TESCO

Every little helps

Annual Report and Financial Statements 2016

Serving shoppers a little better every day

In this report

Watch our videos
We have produced a number of short videos that are available at **www.tescoplc.com/ar2016** and are featured within our report this year, as indicated by the video screen icon

Tesco at a glance

As one of the world's largest retailers with 476,000 colleagues, we serve millions of customers every week in our stores and online.

£48.4bn[1]
Group sales (exc. VAT, exc. fuel) (14/15: £49.9bn)

£944m[1]
Group operating profit before exceptional items (14/15: £940m)

£1,046m[1]
Statutory operating profit/(loss) (14/15: £(5,750)m)

4.97p[1]
Diluted earnings per share before exceptional items and net pension finance costs (14/15: 5.46p)

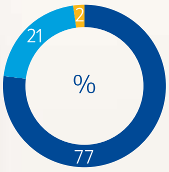
£(5.1)bn[2]
Net debt (14/15: £(8.5)bn)

476,000[1]
Colleagues at year-end (14/15: 492,000)

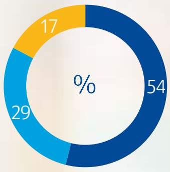
6,902[1,3]
Shops around the world (14/15: 6,849)

78m[1]
Shopping trips per week (14/15: 77m)

18m
Meals donated through our food surplus redistribution work and Neighbourhood Food Collection



Group sales (exc. VAT, exc. fuel)



Group operating profit before exceptional items

- UK & ROI
- International
- Tesco Bank

[1] Reported on a continuing operations basis.
[2] Excludes the net debt of Tesco Bank.
[3] Includes franchise stores.

Visit **www.tescoplc.com/ar2016** to see a short highlights video of 2015/16

Introduction

Serving shoppers a little better every day

Last year we made a simple commitment. We set out to get back to what Tesco has always done best: being the champion for customers; putting customers first; and taking small actions to make big differences.

Since then, we have begun to transform our business – from how we are organised to the way we work with our suppliers and ultimately the way that we serve our customers.

One of the most important changes we have made over the past year is to set out a new purpose for Tesco: 'Serving shoppers a little better every day.' This purpose guides all our decisions and shapes every action we take.

Alongside our purpose, we have recommitted to three values:

- **No one tries harder for customers**
- **We treat people how they want to be treated**
- **Every little help makes a big difference**

Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than the last – from the quality of the offer to the thoughtfulness of the service. With the skills, expertise and dedication of our 476,000 colleagues worldwide, we are well placed to achieve this. By delivering our purpose, and staying true to our values, we can continue to build on the progress we have made this year.

This has been a year of real change at Tesco. Our ambition now is to go further and do even more to reduce and simplify prices, improve ranges, continue to innovate and deliver excellent customer service.

Visit **www.tescoplc.com/ar2016** to see how we built a temporary store in Carlisle

Chairman's statement

Strong foundations

John Allan
Non-executive Chairman

It has been a very challenging year for Tesco, but I remain extremely positive and confident about the future of this great business. Tesco is an iconic brand, a national institution and an enormous employer, so I'm conscious of the huge responsibilities, not just to our customers, colleagues and shareholders, but to all our other stakeholders, including our supplier partners.

During the past year, there has been a renewed focus on corporate governance and the Board has spent a significant proportion of its time examining and strengthening our processes throughout the Group. Having a solid governance framework is key to rebuilding trust and transparency.

Across the business, we have continued with our wide-ranging corporate renewal plans and I'm pleased to say that these are very much on track. Through making some difficult decisions and putting the customer at the heart of all we do, we are rebuilding the business. It was a difficult decision to sell our Homeplus business in Korea, but it was an important step in repositioning the finances of the Group by generating £3.3bn of funds. The sale enabled us to take a significant step forward on our priority of strengthening the balance sheet. In addition, replacing the UK defined benefit pension scheme with a defined contribution scheme means we have a plan that is both competitive and sustainable for our colleagues over the long-term.

Further information on the work that has taken place during the year can be found in our corporate governance section on page 28.

The Board and I feel we have the right balance of skills, experience and backgrounds to support and challenge the management team. The recent appointments of Alison Platt, Simon Patterson and Lindsey Pownall as additional independent Non-executive Directors have further strengthened the Board. Between them, they bring a wealth of customer service, IT and supplier relationships experience and we look forward to working with them to take the Company forward.

