Corporate governance report

John Allan
Non-executive
Chairman



In this section

This corporate governance report is intended to provide shareholders with a clear and comprehensive view of the Group's governance arrangements and how it has operated during the year. We have structured the report as follows to reflect the structure of the UK Corporate Governance Code:

p.30	Leadership
p.38	Effectiveness
p.42	Relations with our investors
p.43	Relations with our social and environmental stakeholders
p.44	Accountability
p.48	Remuneration

Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code ('Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance.

The 2014 version of the Code applies to the Company for the year ended 27 February 2016. A copy of the Code is available at www.frc.org.uk.

The Board considers that the Company complied in full with the Code during the year. The following sections provide an explanation of how it has applied the principles in the Code and good governance principles of accountability, transparency, probity and focus on the sustainable success of the Company over the longer term.

"Having a solid governance framework is key to rebuilding trust and transparency."

1. Leadership

Chairman's introduction

During the past year, there has been a renewed focus on corporate governance at Tesco and the Board has spent a significant proportion of its time examining and strengthening our processes during this turnaround period for the Group. Having a solid governance framework is key to rebuilding trust and transparency. I am therefore pleased to confirm that the Company was fully compliant with the UK Corporate Governance Code this year.

A central pillar of our governance framework is our Schedule of Group Delegated Authorities as it sets out who is authorised to take decisions on which matters. The Board reviewed this key schedule during the year, scrutinising the authority granted to different individuals across the business. We are pleased to have created a more comprehensive document that better reflects our structure and operations and that has contributed to a culture of improved adherence to Group policies. This has been both a top-down and bottom-up exercise to ensure that the right people are making the right decisions at Tesco.

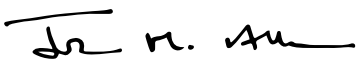
We have also taken additional action to promote a positive culture and tackle unfavourable business practices. Our new Code of Business Conduct was relaunched in March 2015, to promote responsible and ethical behaviours at all levels of our business. We have also fundamentally changed the way we work with our suppliers in order to further build trusted relationships with these key stakeholders for our business. The report earlier this year from the Grocery Code Adjudicator ('GCA') examining Tesco's compliance with the GCA Code of Practice set out conclusions about our historic business practices that coincided with the results of our own independent investigations. We are encouraged that our latest Supplier Viewpoint measure of how suppliers view their relationship with Tesco recognises the positive impact of the changes we have made. The results show a significant improvement year-on-year, increasing from 51% to 68% in the UK and from 58% to 70% for the Group as a whole. As previously disclosed, the commercial income issue identified in September 2014 resulted in a Serious Fraud Office regulatory inquiry. The inquiry is ongoing, and we continue to co-operate fully with it.

Our initiatives contribute to our aim of improving trust and transparency by ensuring that all colleagues understand their role and duties and by creating a culture where individuals feel empowered to speak up and voice concerns.

Succession planning was a key priority for the Board even before the end of the previous financial year when a number of Directors retired. This year, the Nominations Committee scheduled additional meetings in order to progress the selection of three new Non-executive Directors. Conscious that following changes to our Board composition, female representation among our Directors had dropped below the 2014 AGM level of 30%, we were keen to attract high-calibre candidates who could provide balance to our Board. We are delighted with the capabilities of our chosen candidates and are pleased that we now have 27% female representation at Board level, which exceeds the 25% level recommended by Lord Davies in 2011.

In addition, we continue to seek to improve opportunities for talented women to progress throughout the Company and particularly to the ranks of senior and executive management. We recognise that providing opportunities for all of our colleagues to develop provides access to a broader talent pool that will support our strategic focus on regaining competitiveness. Further information on the appointment process for our new Non-executive Directors can be found on page 40 and details of diversity at Tesco are set out on page 36.

The following pages set out our governance processes at Tesco and explain how we have achieved some of the changes we have made. We continue to strive towards excellent governance at Tesco and to rebuild trust and transparency across our business.



John Allan
Non-executive Chairman

Governance framework

The Tesco PLC Board and Executive Committee operate within a wider governance framework at Tesco. This ensures that decisions are taken at the right level of the business by the people best placed to take them. Our framework provides clear direction on decision making without creating burdensome processes that could impede progress. We retain the agility to get on with running our business whilst maintaining high standards of governance that support our aim of rebuilding trust and transparency.

Having delegated the detailed operation of the business to the CEO and CFO, the Board holds them to account for their responsibilities. In order to do this effectively, the Board operates through a number of Committees, each made up entirely of members of the Board. Each Committee meets separately to the Board during the year, providing time to focus in depth on the particular key matters of audit, remuneration, nominations and corporate responsibility.

The governance framework at Tesco provides clear parameters of delegation and responsibilities from the Tesco PLC Board down through the Group as illustrated below:

Tesco PLC Board

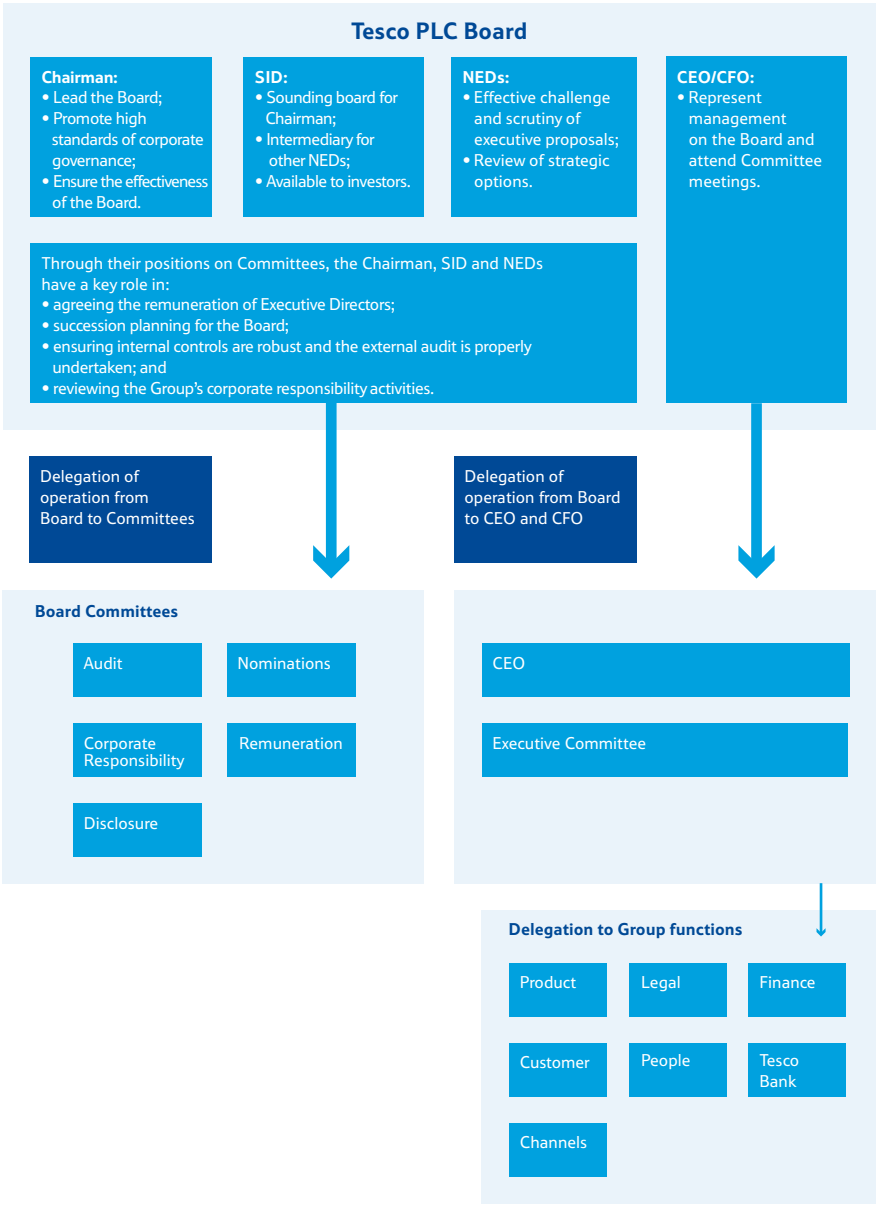
The Tesco PLC Board has responsibility for the long-term success of the Group but the day-to-day management is delegated to Dave Lewis as CEO and Alan Stewart as CFO.

Dave has an Executive Committee to support him in the day-to-day operation of the Group, all members of which report directly to him. Alan Stewart as CFO has a key role on the Executive Committee and has certain financial responsibilities delegated to him by the Board.

The Chairman, CEO, CFO, Senior Independent Director ('SID') and Non-executive Directors ('NEDs') each have clearly delineated roles in the operation of the Board, details of which can be found at www.tescoplc.com.

Set out on the following pages is information on each member of the Tesco PLC Board and Executive Committee, including details of their skills and experience.

The Board considers that there is an appropriate balance of skills, experience, independence and knowledge of the Company on the Board and its Committees and that all Directors are able to allocate sufficient time to the Company to discharge their responsibilities effectively.

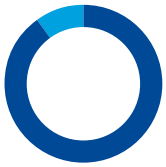


To ensure that decisions are taken at the appropriate level within this framework, a schedule of Matters Reserved for the Board is maintained together with a Group Delegated Authorities Schedule.

Corporate governance report continued



1. Gender split at Board level



2. Gender split at executive level
During the year, two female members stepped down from the Executive Committee on leaving the Company.



3. Gender split at all employee level

- Male
- Female



4. Board members' expertise

- Financial (3)
- Retail (5)
- Strategy (6)
- Marketing (2)
- Technology (2)



5. Tenure of Non-executive Directors

- <1 year
- 1-3 years
- >3 years

Diversity at Tesco

As set out on pages 32-35, each member of the Board and Executive Committee offer core skills and experience that are relevant to the successful operation of the Group. Whilst relevance of skills is key, a balance between the skills represented is sought through the work of the Nominations Committee to ensure that there is an appropriate mix of members with diverse backgrounds. This contributes to minimising the risk of 'group-think' as different viewpoints on key issues support work to regain commercial competitiveness through promoting a healthy culture of challenge and scrutiny.

Diversity, therefore, is recognised at Tesco as being more than a question of gender although initiatives exist throughout the Group to provide greater support to women as they progress through the management pipeline. This includes mentoring and development programmes and circle networks to allow women of different levels of seniority to connect across the business. An illustration of our gender split at different levels of the business are set out on the left (charts no.1 – 3).

Although each of our Directors has a wide range of skills and experience, we have set out on the left an illustration of the key areas of expertise represented on the Board (chart no. 4). In addition, we include information on the period each Non-executive Director has served on the Board (chart no. 5).

Each Non-executive Director is appointed for an initial three-year term but they are all subject to annual re-election by shareholders at the Annual General Meeting each year. Provided each Director is re-elected by shareholders every year, their appointment term may be extended to a second three-year term. Details of each Non-executive Director's term of appointment is set out in their letter of appointment, which are all available for inspection on request. Length of tenure is a key factor for the Board in determining whether a Non-executive Director is regarded as independent. Taking into account all relevant factors as set out in the Code, all of our Non-executive Directors are considered to be independent. This is apart from the Chairman who, in accordance with the Code, is not considered independent on an ongoing basis although he was considered to be independent on appointment.

Name of Non-executive Director	Date of appointment	Full years in role at 2016 AGM	Considered independent by the Board
Richard Cousins	1 November 2014	1	✓
Deanna Oppenheimer	1 March 2012	4	✓
Mark Armour	2 September 2013	2	✓
Byron Grote	1 May 2015	1	✓
Mikael Olsson	1 November 2014	1	✓
Alison Platt	1 April 2016	<1	✓
Simon Patterson	1 April 2016	<1	✓
Lindsey Pownall	1 April 2016	<1	✓

Matters Reserved for the Board

The schedule of Matters Reserved (available at www.tescoplc.com) ensures that the Board retains overall control of the Group's affairs and among other things includes approval of:

- the Company's strategic and operating plans;
- annual and interim financial statements;
- major acquisitions and disposals; and
- Group governance policies.

