesco, Laurie resigned as Chief Financial Officer on 4 April 2014. He will continue to work with us until October 2014 while a successor is appointed.*

Laurie McIlwee
Chief Financial Officer*
Key performance indicators

With our strategy now focused on delivering even greater loyalty from our customers, we place even greater emphasis across the business on improving five customer-focused key performance indicators. Whilst we continue to track a range of financial and non-financial measures, it is these five which each of our businesses now uses to gauge progress.

Key performance indicators of our strategic performance
We have entered the new, multichannel world of retail and customers’ expectations have changed. Customers have increased access to more and more retailers simply at their search bar on their smartphone and our success will be a result of more customers choosing Tesco in preference to others.

As a result of this fundamental change, we have prioritised our customer-focused measures to track and communicate our progress against the strategy. We believe these five KPIs are more relevant today, during this time of transition and transformation, than some of our historical and short-term measures.

Everything we are doing to create the most compelling offer is designed to retain our most loyal customers, attract new ones and allow them to shop however, whenever and wherever they want to. These measures both allow us to monitor our progress and to create value because they are entirely focused on customers and how they choose to shop. Greater loyalty delivers greater lifetime value so we are tracking the behaviours of our loyal Clubcard customers – those who are most engaged and typically spend more with us. Focusing on our loyal customers is how we are driving the transformation we are going through and is how we will build enduring like-for-like sales.

The measures contained in this section are for our core UK business where they are particularly relevant. They do however apply to every part of our business – whether it’s a store, a category, a country or a department – and we are using them across the Group to drive the behaviours that we believe will lead to long-term success.

1. Our customers come back time and again
70.0% retained loyal customers

Definition: Percentage of last year’s loyal customers* who are still loyal to Tesco
Commentary: Doing the right thing for our loyal customers and retaining their loyalty is our first priority. The more we get it right for them, the more all customers will benefit.

2. New customers choose us
29.1% of new loyal customers

Definition: New loyal customers* as a percentage of last year’s loyal customer base
Commentary: We want to build our loyal customer base so in addition to retaining our existing loyal customers, we want to attract new ones. Our investments in the customer offer are designed to create long-term value for new customers too.

3. Our customers can shop how they want
59.7% customers shopping across channels

Definition: Percentage of loyal customers* who in the last 13 weeks have shopped two or more channels**
Commentary: This measure helps us to monitor whether we are providing the truly multichannel offer that customers want in the new era of retailing. We know that customers who shop across channels spend more with us and this measure tracks whether they are shopping between different sized stores, grocery online and services.

4. Our customers use us for more
64.3% shop the family brands

Definition: Percentage of loyal customers* who in the last 13 weeks have bought / held products from Bank, Telecoms, Clothing***
Commentary: Our multichannel, multibrand strategy is founded in the belief that the whole is more than the sum of the parts. This measure tracks whether we are building loyalty and value across our brands and channels.

5. Loved by customers

Our final measure is one of customer advocacy. Whilst the first four are functional measures, we know that for our brand to be loved, liked or actively chosen, our emotional connection with our customers must get stronger. Emotionally-loyal customers, advocates and fans become brilliant ambassadors and drive word of mouth, as well as engaging more broadly and deeply with the business. There are many different ways of measuring advocacy, not least using a net promoter score, but they all add up to something similar – do customers like you enough to recommend you to others?

* Loyal customers are defined based on their frequency of spend and average weekly spend.
** Channels include: large stores, convenience stores, grocery home shopping, Tesco Direct and Wine by the case.
*** Current results do not include Blinkbox, Clothing online, Nutricentre, Dobbies and our new coffee shops and restaurants. These will be tracked going forward.
Measures of current financial performance

Group performance

Growth in underlying profit before tax

<table>
<thead>
<tr>
<th>Year</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>(6.9)%</td>
<td>12.1%</td>
<td>(6.9)%</td>
<td></td>
</tr>
</tbody>
</table>

Return on capital employed (‘ROCE’)

<table>
<thead>
<tr>
<th>Year</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROCE</td>
<td>12.7%</td>
<td>12.1%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Growth in underlying diluted earnings per share (at a constant tax rate)

<table>
<thead>
<tr>
<th>Year</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>(7.3)%</td>
<td>10.8%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Performance

Our underlying profit performance this year reflects weaker market conditions in the UK, difficult trading conditions in Europe, the impact of opening hours regulations in South Korea and a weak economy in Thailand.

* The 2012/13 figure including China was (14.5)%.

Group financial ratios

Total shareholder return (‘TSR’) %

<table>
<thead>
<tr>
<th>Year</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>TSR</td>
<td>(0.2)%</td>
<td>(18.7)%</td>
<td>22.5%</td>
<td>(6.3)%</td>
</tr>
</tbody>
</table>

Performance

TSR improved on an annualised, five-year basis, reflecting the impact of the economic crisis in 2008/09 and our efforts to strengthen the business since. On a one-year basis the total shareholder return was (6.3)% which reflects a declining share price.