On behalf of the Board, I would like to thank Dave Lewis and his senior management team for their continued hard work and dedication. Strong foundations have been laid since we began our turnaround and I believe that we have focused on the right priorities as we continue to rebuild and strengthen the business.

A highlight of my year has been getting out into the business and meeting so many of our colleagues, both in the UK and overseas, and seeing the passion and enthusiasm they have for Tesco. During a recent visit to South East Asia, I was delighted to see the recognition Tesco is receiving as a very attractive employer. I want it to be recognised how hard our colleagues have worked during the past year and thank them for their commitment through difficult times.

It is important that we get Tesco back to investment grade and paying dividends. We are a business of scale and complexity and have the resources to do a lot. But it will be our relentless focus on meeting customers' needs that will help us to achieve our goals for the long-term success of the Company for the benefit of all our stakeholders.

John Allan
Non-executive Chairman

Visit **www.tescoplc.com/ar2016** to hear more from John Allan on his first full year at Tesco

CEO's statement

A year of significant progress

Dave Lewis
Group Chief Executive

This has been a significant year for Tesco. We have delivered unprecedented change over the past 12 months as we have begun to transform our business.

We have taken decisive, immediate action on the challenges we faced. In a very deliberate way we have made the changes needed to re-energise the operation. We have guided our efforts with the three priorities we set out in October 2014:

1. to regain competitiveness in the core UK business;
2. to protect and strengthen the balance sheet; and
3. to rebuild trust and transparency.

As a result, we have stabilised the business and we are on track with where we expected to be. Of course there is still more to do – but we are on the road to recovery and momentum is building across the business.

Our business has always been at its best when we've made customers our absolute priority. Over the past year, we have restored our total commitment to giving the best possible service to our customers. This is reflected in the new purpose we have set out for the business: serving shoppers a little better every day. This is guiding every action we are taking and has been instrumental in making the UK business competitive again.

As well as investing in lower, more stable pricing and improved service and availability, we have reviewed and simplified every one of our food ranges and added thousands of extra colleague hours on the shop floor to improve customer service. On-shelf availability has reached record levels, ensuring customers can get what they want, when they want it.

In October 2015, we became the first – and still only – retailer in the UK to offer customers an immediate price match at the till with Brand Guarantee, so they never pay more for their branded shop if it's cheaper at Asda, Morrisons or Sainsbury's when they buy 10 or more different products.

And just two months ago, we launched a range of exclusive new fresh food brands, which are available only at Tesco and at great prices. These are allowing us to give our customers even more choice in great value, fresh food all under one roof.

International sales have also strengthened despite trading in challenging markets, driven by improvements across our offer. We have built up strong positive sales momentum throughout the year in both Europe and Asia. Our largest international business, in Thailand, performed particularly well, culminating in its highest-ever market share. Our transformation programme in Europe has accelerated growth and reduced operating expense.

Elsewhere in the Group, Tesco Bank continues to give customers a unique banking offer. And in Tesco Mobile, our joint venture with O_2, we have a successful brand and a business recognised for delivering outstanding customer service.

Visit **www.tescoplc.com/ar2016** to hear more from Dave Lewis

By focusing on fixing the fundamentals of the shopping trip for customers, we have seen improving like-for-like trends in all our markets and positive like-for-like growth for the Group as a whole in the fourth quarter. Volumes and transactions are increasing across the Group as customers are buying more of what they need at Tesco. We are rebuilding profitability whilst continuing to invest in our offer for customers and have delivered Group operating profit[1] of £944m this year, in line with expectations.

The long-term health of our balance sheet will be determined by our continued ability to improve profitability and generate cash, and I am pleased to say that we generated £2.6bn of cash[2] this year – before taking into account the Korean sale proceeds – a significant improvement on last year. We have also taken some important decisions that – whilst difficult – have enabled us to move more quickly towards protecting and strengthening our balance sheet. These include the transition from a defined benefit pension scheme to a defined contribution scheme. We have also carefully negotiated the buy-back of 70 stores out of sale and leaseback structures, removing some of the burden of increased lease commitments and rental inflation.