Group Delegated Authorities Schedule

The Group Delegated Authorities Schedule sets out who within the business has authority to take decisions based on the nature of the decision and the value associated with it. The Group Delegated Authorities Schedule was reviewed during 2015 and a revised set was approved by the Board in February 2016.

The Schedule was amended to reflect the changes that have occurred in the business over the past year and the internal restructuring that has taken place. Greater detail has been added, including a consolidation with the matters reserved for the Board and the Executive Committee, and specific delegations to Board Committees as well as delegations to functions. This provides one clear document where all relevant delegations and matters reserved are set out together.

Directors' attendance at Board meetings

The Nominations Committee assesses the external commitments of Board members to ensure that they each have sufficient time and energy to devote to their role with Tesco. The Board is currently satisfied that the number of appointments held by each Director in addition to their position with Tesco is appropriate to allow them to fulfil their obligations to the Group. This is reflected in the attendance by Directors at Board meetings from the end of the last financial year to the date of this report:

Board Meeting Attendance	Meetings held during director's tenure	Meetings attended	Number of external corporate appointments held
John Allan	9	9	2
Dave Lewis	9	9	1
Alan Stewart	9	9	1
Richard Cousins	9	9	1
Deanna Oppenheimer	9	9	4
Mark Armour	9	9	3
Byron Grote	8	8	3
Mikael Olsson	9	9	5
Alison Platt	1	1	1
Simon Patterson	1	1	2
Lindsey Pownall	1	1	0

The Chairman met with the Non-executive Directors, without the Executive Directors present, during the financial year. Among the issues discussed at these meetings were strategy, Board composition, performance of the Group, and management performance.

2. Effectiveness

Board Activity

The agenda for each Board meeting is split into four key areas:

1. Corporate;
2. Reporting;
3. Business Review; and
4. Financial Results.

This provides a clear structure to ensure that Matters Reserved for the Board are grouped appropriately and ensures consistency across the pack of documents sent to the Board in advance of the meeting and the meetings themselves.

Across these four areas, the main focus of the Board's agenda is currently strategy, which reflects the fact that the Group is currently in a turnaround period. In the future, the agenda is expected to shift to having a balance of short-term trading updates and more long-term issues such as people development, branding, marketing and business planning.

Set out below is a sample of some the issues which the Board considered during the year:

Corporate

The Board received reports from each of the Audit, Corporate Responsibility, Nominations and Remuneration Committees following each Committee meeting. The Company Secretary also provided regular reports on corporate and regulatory updates and also routine corporate approvals. As mentioned on page 30 the Group Delegated Authorities Schedule was reviewed this year and the Board spent time discussing the changes that were required. Updates on litigation and investigations were also provided, including on the Grocery Code Adjudicator's review.

Reporting

The CEO provided updates to the Board during the year on business performance, investor engagement, business priorities and operations as well as regulatory and corporate responsibility and colleague matters and key customer metrics. Reports were also provided to the Board by the CFO setting out progress against the Big 6 KPI measures and the three turnaround priorities.

Business Review

Updates were provided to the Board on tax strategy, the Group's treasury position and strategy for the business in general. In addition, updates were provided from the Investor Relations team on the views of major shareholders and share price changes. An update was given to the board on the results of the 2015 UK General Election and the potential impact on the Group as well as potential policy changes by the UK government and EU reforms. Further updates were also provided on consumer and market trends with discussions on competition issues and strategies for navigating the challenges faced by the business.

Financial Results

The Board reviewed the Annual Report and Financial Statements for 2014/15 and the Interim Results Statement, including the going concern review. Discussions were also held on the approach to viability under the new Code requirements. In addition, the Board received reports from the external auditor as well as the results of an annual property valuation. Discussions were also held on the Group's position with regards to dividends and the conditions that would need to be achieved in order to return to a position of making shareholder distributions.

A forward agenda for the Board is maintained, setting out items for consideration periodically in the future. This provides context for the current meeting agenda, setting out when items will be tabled for consideration through the annual cycle of events.

Directors' induction and training

Led by the Chairman, a comprehensive induction programme is tailored for each new Director prior to their appointment to the Board. The programme is designed for each individual, taking account of their existing knowledge of the business, specific areas of expertise and proposed Committee appointments.

For Alison Platt, Simon Patterson and Lindsey Pownall, meetings have been arranged with the Chairman, CEO and Senior Independent Director, as well as senior members of management to ensure they gain a thorough overview and understanding of the key business channels. Alison, Simon and Lindsey will also visit various stores, distribution centres and fulfilment centres during their first few months as Directors. Each Director is provided with a wealth of information via our online Board portal, including:

- history, values and 'Every Little Helps' culture of Tesco;
- governance framework, including Matters Reserved for the Board, Group Delegated Authorities Schedule, Forward Agendas, minutes from previous Board and Committee meetings, outcomes from previous Board Effectiveness reviews, calendar with dates of Board meetings, strategy days and investor events;
- operational and management structure (including succession plans) across the Group;
- Group strategy including progress on the three turnaround priorities and the Big 6;
- position on corporate actions including the process and decisions made with respect to the sale of the Homeplus business in Korea;
- key relationships with stakeholders including employees, customers, suppliers and the Supplier Code of Conduct;
- key relationships with investors including voting history and analyst opinions;
- consumer and industry trends;
- Group risk profile including key areas of focus for internal audit;
- remuneration policy and an overview of the consultation process that led to the decision to close the UK defined benefit pension scheme in 2015 and launch a new defined contribution pension scheme; and
- corporate responsibility activities including the Community Food Connection and Bags of Help initiatives.

This year, Byron Grote was appointed as Chairman of the Audit Committee. As part of Byron's induction to this role, meetings were arranged with key senior finance executives, the Chief Audit & Risk Officer as well as Tesco's lead audit partner. Members of the Board have access to all Board and Committee papers.

The Chairman regularly discusses training requirements with the Board and arranges meetings or information to be provided as appropriate. As part of the ongoing development of Directors, key site visits are arranged during the year.