Net indebtedness

<table>
<thead>
<tr>
<th>Year</th>
<th>08/09</th>
<th>09/10</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Times</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Performance

Our net indebtedness has remained broadly stable at 3.16 times, reflecting our focus on cash and capital discipline.

Gearing

<table>
<thead>
<tr>
<th>Year</th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gearing</td>
<td>40.8%</td>
<td>38.4%</td>
<td>39.6%</td>
<td>44.8%</td>
</tr>
</tbody>
</table>

Performance

Despite flat net debt year-on-year, the increase in our gearing ratio is due to lower net assets. This is largely as a result of our actions to impair asset values in Europe and goodwill in China.

Capital expenditure (‘capex’) as % of sales

<table>
<thead>
<tr>
<th>Year</th>
<th>08/09</th>
<th>09/10</th>
<th>07/08</th>
<th>09/10</th>
<th>11/12</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capex</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Performance

Capex was £2.7 billion, a similar level to 2012/13 on a continuing operations basis. It fell significantly in Europe and the UK and increased in Asia, in line with our priority for disciplined international growth.

* The 2012/13 figure including China was 4.1%.

Definitions for the KPIs on pages 17 and 18 can be found in the glossary on page 143.

All KPIs on pages 17 and 18 (apart from return on capital employed, gearing, TSR, net indebtedness and fixed charge cover) exclude the results from our operations in the United States and China for 2012/13 and 2013/14, with the exception of reduction in CO2e emissions which includes China.
Key performance indicators continued

We have previously reported a number of other performance indicators and on this page we continue to report against those measures under our strategic priorities and scale for good.

Our strategic priorities

### UK like-for-like (inc. VAT, exc. petrol)

<table>
<thead>
<tr>
<th></th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>1.0%</td>
<td>0.0%</td>
<td>(0.3)%</td>
<td>(1.3)%</td>
</tr>
</tbody>
</table>

#### Bank profit

<table>
<thead>
<tr>
<th></th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trading profit</td>
<td>£225m</td>
<td>£191m</td>
<td>£194m</td>
</tr>
<tr>
<td>Profit excluding legacy income and fair value releases</td>
<td>£140m</td>
<td>£158m</td>
<td>£189m</td>
</tr>
</tbody>
</table>

#### UK trading profit

<table>
<thead>
<tr>
<th></th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>Performance</td>
<td>UK trading profit declined by (3.6)% with a lower trading margin of 5.0%, reflecting our continued determination to invest in our customer offer despite the weakening UK grocery market.</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Reduction in CO₂ emissions from existing stores and distribution centres

<table>
<thead>
<tr>
<th></th>
<th>10/11</th>
<th>11/12</th>
<th>12/13</th>
<th>13/14</th>
</tr>
</thead>
<tbody>
<tr>
<td>n/a</td>
<td>n/a</td>
<td>32.5%</td>
<td>34.7%</td>
<td></td>
</tr>
</tbody>
</table>

#### Partner viewpoint – percentage of positive responses to the question ‘I am treated with respect’

67% down 4% from 2013

#### Donation of pre-tax profits to charities and good causes

£53 m down £13 m from 2013

### Colleague retention

90% in the UK down 1% from 2013

### Colleagues being trained for their next role

6.2% across the Group +0.7% from 2013

In addition to the discussion around employee, environmental, community and social issues embedded in this Strategic Report, you can find a great deal more information in our Tesco and Society Report (www.tescoplc.com/society) about how we are starting to tackle three urgent issues facing society – food waste, improving health and youth unemployment. It also shows how we are strengthening our work in the four essential areas – trading responsibly, reducing our impact on the environment, being a great employer and supporting local communities – which are fundamental to the way we do business.
Other statutory disclosures

Respecting human rights
As a global multichannel retailer we buy, move and sell products through our stores and online and our business interacts with millions of people every day. We have a responsibility to respect the human rights of our colleagues, our customers, the communities we operate in and the people who work throughout our supply chain.

Our approach
We are committed to upholding basic human rights and support in full the UN Universal Declaration of Human Rights and the International Labour Organization Core Conventions. We were a founding member of the Ethical Trading Initiative and expect all our suppliers to work towards fully implementing the base code. We investigate allegations of human rights infringements and take appropriate action where necessary. To review our policy visit www.tescoplc.com/society/resources.

In addressing human rights we consider our potential impacts on the following groups as a priority:

• Our colleagues: Our people policies are designed to make Tesco a great place to work where everyone is welcome
• Our supply chain: Building strong partnerships with trusted suppliers will ensure that we deliver high-quality and safe products that are responsibly produced
• Our customers and the communities in which we operate: Our customers want to buy high-quality products that are produced safely and responsibly. We want to be a good neighbour wherever we operate.