Our progress towards rebuilding trust in our brand has been led by the commitment and passion demonstrated by our colleagues. Wherever I travel in our business, I see uplifting evidence of this. I am often humbled at the lengths so many colleagues go to in order to help others. Over the past year, I've spent a lot of time with colleagues in our stores and seen the commitment to serving our customers. Be it on the shop floor or behind the scenes, there are so many examples where colleagues are going the extra mile to serve shoppers a little better every day. Colleagues have faced unprecedented change, yet the resilience and empathy shown to customers and each other is unwavering.

The examples are limitless: from the tiny things that make customers smile to the thoughtful acts that make their day. One of my favourite examples of dedication to our customers is the colleague who spent hours navigating heavy snowfall to hand-deliver shopping to a 96-year-old unable to receive her usual online delivery or to leave her house for groceries.

And there are the community and charity projects we can really be proud of too. We've made a new commitment to ensure all surplus food from Tesco stores in the UK goes to charity and not waste by 2017. Our work with Community Food Connection continues to redistribute surplus food from our stores to local charities to help feed those most in need and we have extended it to over 100 large stores, with plans to roll out to all large stores by the end of 2016.

Our charity partnership with Diabetes UK and the British Heart Foundation is the first of its kind and on its way to raising our target of £30m to promote healthy living. And customers have chosen specific community projects to receive £11.5m raised from the sale of Tesco bags in the UK since October 2015, donated through Bags of Help – one of the biggest environmental improvement drives the UK has ever seen.

As this report describes, we have made significant progress from where we were a year ago. The actions we've taken to reaffirm our competitiveness in the UK, protect the balance sheet, and rebuild trust and transparency have stabilised our business.

As a team, we are committed to serving shoppers a little better every day, in what remains a challenging, deflationary and uncertain market. We are confident that the investments we are making are leading to sustainable improvements for customers whilst creating long-term value for our shareholders.

I am sure that it will be another busy year and I'm confident that with the customer at the heart of everything we do, we will continue to rebuild our fortunes as a business.

Dave

Dave Lewis
Group Chief Executive

[1] Group operating profit is shown before exceptional items.
[2] Cash generated from retail operations.

Regaining competitiveness

Over the course of this year, we have worked hard to regain our competitiveness – particularly in the UK. To do this, we first listened to our customers and understood what it was that they needed from their shopping trip.

They highlighted three main themes:

- they wanted their shopping trip to be easier;
- they wanted better availability on the products that matter most, every day; and
- they wanted lower, more stable prices they can trust all of the time.

Over the past year, we have responded. We simplified our store structures, investing in 9,000 more customer-facing roles in store. We have reviewed the range of products we sell in every one of our 33 food categories, reducing the total number of product lines by 18%. As well as making the range easier for customers to shop, this has helped us to increase on-shelf availability to record levels by providing more space for the products which are purchased most frequently.

These changes have been delivered by working closely with our supplier partners. Together, we have moved to a more efficient and sustainable way of working, helping us to further reduce prices for customers. In total, in the year we have brought down the cost of an average weekly shop by over 3%. In addition, by removing inefficiencies in the supply chain, we have been able to provide up to two days' more freshness in our fruit and vegetables.

As well as lower, more stable prices, customers want complete peace of mind that they won't lose out at Tesco – even if the products they wish to buy are available on promotion elsewhere. They also prefer simple, immediate value rather than vouchers. In October, we launched our unique Brand Guarantee, reassuring customers that if their branded shop could be found more cheaply elsewhere, we would take the money immediately off their bill.

The progress we have made is being recognised. We measure customer satisfaction through our Customer Viewpoint Survey – a weekly measure that captures direct customer feedback in every store. In total, we have seen an improvement of 5% in the proportion of customers rating overall service and colleague helpfulness as excellent, and every individual measure below this has also improved.

The clearest sign that we are more competitive again is that more customers are buying more things at Tesco. We have seen sales volumes and weekly transactions improve throughout the year, generating annual positive volume growth for the first time in five years. Volumes were up 3.3% and transactions were up 2.8% in the fourth quarter.

We are encouraged by our progress but we know that there is a lot more we can do and that we can continue to become even more competitive by putting the customer at the heart of every decision we make.