All Directors are supplied with quality information in an appropriate format. They each have access to the advice and services of the Company Secretary and are able to arrange for independent professional advice at the Company's expense where they judge it is necessary in order to discharge their responsibilities as Directors. In addition, a Directors' and Officers' Liability Insurance policy is maintained for all of our Directors and each Director has the benefit of a Deed of Indemnity.

Corporate governance report continued

John Allan
Nominations Committee Chairman



Nominations Committee attendance

Director	Meetings held during director's tenure	Meetings attended
John Allan	5	5
Deanna Oppenheimer	5	5
Richard Cousins	5	5
Byron Grote	1	1

Nominations Committee responsibilities

The responsibilities of the Nominations Committee include:

- review of the Board's structure, size and composition;
- identification, nomination and review of candidates for appointment to the Board;
- ensuring an effectiveness review is conducted annually of the Board, Committees and Directors; and
- review of Board succession over the longer term in order to maintain an appropriate balance of skills and experience and to ensure progressive refresh of the Board.

The Committee's terms of reference are available at www.tescoplc.com. The Senior Independent Director chairs all Committee meetings where matters relating to the Chairman are discussed.

"...the Committee is very pleased to have secured new Non-executive Directors with the calibre and relevant skills and experience of Alison, Simon and Lindsey."

Nominations Committee report

Dear Shareholder,

This was a very busy year for the Nominations Committee with three key issues under consideration:

- appointment of new Non-executive Directors;
- longer term succession planning; and
- our Board evaluation cycle.

At the first Committee meeting in the 2015/16 financial year, the Committee agreed to appoint Byron Grote as a new member subject to formal Board and Remuneration Committee approval, which was received in December 2015.

Due to the level of discussion and consideration required for the appointment of new Board members, additional meetings were scheduled in order to allow sufficient time for a robust process of review and scrutiny of the potential candidates. Given the level of change that has taken place over the past 18 months, it was determined that the addition of three new Non-executive Directors would be appropriate and the Committee invested substantial time both during and outside formal Committee meetings in order to thoroughly explore the available options.

With the appointment this year of three new Non-executive Directors, we are confident that we have a strong Board to take the Group forward beyond the current turnaround period. Having said that, the Committee will continue to refresh and review succession plans. The Committee will also keep the timing of further Board effectiveness evaluations under consideration and assess whether going forward, internal or external reviews would be most appropriate.

John Allan
Chair of Nominations Committee

Nominations Committee activities

Following the departure of two Non-executive Directors after the 2015 AGM, the Committee were concerned to assess the current composition of the Board and identify whether additional skills and competencies required representation on the Board. After careful thought, it was agreed that the Board would benefit from appointing three new Non-executive Directors. Before selecting Lygon Group as an external search agency, consideration was given to the use of several different UK agencies with global reach to reflect the international nature of Tesco's business. Lygon Group are independent of Tesco and have no connection to the Group.

Although much of the Committee's focus this year was on the appointment of Alison Platt, Simon Patterson and Lindsey Pownall, consideration was also given to the composition and requirements for the Board further into the future. The Committee was mindful of the Davies Report's 2011 recommendation to have 25% female Board membership by 2015, increased in October 2015 to 33% by 2020. However, the priority was to recruit Directors who would offer the right skills and complement the rest of the Board. Significant time was therefore given to debating the areas of expertise required from the new appointments with a focus on the needs of the business in the current digital age. Consideration was also given to which Committees would benefit from additional members and the relevant skills required for these roles.

Following initial meetings with either John Allan or another Committee member, shortlisted candidates were met by the rest of the Committee outside formal scheduled meetings. Each member of the Committee was able to meet the potential Directors face to face with the opportunity to probe them on specific points. Following these introductory meetings, discussion was held at each subsequent Committee meeting on each individual to explore their suitability as a candidate. In addition to the skills and experience of the individual, consideration was given to the significant external appointments currently held by each candidate and the associated time commitments of these roles. The Committee also discussed whether they were a good cultural fit for Tesco as well as the anticipated views of external stakeholders.

Having completed this process, the Committee is very pleased to have secured new Non-executive Directors with the calibre and relevant skills and experience of Alison, Simon and Lindsey. Between them, they bring a wealth of customer service, IT and supplier relationship experience with which they will contribute positively to the work of the Board. Full biographies of each Director can be found on page 33.

The Committee also discussed the Board effectiveness process during the year, including the selection of an external evaluator (further information on the Board evaluation can be found below).

In addition, an evaluation of the Chairman's performance during the year (led by Richard Cousins as Senior Independent Director) was discussed without the Chairman being present. Performance reviews of all Directors including the CEO and CFO were also undertaken. Succession plans for each of these roles were also reviewed.

Further information about our focus on diversity can be found under 'Diversity at Tesco' on page 36.

Board evaluation

This year, the Board agreed to arrange for an external effectiveness evaluation following the changes that had taken place on the Board. The Nominations Committee recommended the appointment of Ffion Hague of Independent Board Evaluation to carry out this work.

Ffion Hague and Independent Board Evaluation each have no other connections with Tesco and were therefore considered independent in accordance with the Code.

Board evaluation process and recommendations

The Chairman provided Ffion Hague's team with a comprehensive brief in September 2015. The evaluation team attended Board and Committee meetings in December 2015 and February 2016. In December 2015 and January 2016, detailed interviews were conducted with every Board member. All participants were interviewed for 1.5 hours by Ffion Hague according to a set agenda, tailored for the Tesco Board. In addition, the team interviewed other regular attendees and contributors.

An initial report was compiled based on the meeting observations and interviews. Draft conclusions were discussed with the Chairman and subsequently discussed with the whole Board at its meeting in February 2016 with Ffion Hague present. The conclusions of that discussion are recorded in the minutes of the meeting.

Following the Board meeting, Ffion Hague gave feedback to the Committee Chairs on the performance of each Committee and to the Senior Independent Director on the performance of the Chairman. In addition, the Chairman received a report with feedback on individual Directors.

The evaluation process concluded that although the current Board is unusually new compared to peer groups, there is already a very positive culture. Accelerating the development of a strong culture will place the Board in the best position to address the challenges ahead of which Board members are acutely aware. Increasing opportunities for the Board to meet informally whether through site visits in the UK or overseas will contribute to this as well as consolidating links between the Board and the business.