Through our scale for good strategy we are addressing some of the key challenges that societies are facing which are closely aligned to specific human rights as defined by the UN. For example:

• Right to education – we are working to provide opportunities for millions of young people
• Right to be free from hunger – we are building close relationships with food banks and food surplus charities who are helping to feed people in need
• Right to the enjoyment of the highest attainable standards of physical and mental health – we are helping our colleagues and customers to lead healthier lives.

The complexity of addressing human rights risks and concerns should not be underestimated. We believe that openness and responsiveness are essential in the identification and remedy of issues. We also understand we can not always address issues alone and so are committed to working in partnership with relevant stakeholders to make improvements.

Governance and monitoring
Our governance committees consider financial and non-financial risks to our business and the Compliance and Social Responsibility Committees in particular consider risks related to our Human Rights Policy, which are maintained on our company risk register. Key elements of our Human Rights Policy are incorporated into our Code of Business Conduct which is reviewed by our senior managers once a year.

Our established ‘protector line’ is primarily used by colleagues and contractors to report suspected breaches of our Code of Business Conduct or internal company policies. Next year we are launching an independent ‘protector line’ service for use by any of our suppliers. Their employees will be able to raise confidentially concerns of wrongdoing in the provision of either goods or services for or on behalf of Tesco. Issues will be recorded, investigated and where necessary action will be taken.

Improvement
In 2013, we commissioned PricewaterhouseCoopers to carry out an analysis of our Human Rights Policy. Based on these findings we are revising our policy. This includes putting more emphasis on our human rights responsibilities in a revised Code of Business Conduct.

Diversity
We approach diversity in its broadest sense, recognising that successful world-class businesses flourish through embracing intellectual, experiential, geographical and skills diversity as well as other factors such as age, disability, gender, race and sexual orientation. The ratio of male to female colleagues, based on the number of employees at year end, is outlined below:

<table>
<thead>
<tr>
<th></th>
<th>Male</th>
<th>Female</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board of Directors</td>
<td>8</td>
<td>3</td>
</tr>
<tr>
<td>Senior managers –</td>
<td>667</td>
<td>193</td>
</tr>
<tr>
<td>Directors</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Senior managers –</td>
<td>3,994</td>
<td>1,739</td>
</tr>
<tr>
<td>Directors and managers</td>
<td></td>
<td>22%</td>
</tr>
<tr>
<td>All employees</td>
<td>216,763</td>
<td>288,781</td>
</tr>
<tr>
<td></td>
<td>43%</td>
<td>57%</td>
</tr>
</tbody>
</table>

Senior roles are demanding for all – regardless of gender – and we are determined to develop a culture and environment where people can advance. We introduced a ‘Women in Leadership’ development programme in 2011 and so far a total of 440 female colleagues have completed or are currently on the programme.

Greenhouse gas emissions
Greenhouse gas (‘GHG’) emission reporting
This year our carbon footprint was 6.37 million tonnes of CO₂e. Our overall carbon intensity has decreased by 35% since 2006/07.

We have calculated our carbon footprint according to the WRI/WBCSD Greenhouse Gas (‘GHG’) Protocol. We follow the operational control approach and use emission factors from Defra/DECC’s GHG Conversion Factors for Company Reporting 2013. For more information on our carbon targets and how we calculate our carbon footprint, including reporting standards, the definition of Scope 1, 2 and 3 emissions, and ERN CVS’s Independent Assurance Statement, see www.tescoplc.com/society/resources.

**GHG emissions data for period 24 February 2013 to 22 February 2014**

<table>
<thead>
<tr>
<th></th>
<th>Base year 2006/07</th>
<th>2012/13</th>
<th>2013/14</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Scope 1</strong></td>
<td>1,346,077</td>
<td>1,434,788</td>
<td>1,370,726</td>
</tr>
<tr>
<td><strong>Scope 2</strong></td>
<td>2,692,216</td>
<td>3,489,248</td>
<td>3,409,319</td>
</tr>
<tr>
<td><strong>Scope 1 and 2 carbon intensity</strong> (kg CO₂e/sq ft of stores and DCs)</td>
<td>49.89</td>
<td>32.38</td>
<td>30.89</td>
</tr>
<tr>
<td><strong>Scope 3</strong></td>
<td>370,406</td>
<td>581,701</td>
<td>497,422</td>
</tr>
<tr>
<td><strong>Scope 3 T&amp;D/WTT emissions</strong></td>
<td>761,213</td>
<td>817,657</td>
<td>1,094,852</td>
</tr>
<tr>
<td><strong>Total gross emissions</strong></td>
<td>5,169,912</td>
<td>6,323,394</td>
<td>6,372,319</td>
</tr>
<tr>
<td><strong>CO₂e from renewable energy exported to grid</strong></td>
<td>–</td>
<td>829</td>
<td>163.63</td>
</tr>
<tr>
<td><strong>Total net emissions</strong></td>
<td>5,169,912</td>
<td>6,322,565</td>
<td>6,372,155</td>
</tr>
<tr>
<td><strong>Overall net carbon intensity (total net emissions kg CO₂e/sq ft of stores and DCs)</strong></td>
<td>63.88</td>
<td>41.58</td>
<td>41.17</td>
</tr>
</tbody>
</table>
Principal risks and uncertainties

