The six strategic drivers.

Our six strategic drivers set out the plans and aspirations which will create long-term value for all of our stakeholders.

1.

A differentiated brand

A strong brand creates long-term value. Our purpose, to serve shoppers a little better every day, is at the heart of what our brand stands for.

2.

Reduce operating costs by £1.5bn

We have undertaken a thorough review of our entire cost base, to identify further opportunities for meaningful savings.

3.

Generate £9bn cash from operations

Cash is the lifeblood of our business, and we have set a three-year target to generate £9bn of cumulative retail cash from operations.

4.

Maximise the mix to achieve a 3.5% – 4.0% Group margin

Building sustainable profitability across our businesses, channels and product ranges.

5.

Maximise value from property

Our property strategy is about releasing value from our estate, and repurposing space to enhance our customer offer.

6.

Innovation

Our innovation strategy is driven by expertise and insight in our three differentiating capabilities: Product, Channel and Customer.

1.

A differentiated brand

We are on a journey to rebuild trust in our brand, and we have made significant progress. As the brand strengthens, we invest more in those things that make the Tesco brand and experience unique.

Our opportunity is to differentiate through our products and services – with great quality at affordable prices, and a unique Tesco offer – and through customer experience, for example by simplifying our systems for ordering online, and delivering consistently great service in store.

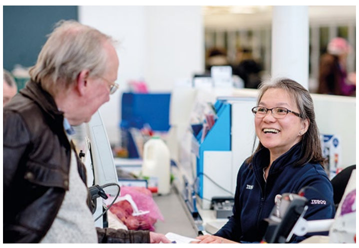
With our Brand Guarantee, customers don't have to worry about the price of branded products – which they could get from other retailers – and our own-label products become the point of differentiation, with a unique and helpful offer which gives customers a reason to choose Tesco.

We take pride in the quality of our food, and that's reflected in our 'Food Love Stories brought to you by Tesco' campaign, which aims to set out our food quality credentials and celebrate the passion and care that goes into the meals we all love.

2.

Reduce operating costs by £1.5bn

We've identified £1.5bn of potential savings for the years to 2019/20, with particular opportunities to simplify the way we run our stores, modernise our distribution and fulfilment networks, and more efficiently procure goods and services not for resale. This year we have generated £455m of cost savings, of which £226m contributes to our £1.5bn target.



Store operating model – c.£550m
Continuing to improve service in store is our absolute priority, and by recalibrating the way we serve customers we have identified opportunities to increase customer satisfaction while also reducing costs. In our UK stores, we have worked with colleagues to ensure that we schedule hours for when our customers need them most, reducing our night operations and moving replenishment to the daytime.

Logistics and distribution – c.£450m
Improving stock flow and increasing the efficiency of our supply chains reduces our costs, and also helps us get products to customers faster – so they benefit from fresher food too. As part of this work, we're changing our distribution network – announcing the closure of our distribution centres in Welham Green and Chesterfield – to ensure that the way we distribute food and goods within our business is as simple and cost-effective as possible.

Goods not for resale – c.£500m
In our day-to-day operations we purchase a wide range of goods and services not for resale, covering everything from marketing to haulage and consumables. Consolidating our spend with our most important supplier partners has allowed us to make substantial savings – for example by reducing our number of haulage partners in Central Europe from 10 down to three, working across the region.

3. Generate £9bn cash from operations

By improving profitability and optimising working capital, we will generate positive cash from our retail operations.

Cash from operations is the biggest contributor to free cash flow, but working capital is a significant opportunity – with better forecasting, and a tighter assortment of products in our distribution centres, we can reduce stock holding and drive working capital benefits.

We are also focused on capital discipline to improve free cash flow and have set rigorous hurdle rates for capital allocation, with a focus on payback periods and maximising returns, in order to balance longer-term investments with projects that will more quickly deliver cash.

Our world-class store ordering systems have allowed us to simplify back-room procedures in stores – increasing the amount of stock that goes straight from a delivery onto shelves. This ensures great availability for customers, while also reducing the residual stockholding in store and allowing our colleagues to more efficiently manage stock by only handling a product once.

4. Maximise the mix to achieve a 3.5% – 4.0% Group margin

Our 88,000 square feet store in Surat Thani was too large, with an overly-broad range that made the shopping trip harder for customers. We took out around 20% of the retail space, creating room for tenants such as Boots and KFC. These bring new income and attract more customers, with a halo effect on our core retail offer and a resulting increase in retail sales density.

Maximising the mix means looking at the full picture of everything we do to ensure we are delivering great service for our customers, and driving growth in areas which deliver sustainable profits – in order to achieve a 3.5% – 4.0% Group operating margin by our 2019/20 financial year.

We serve shoppers through a wide range of channels and services. To ensure we can deliver these sustainably, we work hard to build long-term profitability – by investing in new areas, and by improving the economics of more recent channels, such as Grocery Home Shopping. We follow this approach in all parts of our business, from choosing how we allocate space in our large stores, to looking at the promotional mix we offer to our online customers.

5. Maximise value from property

We have a significant property portfolio, combining both freehold and leasehold assets. We look closely at opportunities to insulate the business from future rental increases, by carefully optimising our freehold and leasehold mix.

Repurposing space – in our stores, malls or car parks – allows us to improve sales densities in our larger stores, while also improving our offer for customers. In the UK we have worked with other leading brands to open 49 concessions in our stores this year, with partners including Arcadia Group and Holland & Barrett. We are also exploring opportunities to release value by selling 'air rights' above a small number of our stores in urban areas – working with a developer to build residential properties above or alongside our stores, without capital investment from Tesco.

6. Innovation

We have innovated in our ranges, bringing customers great quality meat and produce at affordable prices through our exclusive fresh food brands. Our innovative Free From range also includes many of the products our customers miss most – like our award-winning Free From Garlic Baguette. In March 2017, we were named Free From Retailer of the Year for the third year running.

By listening to shoppers, and looking at broader customer trends, we can drive innovation in both the products we sell, and the channels through which we sell them.

Innovation touches everything we do, from the launch of our PayQwiq digital wallet, making the checkout process easier for customers, to our work on reformulation – taking hundreds of tonnes of salt, sugar and fat out of our own-label products to help customers live healthier lives.

The strength of the partnerships we have with our suppliers plays an important role in innovation. By building our businesses together, we also give suppliers the confidence to invest in innovative products and solutions for the benefit of our mutual customers.