Among the recommendations set out in the report were to:

- consider the development of a statement of values and purpose for the Board;
- consider ways to increase the time Board members spend in stores and on sites other than the head office or London office location;
- consider ways of strengthening links between the PLC and subsidiary boards (e.g. the Board of Tesco Bank) in order to underpin the information flow to the Board; and
- schedule private sessions for the Non-executive Directors at the start of Board meetings to enhance decision-making and help induct new Board members.

The Board is considering all of the recommendations of the Board evaluation report.

3. Relations with our investors

Shareholder engagement

The Board is committed to conducting constructive dialogue with shareholders to enable clear communication of the Company's objectives and to understand what is important to shareholders.

Debt investors

Our treasury team holds biannual formal review meetings with all of our relationship banks and maintains regular contact with them.

Our treasury team held calls with the three credit rating agencies following the results announcements and the CFO and Group Treasury Director met with each of the ratings agencies during the year.

Following the full and half year results, the CFO and Group Treasury Director held conference calls with fixed income investors.

Institutional shareholders

During the year, numerous activities were undertaken to engage with our institutional shareholders:

- the Chairman, CEO and CFO held regular meetings throughout the year with institutional shareholders and updated the Board on the outcome of those meetings;
- roundtable events and investor roadshows were organised and conferences attended in the UK, Europe and North America;
- institutional shareholders were invited to attend the Company's full-year and half-year results presentations. The presentation slides and a webcast of the full-year and half-year results presentations were made available at www.tescoplc.com along with transcripts of all the results presentations and trading statement conference calls;
- the Chairman and Remuneration Committee Chairman held meetings with major shareholders to discuss governance and strategy;
- we also engaged Socially Responsible Investors by holding calls to discuss various issues and responding to queries; and
- a survey of a cross-section of shareholders was undertaken during the year in order to assess shareholder perception of the Company.

The outcome of shareholder interactions are reported to the Board by the Investor Relations team in order to ensure that all Non-executive Directors develop an understanding of the view of major shareholders. All Non-executive Directors are able to attend scheduled meetings with major shareholders.

Retail shareholders

Corporate website

Our website (www.tescoplc) provides information to retail shareholders on understanding the business, results and financial performance and shareholder meetings.

Video recordings of the CEO and CFO commenting on results statements were uploaded to our website during the year, along with the results presentations and transcripts of analysts' calls.

Shareholder Meetings – Annual General Meeting

The Annual General Meeting ('AGM') was held on Friday 26 June 2015 at The QEII Centre, in Westminster, London. At the AGM, all shareholders were given an opportunity to question the Board on the business being proposed. All Directors attended the AGM and were available to answer questions.

Voting on all resolutions was by way of a poll, which allowed shareholders to vote by proxy if they could not attend the AGM. Shareholders were given the option to vote for or against the resolutions or to withhold their vote. The proxy form and results made it clear that a vote withheld was not a vote in law and would not be counted. The results of voting at the AGM were published on our website at www.tescoplc.com.

Shareholder Meetings – General Meeting

A General Meeting ('GM') was held on Wednesday 30 September 2015 at Park Plaza Riverbank in London to approve the sale of Homeplus, Tesco's retail business in the Republic of Korea.

In accordance with the resolution passed by shareholders at the AGM, the GM was called on 14 clear days' notice. The Board considered that the shorter notice period was merited by the time-sensitive nature of the transaction and was in the best interest of shareholders as a whole, taking into account the circumstances and business of the GM.

Voting was by way of a poll and shareholders were able to vote by proxy if they could not attend the GM. Shareholders were given the opportunity to ask questions about the transaction. The results of voting at the GM were published on our website at www.tescoplc.com.

The AGM for this year will be held on Thursday 23 June 2016 at the ExCel Centre in London. Full details will be included in the Notice of Meeting sent to all shareholders.

4. Relations with our social and environmental stakeholders

John Allan
Corporate Responsibility Committee Chairman



Corporate Responsibility Committee attendance

Director	Meetings held during Director's tenure	Meetings attended
John Allan	2	2
Deanna Oppenheimer	2	2
Mikael Olsson	2	2

Corporate Responsibility Committee responsibilities

The responsibilities of the Corporate Responsibility Committee include:

- approving the Group's corporate and social obligations as a responsible citizen and overseeing its conduct in the context of those obligations;
- approving a strategy for discharging the Group's corporate and social responsibilities in such a way as to command respect and confidence;
- identifying and monitoring those external developments that are likely to have a significant influence on the Group's reputation and/or its ability to conduct its business appropriately as a good citizen and review how best to protect that reputation or that ability;
- overseeing the creation of appropriate policies and supporting measures;
- monitoring the Group's engagement with external stakeholders and other interested parties; and
- ensuring that appropriate communications policies are in place and working effectively to build and protect the Group's reputation both internally and externally.

The terms of reference for the Corporate Responsibility Committee were reviewed during the year and are available at www.tescoplc.com.

"We recognise the importance of corporate responsibility to rebuilding trust and transparency."

Corporate Responsibility Committee report

Dear Shareholder,

At Tesco, we are seeking to take a leading position on corporate responsibility matters within our industry. Even through our period of turnaround, we have recognised the importance of corporate responsibility to rebuilding trust and transparency with a wide spectrum of our stakeholders including customers. The Committee has played a key role in reviewing and challenging the corporate responsibility agenda of the Group and has received updates on a range of issues, more information on which is set out below under 'Corporate Responsibility Committee activities'.

Following the departure of two members, the Committee is now smaller. However, both Deanna Oppenheimer and Mikael Olsson have provided robust challenge to the proposals tabled, drawing on their contrasting experiences from banking and retail. The addition of Lindsey Pownall as a member will bring an additional perspective given her knowledge of food production, marketing and supply chains.

As we have strengthened our corporate responsibility position, the Committee has recognised that we were at an ideal point to reassess our approach to corporate responsibility whilst maintaining the existing projects already under way.

We will therefore be undertaking a review of the Committee delegations from the PLC Board and also the Committee composition and terms of reference as well as our relationship with the corporate responsibility advisory committee. We will also seek to maximise the internal talent that we have in our Corporate Responsibility team. These actions will serve to place Tesco in the best position to make the most of our opportunities to make a significant impact on corporate responsibility issues.