A key challenge for any business is to identify the principal risks it faces and to develop and monitor appropriate controls. A successful risk management process balances risks and rewards and relies on sound judgement of their likelihood and impact. The Group maintains a Key Risk Register of the principal risks faced by the Group, including the likelihood and impact of risks and the controls and procedures implemented to mitigate them. Our process for identifying and managing risks is set out in more detail on page 40 of the Annual Report and Financial Statements 2014.

The table below sets out the principal risks faced by the Group, and examples of relevant key controls and mitigating factors. The Board considers these to be the most significant risks faced by the Group. They do not comprise all the risks associated with the Group and they are not set out in any order of priority. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

As customers’ disposable income remains stretched, the competitive intensity of the retail marketplace also continues to grow. It is against this backdrop that there has been a trend towards increasing net risk during the year.

Whilst the economic situation in our principal market, the UK, is beginning to show some improvement, there are increased levels of economic, political and regulatory volatility in the wider global marketplace which have increased the assessed level of net risk that the business faces in these areas. The ongoing austerity programmes in Asia and Europe and the fiscal and regulatory measures that apply to the retail sector, for example the DIDA Act in South Korea, have continued to challenge the business. An increase in the rating of economic, political and regulatory risks since last year is principally driven by a revised view of the likely impact of these risks on the business, particularly in the context of the global marketplace and the financial and trading position of the Group.

The ongoing delivery of our multichannel vision, combined with a growing focus on customer data, has also heightened our sensitivity to the impact of technology risks. The impact assessment of technology has therefore increased and this remains a key area of focus.

Significant efforts by management to mitigate risks and strengthen controls have reduced the assessment of the likelihood of certain risks occurring. Notable examples include: product safety and ethical trading, reputation and property. Changes to the Group’s property strategy in the year have also reduced the overall property net risk rating.

<table>
<thead>
<tr>
<th>Principal risks</th>
<th>Key controls and mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Business strategy</strong></td>
<td></td>
</tr>
<tr>
<td>If our strategy follows the wrong direction or is not effectively communicated or implemented, the business may suffer</td>
<td>• Strategic matters are regularly reviewed by the Board and Executive Committee; the Board dedicates two full days a year to testing and challenging Group strategy</td>
</tr>
<tr>
<td>The retail industry is undergoing a transformational change in this digital age. The challenge is in balancing investment and the emphasis between traditional and new</td>
<td>• Our plan is clear and focused on our three priorities: a strong UK business; multichannel leadership; and disciplined international growth</td>
</tr>
<tr>
<td>Investor support may be impacted if it takes longer than expected to demonstrate that our strategy is the right one, or if we cannot make the investments required</td>
<td>• A disciplined approach is taken with underperforming assets and decisive action is taken on strategy as appropriate, including the recent decisions regarding operations in the US, China and India. See the Chairman’s statement and the Report from the Chief Executive on pages 1 to 7 for more details</td>
</tr>
<tr>
<td>An unclear or unsuccessful strategy against the growth of budget retailers could adversely impact our market share and profitability</td>
<td>• We continue to invest in the customer offer through initiatives such as Price Promise, which aim to improve customer perception of our relative price position</td>
</tr>
<tr>
<td>Our ability to operate successfully in international markets may be restricted if we do not follow the right strategy in each market, which in turn could adversely impact the Group’s profitability</td>
<td>• The structure of our executive sub-committees is designed to focus on key risks through the work of the Group Commercial, Compliance, Multichannel, Technology, People Matters Group, Property Strategy and Social Responsibility Committees</td>
</tr>
<tr>
<td><strong>Financial strategy</strong></td>
<td></td>
</tr>
<tr>
<td>Risks relate to an incorrect or unclear financial strategy and the failure to achieve financial plans</td>
<td>• Significant resource is invested to communicate strategy effectively to those delivering it</td>
</tr>
<tr>
<td>There are risks that our financial guiderails will not be achieved, or if achieving them means that the business is stretched in the short-term at the expense of investment in our long-term strategy</td>
<td>• Consistent operational plans are developed throughout the Group to ensure delivery</td>
</tr>
<tr>
<td>Weak performance could put pressure on free cash flow and credit metrics and affect our credit rating</td>
<td>• A Steering Wheel balanced scorecard system helps to monitor delivery</td>
</tr>
<tr>
<td>Financial strategy risks and performance are regularly reviewed by the Board and Executive Committee, with external advice obtained as required</td>
<td>• Structured stakeholder engagement programmes are conducted; an investor and analyst seminar was hosted in February 2014 to reiterate our strategic priorities</td>
</tr>
<tr>
<td>We have set clear expectations for the market with our financial disciplines and guiderails: improving capital discipline; greater focus on balancing growth with returns; and being more focused on cash rather than margins. See the Financial review on pages 12 to 15 for more details</td>
<td></td>
</tr>
<tr>
<td>The Balance Sheet Committee regularly reviews gearing and net debt management</td>
<td></td>
</tr>
<tr>
<td>Consistent operational plans and budgets are developed throughout the Group to help drive delivery</td>
<td></td>
</tr>
<tr>
<td>A Steering Wheel balanced scorecard system helps to monitor delivery</td>
<td></td>
</tr>
<tr>
<td>Structured stakeholder engagement programmes are conducted so that expectations are clear</td>
<td></td>
</tr>
</tbody>
</table>
Principal risks

**Competition and consolidation**

Failure to compete on areas including price, product range, quality and multichannel service in increasingly competitive UK and overseas retail markets could impact our market share and adversely affect the Group’s financial results.

New entrants to the market and the consolidation of competitors through mergers or trade agreements in key markets or geographical areas could adversely impact our market share.

**Reputational risk**

Failure to protect the Group’s reputation and brand in the face of ethical, legal, moral or operational challenges could lead to a loss of trust and confidence and a decline in customer base, and also affect our ability to recruit and retain good people.

If we do not make positive contributions to society and effectively communicate these, this may adversely impact our ability to win and retain customer trust and loyalty.

**Performance**

If business units (including the UK) underperform against plan and against competitors, our business may fail to meet the stated strategy in full and impairment of asset values may result.

The delivery of long-term goals and sustainable performance may be impaired if the business focuses too heavily on short-term targets.

Key controls and mitigating factors

- Our strategy to have broad appeal on price, range and format and to take the lead as a multichannel business, allows us to compete in different markets.
- A more diversified portfolio, such as our new food experience investments in Giraffe, Harris and Hoole and Euphorium, allows us to take advantage of new retailing opportunities.
- Our Executive and Multichannel Committees and Trading Groups regularly review markets, trading opportunities and competitor activities, including discounter growth, convenience and online activities.
- We continue to innovate and invest in online and multichannel activities, including our grocery, clothing and general merchandise offerings in the UK and internationally.
- Increased global marketing efforts aim to maximise the impact of our brand and intellectual property.
- Performance is tracked against relevant KPIs and measures that customers tell us are critical to their shopping experience.
- Customer perceptions of Tesco and competitors are constantly monitored to allow us to respond quickly and appropriately.

- Tesco Values are at the heart of how we do business to help us to consistently and transparently do the right thing for customers, colleagues and society as a whole.
- Through our newest Value – ‘we use our scale for good’ – we are tackling some of the most important issues for society: creating opportunities for young people, improving health, and reducing food waste. These ambitions build on the essential work we do every day as a responsible business: trading responsibly, reducing our impact on the environment, being a great employer and supporting local communities.
- We have established an external advisory panel of experts to challenge and help shape the strategic direction of this important work. See our Tesco and Society Report 2014 for more details.
- Communication and engagement programmes help us to understand stakeholder views and reflect them in our strategy and policies.
- Building strong relationships with our trading partners (suppliers) allows us to recognise and anticipate changes in our industry so we can continue to provide quality, affordable products at a great price and which are sourced responsibly.
- Our embedded Group Code of Business Conduct, Bribery Act and UK Groceries Supply Code of Practice guidelines guide our behaviour in dealing with customers, employees, suppliers and other stakeholders.
- Comprehensive and improved supplier auditing and product surveillance programmes are in place to minimise the risks associated with product integrity and labour standards.
- Governance committees, including the Executive, Corporate Responsibility, Group Commercial, Social Responsibility, Compliance, Multichannel and Technology Committees, guide and monitor policies.
## Principal risks and uncertainties continued