John Allan
Corporate Responsibility Committee Chairman

Corporate Responsibility Committee activities

The Committee recognises the huge opportunity that Tesco has to make a big difference on a national and international level and how even modest action on our part can have a significant impact on our customers, our communities and our environment. As a result, while the Committee were keen for a range of projects to be pursued, they determined that initiatives should be identified where even small changes would make a large impact for a wide spectrum of stakeholders.

This year, we have seen progress on a range of projects:

- our 'Eat Happy/Farm to Fork' project reached a key milestone in November 2015 with 1 million children having participated in our education trail initiative aimed at raising awareness about the process of food production and making healthy eating choices;
- following the government's introduction of a levy on plastic bags, £11.5m has been raised from the 'Bags of Help' scheme where proceeds from sales of carrier bags are reinvested into local projects to develop under-utilised outdoor areas; and
- perhaps the project that the Committee is most proud of is the Community Food Connection, aimed at reducing food waste. More details can be found below.

Community Food Connection – partnership with FareShare FoodCloud
Building trusted partnerships has been a focus for the Committee this year and an opportunity was identified to work with two organisations with an initiative to tackle food waste. This project is being run through a partnership with UK charity FareShare, utilising the technology platform developed by FoodCloud, an Irish social enterprise. The platform allows communication where surplus levels of food have been identified at stores and provides for the worthwhile distribution of this food through carefully vetted and responsible local charities and community groups. A successful trial at 12 large-format stores with ambient food was completed this year. We are now embarking on an expansion to cover multiple store sizes and include chilled food, all due to be in place by the end of 2017.

One key challenge with expanding the work of these two organisations has been increasing the scale of distribution. Using our knowledge and experience in this area, Tesco has invested time and resources into developing the increased infrastructure required. The Committee is proud that this infrastructure will be an open platform. This will allow other food retailers including our competitors to work with FareShare FoodCloud in the future. This will ensure that the initial investment by Tesco will be used not only to reduce Tesco's food waste but to impact the amount of food wasted on a national scale, across numerous food retailers, benefitting thousands of charities.

Corporate governance report continued

5. Accountability

Byron Grote
Audit Committee Chairman



Audit Committee members

In addition to Committee Chairman Byron Grote, there are three other Committee members: Mark Armour, Richard Cousins and Simon Patterson. Each are independent Non-executive Directors and the Board is satisfied that a majority of members of the Committee have recent and relevant financial experience for the purposes of the Code. Paul Moore is appointed as Secretary to the Audit Committee. Other individuals, including the Chairman, CEO, CFO, Head of Internal Audit and representatives of Deloitte may also attend at the invitation of the Committee.

Audit Committee attendance

Director	Meetings held during Directors' tenure	Meetings attended
Byron Grote	6	6
Mark Armour	8	7*
Richard Cousins	8	8
Simon Patterson	1	1
Patrick Cescau	1	0**
Ken Hanna	2	2

Audit Committee responsibilities

The responsibilities of the Audit Committee include:

- monitoring of the Group's financial reporting processes;
- consideration of the appointment of the external auditor, their reports to the Committee and their independence, including an assessment of their appropriateness to conduct any non-audit work;
- review of the financial statements and announcements relating to the financial performance of the Company;
- review and monitoring of the internal controls and risk management processes of the Group, including key financial, operational and compliance controls, and their effectiveness;
- review of the internal audit programme and ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the Company;
- discussion with the external auditor as to the nature and scope of the external audit;
- review of (and challenge where necessary) the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board;
- review of the Company's arrangements by which employees and contractors may, in confidence, raise concerns about possible improprieties in financial reporting or other matters;
- consideration of management's response to any major external or internal audit recommendations; and
- review of the Company's plans for business continuity.

The Audit Committee terms of reference, which were updated in March 2015 and again in April 2016, can be found at www.tescoplc.com.

Audit Committee report

Dear Shareholder,

During my first year as Audit Committee Chairman, the Committee has continued to play a key role within the Tesco PLC governance framework to support the Board in matters relating to internal control, risk management and financial reporting.

During this turnaround period for the Group, the remit of the Audit Committee has been expanded to reflect its greater focus on the following areas:

- development of the Group's risk management and internal controls framework;
- enhancement of internal controls and risk management processes;
- review of the processes by which Tesco evaluates and reports its principal risks and uncertainties;
- review of the Group's technology, data security, treasury and tax risks and policies; and
- assessment and reporting of the Group's viability in view of new Code requirements.

Another significant part of the Committee's work this year has been the oversight of a formal tender process for the Company's statutory audit contract and the subsequent transition of audit services to Deloitte LLP ('Deloitte') following their appointment by shareholders as the Company's new statutory auditor at the Company's 2015 Annual General Meeting.

The Committee conducted a review of the Group's compliance with the Groceries Supply Code of Practice during the year. It has also overseen the important development of the Group's finance transformation programme and discussed the enhancement of IT controls as recommended by our external auditor.

Since the end of the 2015/16 financial year, Simon Patterson joined the Board with effect from 1 April 2016 and also became a member of the Audit Committee.

Byron Grote
Chairman, Audit Committee

Audit Committee Meetings

The Audit Committee met on eight occasions since the end of the last financial year with each meeting having a distinct agenda to reflect the annual financial reporting cycle of the Group. The Committee has a forward-looking planner, which is designed to ensure that the Committee discharges its responsibilities in full during the year. This planner is regularly reviewed and developed to meet the changing needs of the Group.

Audit Committee meeting timeline

27 March 2015	20 April 2015	23 July 2015	1 October 2015	1 December 2015	15 February 2016	24 March 2016	6 April 2016

* Mark Armour missed one Audit Committee meeting this year due to a family bereavement.
** One Audit Committee meeting was held shortly before Patrick Cescau's departure from the Company.