<table>
<thead>
<tr>
<th>Principal risks</th>
<th>Key controls and mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Property</strong></td>
<td><strong>Principal risks</strong>&lt;br&gt;The acquisition, development and management of property sites carry inherent risk. Challenges may arise in relation to obtaining planning or other consents; compliance with varying country safety, design and construction standards; tenant management; and maintaining a cost-effective estate with the right balance of freehold and leasehold sites&lt;br&gt;<strong>Key controls and mitigating factors</strong>&lt;br&gt;- Calling an end to the ‘space race’ and our change of strategy in markets such as China has reduced property acquisition and development risk. There is now greater focus on repurposing space and managing our freehold and leasehold balance wisely and profitably&lt;br&gt;- Group Property Strategy, Property Acquisition and related committees regularly review, and closely control, property acquisition, planning, construction and repurposing processes to ensure standards are met and risks are minimised&lt;br&gt;- Group Property Blueprints are adopted to ensure consistency of approach&lt;br&gt;- Group and country Compliance Committees monitor legal and regulatory compliance in property activities&lt;br&gt;- Mall management systems are in place to assist site management</td>
</tr>
<tr>
<td><strong>Economic</strong></td>
<td><strong>In each country where we operate, we are impacted by the underlying economic environment, the impact of austerity programmes on consumer spending and the fiscal measures that apply to the retail sector</strong>&lt;br&gt;<strong>Key controls and mitigating factors</strong>&lt;br&gt;- The external economic outlook is carefully considered when developing strategy and is continuously monitored through the Executive Committee’s review of performance&lt;br&gt;- Country developments are continuously monitored through local CEOs&lt;br&gt;- A central Euro Disaster Committee monitors developments in the Eurozone&lt;br&gt;- We try to anticipate and contribute to important changes in public policy wherever we operate</td>
</tr>
<tr>
<td><strong>Political and regulatory</strong></td>
<td><strong>In each country where we operate, we may be impacted by legal and regulatory changes, increased scrutiny by competition authorities and political developments relevant to domestic trade and the retail sector</strong>&lt;br&gt;<strong>The regulatory landscape is becoming more restrictive in many markets, which may impact how we trade. Examples include stricter rules regarding opening hours, customer, supplier and data protection, corporate crime and heightened banking regulation</strong>&lt;br&gt;<strong>Key controls and mitigating factors</strong>&lt;br&gt;- Engagement with governmental and non-governmental organisations in a positive and supportive way allows us to represent the views of our customers and employees and to manage the impact of political and regulatory changes. We try to anticipate and contribute to important changes in public policy wherever we operate&lt;br&gt;- Country developments are continuously monitored through local CEOs&lt;br&gt;- Group and country Compliance Committees, with support from our Regulatory Ethics and Compliance Team, monitor and guide legal and regulatory compliance&lt;br&gt;- The Tesco Bank Executive and Treating Customers Fairly Board oversee Tesco Bank’s compliance with regulatory requirements&lt;br&gt;- Compliance with the UK Groceries Supply Code of Practice (‘Code’) is carefully monitored by our Code Compliance Officer</td>
</tr>
<tr>
<td><strong>Product safety and ethical trading</strong></td>
<td><strong>Failures could damage customer trust and confidence, impacting our customer base and therefore financial results</strong>&lt;br&gt;<strong>Key controls and mitigating factors</strong>&lt;br&gt;- Our Group Product Policy is implemented and monitored across the business by Group technical teams&lt;br&gt;- We have changed the way we work, following the horsemeat crisis, to be more vigilant and to improve our capabilities on anticipating and managing emerging issues; we have also appointed an Incident Management expert to build expertise across the business&lt;br&gt;- Appropriate controls are in place around key risks including product development; the approval and management of supplier sites; standards in distribution; the monitoring of labour standards in our supplier base; the competency of our people; and management of crises, emerging issues and changes in regulatory standards&lt;br&gt;- Detailed, established procedures are operating globally to ensure product integrity&lt;br&gt;- Product surveillance programmes are in place, including DNA traceability programmes&lt;br&gt;- Group and country Compliance Committees monitor the management of risks associated with products, suppliers and operations</td>
</tr>
</tbody>
</table>
Principal risks

Technology

Any significant failure in the IT processes of our retail operations, online and in stores, would impact our ability to trade.

As the digital marketplace grows, a lack of investment in technology, or investment in the wrong areas, may constrain multichannel growth and impact our competitiveness.

Insufficient investment in, or ineffective implementation of, controls over our online presence could increase the likelihood of a successful cyber-attack.

Whilst investment is made in new technologies, there is a risk that investment is not made to maintain the controls over the existing technology, which may impact systems availability and security, including the security of personnel, supplier or customer data.

As customers and colleagues become increasingly sensitive to matters of data usage, storage and security, the inherent reputational risks of the IT control environment have increased, in conjunction with the financial and regulatory risks.

Key controls and mitigating factors

- Our IT strategy is approved and reviewed by the Executive Committee to ensure that investments in IT systems and innovations improve business efficiency and customers’ shopping experience.
- We continue to invest in IT to respond to the growing range of IT-related threats and risks.
- The Group Technology Committee monitors controls to maintain the integrity and efficiency of our IT infrastructure and data.
- The Information Security Committee meets regularly to review the development and implementation of policies.
- Rigorous governance processes must be followed for new systems implementations and ongoing change management of existing IT.
- The reporting lines of our Group Information Security and IT Security teams have been merged to allow for better integration and efficiencies in addressing IT security risks.
- Processes are in place to monitor and deal with significant IT security incidents.
- Improved Group Wide Area Network infrastructure and the standardisation and centralisation of systems across international operations will help to improve the availability and consistency of technology.