Key activities

A summary of some of the key matters considered at each meeting during the year is set out below:

Meeting	Key matters considered
March 2015	• Financial Results 2014/15 • Internal control effectiveness • Committee terms of reference • GSCOP compliance programme
April 2015	• Annual Report and Financial Statements 2014/15, including fair, balanced and understandable review • Internal audit plan • Review of commercial income and IT controls • Audit tender process
July 2015	• External audit – Deloitte audit plan and transition update • Non-audit fees policy • Internal audit update
October 2015	• Interim Results Statement, including going concern review • Development of Viability Statement • External audit – Deloitte interim report • Deloitte non-audit services • Internal audit update
December 2015	• Finance – year-end considerations and viability statement • Treasury policy • Technology – risk • Internal audit charter • Internal audit update • External audit – Deloitte update to planning report • Risk management update
February 2016	• Risk and viability • Treasury – funding plan • Tax – risk • External audit – Deloitte early warning report • Financial Statements 2015/16
March 2016	• UK Corporate Governance Code compliance • Risk and control roadmap • Viability statement and going concern review • Group compliance update, including GSCOP compliance • Internal audit plan and budget for 2016/17 • External audit – Deloitte update report
April 2016	• Tesco Bank update • Update on whistleblowing process • Preliminary Results announcement summary • Annual Report and Financial Statements 2015/16, including fair, balanced and understandable review • Tax transparency paper • Report from the Disclosure Committee, including fair, balanced and understandable review • External audit – Deloitte year-end final report • Deloitte non-audit services

During the year, the Committee has overseen the development of the Group's ongoing finance transformation programme. A significant project has been undertaken by the Internal Audit and Group Finance teams in consultation with KPMG to redesign, simplify and test the effectiveness of the Group's key financial controls.

The Committee continues to focus on commercial income and stock controls and receives regular updates from Internal Audit on the work that is being undertaken to review and strengthen the Group's processes in these areas.

In addition, this year the Committee reviewed the Group's risks relating to technology, treasury and tax and reported on its findings to the Board. In relation to the financial statements, the Committee reviewed and recommended approval of the half-yearly results and annual financial statements, considered impairment reviews and going concern status, discussed the viability statement, reviewed corporate governance disclosures and monitored the statutory audit. In response to correspondence with the FRC in relation to the 2015 accounts, the Group has made several disclosure enhancements in this year's annual report. The Committee also received update reports from the Tesco Bank Audit Committee, Deloitte, the Disclosure Committee and the Group Compliance Committee. Internal Audit also provided regular updates, including findings from its internal audit programme. The Committee has also considered the Group's principal risks, whistleblowing arrangements and updates on compliance with the Groceries Supply Code of Practice.

Reports from the Internal Audit function and external auditor are received at each meeting. One key item that our external auditor reported on this year as an area for development was IT controls and a remediation plan is being developed by the Technology team to address the matters raised.

In addition, the Committee holds private meetings with the Internal Audit function and with the external auditor.

Corporate governance report continued

Significant financial statement reporting issues

The Committee considered a number of significant issues in the year taking into account in all instances the views of the Company's external auditor. The issues and how they were addressed by the Committee are detailed below:

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements	The Committee reviewed management's assessment of going concern with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the availability of financing facilities to the Group and capital and liquidity plans of Tesco Bank. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.
Fixed asset impairment and onerous lease provisions	The Committee reviewed and challenged management's impairment testing of property and technology assets and estimate of onerous lease provisions. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging cash flows, growth rates and discount rates and the use of independent third party valuations. The Group has recognised a £263m charge for impaired PPE assets, together with an onerous lease provision of £150m in the year and a £169m charge for Software. See Note 11 to the financial statements for fixed assets impairment, and Note 24 for property provisions.
Goodwill impairment	The Committee reviewed management's process for testing goodwill for potential impairment and ensuring appropriate sensitivity disclosure. This included challenging the key assumptions: principally cash flow forecasts, growth rates and discount rates. The Group has recognised a goodwill impairment of £18m. See Note 10 to the financial statements.
Valuation of China associate	The Committee reviewed management's assessment of the valuation of the Group's China associate, Gain Land, covering the methodology and assumptions used by management, including latest market information and the use of independent valuation experts, in determining the fair value of the investment. This included review of Gain Land's projected cash flows, growth rates and discount rates used, and the external market indicators to include in the valuation. The carrying value was supported by the valuation. See Note 13 to the financial statements.
Inventory	The Committee reviewed management's judgements in assessing the required level of inventories provisioning and concluded that the method of estimating the carrying value of inventory remains appropriate, and that the level of provisioning is appropriate.
Tesco Bank judgemental matters	The Committee reviewed management's judgements made in relation to Tesco Bank's provisions for customer redress, insurance reserves and credit loss provisions, covering the estimated provision based on legal advice, estimates of the number and value of cases, and expected outcomes. The Committee considered the reviews by the Bank's own Audit Committee and Board to develop a detailed understanding of the matters. See Note 22 and Note 24 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, principally the discount rate used. This included review of the actuarial valuation report. The Committee also reviewed management's assessment of the accounting treatment resulting from the closure of the defined benefit scheme. This includes the valuation of the actuarial credit on closure and the one-off costs. See Note 4 and Note 26 to the financial statements.
Business combinations and disposals	The Committee considered the key judgements made by management in accounting for a number of property transactions and the disposal of the Homeplus business in Korea, including property fair values for the former and the uncertainty in relation to tax payable to the authorities for the latter. See Note 7 and Note 30 to the financial statements.
Contingent liabilities	The Committee further considered management's assessment of the status of the ongoing regulatory investigations and litigation relating to the prior period. The Committee concurred with management's assessment that due to the stage of these matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at year-end was appropriate. See Note 31 to the financial statements.
Recognition of commercial income	The Committee reviewed management's assessment of the controls that exist over the recognition on commercial income, and the assessment of those controls by internal audit. Challenge from the Committee focused on management's determination of the point of recognition of income. See Notes 15, 16 and 19 of the financial statements.
Exceptional items	The Committee considered the presentation of the Group financial statements and, in particular, the appropriateness of the presentation of exceptional items. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed, consistent across years and appropriately presented movements on items which have an effect over a number of years. Consideration was also given to the quality of earnings within underlying results. See Note 4 to the financial statements.