People

Failure to attract, retain, develop and motivate the best people with the right capabilities at all levels could limit our ability to succeed.

The world of multichannel retail is increasingly people-focused and demands new technical and social skills. Our leaders must play a critical role in helping to model the organisation we want to be.

- Our People Matters Group (‘PMG’) regularly meets to review and monitor people policies, procedures and risks.
- Clear processes are in place to ensure we understand and respond to employees’ needs through our PMG, colleague surveys, regular performance reviews, the involvement of trade unions in relevant markets and the regular communication of business developments.
- Talent planning and people development is a key objective for each member of the Executive Committee.
- Significant investment is made in training, development and incentives, including through our Executive Committee Talent Cycle, talent planning, leadership development and succession planning for the future needs of the business.
- The Employment Policy Committee is responsible for the development of our Employment Policy Blueprint to ensure we have appropriate pay, pension and share plan arrangements to attract and retain good people across the business.

Treasury

Effective cash and debt management is critical to the running of the business. Failure to ensure the availability of funds to meet the needs of the business or to manage interest or exchange rate fluctuations or credit risks could limit our ability to trade profitably.

- An annual Finance Plan and General Board Authority set out the controls and authority limits for Treasury matters.
- We expect our financial disciplines and guiderails to have a positive impact on cash and debt management.
- The Balance Sheet Committee meets regularly to monitor Treasury risks and manage the liquidity needs of the business.
- An annual Treasury Review is carried out by the Executive Committee.
- Comprehensive Treasury policies set out processes and controls around the use of financial instruments, hedging, liquidity, bank account management and the segregation of duties required between our back and front offices.
- Further detail on the management of financial risks can be found in the ‘Financial risks review’ table on page 25 and in Note 22 on page 104 of the Annual Report and Financial Statements 2014.
Principal risks and uncertainties continued

<table>
<thead>
<tr>
<th>Principal risks</th>
<th>Key controls and mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tesco Bank</strong></td>
<td>• The Bank has a defined ‘Risk Appetite’, approved and regularly reviewed by both the Bank’s Board and the Tesco PLC Board, which sets out the key risks, their optimum ranges, alert limits and the controls required to manage them within their approved tolerance limits</td>
</tr>
<tr>
<td>Financial risks taken by Tesco Bank (the ‘Bank’) could adversely impact the Group. The key financial risks relating to the Bank include interest rate, liquidity, credit and insurance risks which are detailed in Note 22 on page 107 of the Annual Report and Financial Statements 2014</td>
<td>• The Bank has formed good working relationships with the Prudential Regulation Authority and Financial Conduct Authority</td>
</tr>
<tr>
<td>Changes to financial regulations, including in relation to credit card interchange fees, could impact banking profitability</td>
<td>• There is a comprehensive structure of governance and oversight in place, including through the Bank’s Governance and Conduct Committees, to help ensure the Bank’s compliance with applicable laws and regulations</td>
</tr>
<tr>
<td>A vote in favour of Scottish independence from the UK in September 2014 could impact the fiscal, monetary and regulatory environment within which the Bank, which is headquartered in Edinburgh, operates</td>
<td>• The Group remains politically neutral and carefully monitors developments to enable it to respond to whatever decision is reached on Scottish independence</td>
</tr>
<tr>
<td><strong>Pensions</strong></td>
<td>• We have a diversified investment strategy with internal controls and visibility through our in-house investment team at Tesco Pension Investments</td>
</tr>
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<td>The IAS 19 deficit could increase if there is a fall in corporate bond yields which is not offset by an increase in the pension scheme’s assets</td>
<td>• We regularly review our pension risks and changes were introduced in 2012 to reduce the scheme’s life expectancy and inflation risks</td>
</tr>
<tr>
<td>Other risks affecting the deficit are detailed in Note 26 on page 112 of the Annual Report and Financial Statements 2014 and include investment, inflation and life expectancy risks</td>
<td>• The dedicated Pensions Audit and Risk Committee continues to monitor and scrutinise the internal controls around pension and investment risks</td>
</tr>
<tr>
<td>There are also increasing risks of legal and regulatory changes introducing more burdensome requirements</td>
<td>• Pensions and Treasury Directors review pension risks on a monthly basis</td>
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<tr>
<td></td>
<td>• External expert advisors and Pension Fund Trustees are fully engaged to consider the funding position and fund performance as well as the impact of legislative and regulatory changes</td>
</tr>
<tr>
<td><strong>Fraud, compliance and control</strong></td>
<td>• Procedures and controls are set out across the business to reduce fraud and compliance risks, including our Group Accounting Policy, key financial controls, IT access controls and segregation of duties</td>
</tr>
<tr>
<td>As the business develops new platforms and grows in size, geographical scope and complexity, the potential for fraud and dishonest activity by our suppliers, customers and employees increases</td>
<td>• Compliance Committees monitor the implementation of, and compliance with, relevant laws, policies and procedures</td>
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<td>• Training is provided to help colleagues comply with policies and procedures</td>
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<td></td>
<td>• Clear behavioural guidance is given to employees through training on Tesco Values, the Group Code of Business Conduct, the UK Bribery Act and our Whistleblowing service – Protector Line</td>
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<td></td>
<td>• Internal Audit undertakes a risk-based programme with detailed investigations into all business areas and reports its findings to management and the Audit Committee</td>
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<td></td>
<td>• Group Loss Prevention &amp; Security monitors fraud, bribery and business continuity risks across the Group and reports its findings to the Audit Committee</td>
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<td></td>
<td>• Store and distribution compliance and technical law and trading reviews are conducted regularly to reinforce compliance across the Group</td>
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<td></td>
<td>• A comprehensive compliance programme is in place to promote, monitor and review compliance with the UK Groceries Supply Code of Practice</td>
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<td></td>
<td>• The Information Security Committee regularly reviews IT incidents</td>
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<td></td>
<td>• External Audit rotates its coverage of areas and assessment of controls</td>
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<tr>
<td><strong>Business continuity and crisis management</strong></td>
<td>• Appropriate business continuity plans and crisis management plans are in place for each business area and we continue to create and test them for eventualities</td>
</tr>
<tr>
<td>A major incident, from a natural disaster to a system failure, could impact colleague safety or the Group’s ability to trade</td>
<td>• Disaster recovery plans are in place for key IT systems and data centres</td>
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<tr>
<td></td>
<td>• We have security systems and processes that reflect best practice to review the risks of incidents or activism across the Group, including liaison with the UK National Co-ordinator for Counterterrorism</td>
</tr>
</tbody>
</table>
Financial risks review
The main financial risks faced by the Group relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by parties to financial transactions. Further explanation of these risks is set out in Note 22 on page 104 of the Annual Report and Financial Statements 2014. An overview of the management of these risks is set out below for ease of reference and to support a further understanding of the principal treasury risks described in the table above. Details of the main financial risks relating to Tesco Bank and the management of those risks can be found in Note 22 on page 107 of the Annual Report and Financial Statements 2014.