Fair, balanced and understandable statement

The Committee advised the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the necessary information to assess the Company's performance, business model and strategy. The Committee concluded that the disclosures, and the processes and controls underlying their production, were appropriate and recommended to the Board that the Annual Report and Financial Statements are fair, balanced and understandable.

Effectiveness review

An external effectiveness review of the Audit Committee was carried out this year by Ffion Hague of Independent Board Evaluation. Further detail on the process that was undertaken can be found on page 41.

Internal and external audit

Internal audit – Group Audit & Advisory ('GAA')

GAA is an independent assurance function within Tesco as a service to the Board and all levels of management. Its remit is to provide independent and objective advice to facilitate, influence and help the organisation to achieve its priorities. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

GAA's responsibilities include supporting management in the assessment and mitigation of risks, as well as reporting on the effectiveness of the systems of internal control as operated by management. Management are responsible for establishing and maintaining an appropriate system of risk identification and internal control, and for the prevention and detection of irregularities and fraud. GAA facilitate the Group's risk management processes with the Audit Committee and Board.

Auditor transition process
Following a formal tender process, Deloitte were appointed as our auditor at the 2015 AGM. We have therefore complied with the requirements of The Statutory Audit Services for Large Companies Market Investigation Order 2014. Since then, the Audit Committee has overseen the transition of the external audit work to Deloitte through a number of activities:

- workshops and meetings were held between Deloitte and key management and executives, including individuals outside of the finance function (e.g. buyers, property team, HR, etc.) so that the new auditor could rapidly develop an understanding of Tesco's controls and processes as well as historical matters, in particular key areas of judgement.
- further meetings were held to discuss the audit scope and approach that Deloitte used to create a detailed audit plan, which was presented to the Audit Committee in July 2015 and updated in November 2015.
- Deloitte completed a review of the interim results and carried out some advanced audit procedures on the period 10 results and provided preliminary findings on the key financial reporting judgements to the Audit Committee in February 2016.
- a number of site visits were completed across the UK & ROI and International operations, including 75 stores visited in the UK for the purpose of either inventory count or store control assessments, seven distribution centres in the UK and audit partner attendance at each of the international businesses during the course of the year.

In addition, the Company has worked closely with Deloitte to consider key accounting matters as they arose throughout the year.

Key elements of the risk management process
The risk management process facilitates the identification of risks through workshops and interviews with business leaders. A risk that can seriously affect the performance, future prospects or reputation of the Group is termed a principal risk and they are aligned to the Group's priorities. Risks are maintained in Group or business unit risk registers.

Risks are assessed to determine the potential impact and likelihood of occurrence, after taking into account key controls and mitigating factors. Additional mitigating actions are identified and agreed with relevant business owners.

Risks are managed at the Group or within the business unit on an ongoing basis with follow-up by GAA throughout the year. At the Group level each principal risk has an Executive Owner. The CEO has overall accountability for the control and management of risk. The Board has overall responsibility for risk management. The principal risks are detailed on page 25, showing the risk movement and examples of relevant key controls and mitigating factors.

Internal control
The Board monitors the key elements of the Company's internal control framework throughout the year and has conducted a review of the effectiveness of the Company's risk management and internal controls. To support the Board in this year's annual assessment, a report was prepared by GAA which described the arrangements that the Board had put in place for internal control and risk management systems, and summarised the key issues or non-compliance arising from those processes. The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material mistatement or loss.

The Group has commenced a number of key transformation programmes in the year. These will drive improvement and consistency in our processes across our control environment. In particular, there are clear plans in place to enhance IT controls and our controls around information security. To further strengthen our control environment we are building a methodical process to drive greater alignment and integration of risk, controls, assurance and oversight across the business. The key elements of the Company's risk management process are set out on the left.

External audit
Following a formal tender process, Deloitte were appointed as the Company's new statutory auditor at the 2015 Annual General Meeting. The Company intends to put the external audit out to tender every 10 years in the future. As Deloitte were appointed during the 2015/16 financial year, a full effectiveness review will be conducted later in 2016 following completion of its first full audit cycle. The Committee considers the effectiveness of the auditor on an ongoing basis during the year. Deloitte contribute a further independent perspective on certain aspects of the Company's financial control systems arising from its work, and report both to the Board and the Audit Committee.

The process for approving all non-audit work provided by our auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from Deloitte rather than another supplier. Where Deloitte have been chosen, this is as a result of their detailed knowledge of our business and understanding of our industry as well as demonstrating that they have the necessary expertise and capability to undertake the work cost effectively.

In advance of new EU regulations, the non-audit fees and independence of our auditor are subject to ongoing review in light of the 70% cap that will apply. A new non-audit services policy was approved this year, reducing threshold limits to require any proposed non-audit work with fees over £100,000 to be approved by the Audit Committee Chairman and all non-audit fees to be reported to the Audit Committee.

During the year, Deloitte received £6.5m in fees for work relating to the audit services they provide to the Group, including audit-related assurance work. Non-audit related work undertaken by Deloitte amounted to fees of £10m this year, which amounts to 61% of the total fees paid to them. Fees paid to Deloitte are set out in Note 3 of the financial statements, but details of significant non-audit work undertaken are set out below:

Nature of service	Safeguards to preserve independence	Level of fees
Retail consultancy	Advisory team separate to the audit team. Decision-making accountability remained with management.	£4,625k
Forensic services	Advisory team separate to the audit team. Careful consideration given to scope of services to ensure potential self-advocacy/management threats were mitigated.	£2,288k
Tax advisory /compliance	All tax teams separate to the audit team. All tax services will be transitioned to a new provider prior to the new EU Regulations coming into force.	£1,144k
Pension advisory	Advisory team separate to the audit team. Careful consideration given to scope of services to ensure potential management threat to independence was mitigated.	£612k

The level of non-audit fees in the financial year 2015/16 reflects the transition to Deloitte as external auditor during the year and completion of certain key activities that were in progress. Steps are being taken to reduce the level of non-audit fees significantly in the financial year 2016/17. Deloitte previously acted as advisors to the Group on remuneration, until new advisors were appointed following the selection of Deloitte as external auditor. The figures above therefore include £133k of remuneration advisory fees incurred prior to the transition of these services to our new providers.