<table>
<thead>
<tr>
<th>Financial risks</th>
<th>Key controls and mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Funding and liquidity risk</strong></td>
<td>• The Group finances its operations by a combination of retained profits, disposals of property assets, debt capital market issues, commercial paper, bank borrowings and leases</td>
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<td></td>
<td>• New funding of £1.4 billion was raised during the year, including £0.8 billion from long term debt and £0.6 billion from property disposals. At the year end, net debt was £6.6 billion (2013: £6.6 billion)</td>
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<td>• The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities and a strong credit rating so that maturing debt may be refinanced as it falls due. At the year end, the Group had a long-term credit rating of BBB+ (negative) from Fitch, Baa1 (negative) from Moody's and BBB+ (stable) from Standard &amp; Poor's</td>
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<tr>
<td><strong>Interest rate risk</strong></td>
<td>• Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt</td>
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<td></td>
<td>• Our policy is to fix interest rates for the year on a minimum of 40% of actual and projected debt interest costs of the Group excluding Tesco Bank. At the year end, the percentage of interest-bearing debt at fixed rates was 84% (2013: 75%). The remaining balance of our debt is in floating rate form. The average rate of interest paid on an historic cost basis this year, excluding joint ventures and associates, was 4.5% (2013: 4.8%)</td>
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<tr>
<td><strong>Foreign exchange risk</strong></td>
<td>• Transactional currency exposures that could significantly impact the Group Income Statement are managed, typically using forward purchases or sales of foreign currencies and purchased currency options. At the year end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2,862 million were outstanding (2013: £1,835 million) as detailed in Note 21 on page 99 of the Annual Report and Financial Statements 2014. We translate overseas profits at average foreign exchange rates</td>
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<td></td>
<td>• We only hedge a proportion of the investment in our international subsidiaries as well as ensuring that each subsidiary is appropriately hedged in respect of its non-functional currency assets. During the year, currency movements decreased the net value, after the effects of hedging, of the Group’s overseas assets by £1,102 million (last year increase of £420 million)</td>
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<tr>
<td><strong>Credit risk</strong></td>
<td>• The Group holds positions with an approved list of counter parties of good credit quality and these counterparties and their credit ratings are routinely monitored</td>
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<tr>
<td><strong>Insurance risk</strong></td>
<td>• We purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only</td>
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<td></td>
<td>• The risk not transferred to the insurance market is retained within the business with some cover being provided by our captive insurance companies, ELH Insurance Limited in Guernsey and Valiant Insurance Company Limited in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company Limited covers Combined Liability only</td>
</tr>
</tbody>
</table>

This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board

Jonathan Lloyd
Company Secretary
2 May 2014