Brand Guarantee
If a customer's branded grocery shop is cheaper at Asda, Morrisons or Sainsbury's, when they buy 10 or more different products, we instantly take the money off the bill at the till. We even compare branded promotions, so customers can check out with confidence there and then. No vouchers, no waiting, no wondering if there's a better deal elsewhere. We've introduced this because it's the right thing for customers – and we're very proud of it.

For more information visit
www.tesco.com/brandguarantee

Protecting the balance sheet

We have made significant progress towards our aim of protecting and strengthening the balance sheet this year, reducing our total indebtedness by £6.2bn. A strong balance sheet gives us more flexibility to invest in improving the shopping trip for customers.

We have taken a number of actions to strengthen our position:

- repositioned the finances of the Group through the sale of our Homeplus business in Korea, which itself reduced total indebtedness by £4.1bn;

- provided sustainable benefits for colleagues and a greater certainty on future cash requirements by replacing the UK defined benefit pension scheme with a defined contribution scheme;

- improved the potential for medium-term returns by consolidating the Central European businesses;

- taken a much more disciplined approach to capital investment and delivered, as planned, a significant reduction in total expenditure;

- adopted a new approach to cash payments to suppliers as part of our efforts to build trusted and transparent relationships; and

- increased our ownership of freehold property, reducing exposure to index-linked and fixed-uplift leases.

We have begun to make a big cultural shift in the way colleagues think about the finances of the business, with a much improved understanding of the importance of cash. All colleagues are asked to think about the impact they can have on improving the cash flow in the business, whether that be through reducing slow-moving stock in our warehouses or making our shop floor operations more efficient.

Our firm focus on generating cash from our trading activities and maintaining discipline in our capital expenditure will be key to making further progress in protecting and strengthening the balance sheet going forward.

Property ownership
Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift inflation.

In March 2015, we completed an asset swap with British Land, regaining sole ownership of 21 superstores and in February 2016, we regained sole ownership of 49 large stores and two distribution centres from Phoenix Life Assurance and the British Airways Pension Fund.

These transactions increased our freehold ownership ratio in the UK & ROI by 6% to 47% and generated a saving in fixed-uplift and index-linked rent of £115m per annum at current rental levels.

We continue to evaluate opportunities to further reduce our exposure to indexed rent inflation.

Rebuilding trust and transparency

Sadly, trust in our brand has been eroded in recent years. Trust should never be taken for granted and it will take time and perseverance to restore it fully.

We are working hard to rebuild that trust with our colleagues, customers, suppliers and other key stakeholders and want to build more open and transparent relationships.

We are giving customers lower, simpler and more stable prices to ensure they can trust Tesco to deliver the best shopping trip at the best price. And having listened to customer feedback, we are redirecting promotional spend into shelf-edge prices.

In addition, we have completely reorganised our relationships with suppliers. In October 2014, we drew a line under our past and started to reset the way we work. We refocused on new performance measures and retrained our teams.

We have fundamentally changed the way we operate and have implemented significant initiatives that improve the way we work with suppliers and our commercial culture, and simplify how we buy and sell.

We have completely changed our Product team structure, focusing on getting the offer right for customers and prioritising sales and total profit over margin rate.

We also became the first UK retailer to publish payment terms with suppliers.

The Supplier Network which we launched at the start of 2015 has now grown to more than 5,000 members, and we set up a special helpline for suppliers to solve any issues that may arise within 48 hours.

Our latest Supplier Viewpoint measure of how suppliers view their relationships with Tesco recognises the positive impact of all these changes. 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.

We have also made a number of changes which aim to help shareholders and other stakeholders understand our performance. These include much greater alignment between the way we run the business internally and the way we report our results externally and a move to operating profit as our headline performance measure, adjusted only for any large and distorting impacts.

Tesco today is a very different business. We are proud of how our colleagues and suppliers have responded to the changes we have made. Our customers are noticing the differences too – they're enjoying better service and buying more of what they need at Tesco. And our journey will continue, guided by our commitment to serve shoppers a little better every day.

Dairy farmers

The groundbreaking Tesco Sustainable Dairy Group, set up in 2007, continues to give farmers fair prices and deals for their milk.

In our commitment to dairy farmers, all Tesco own-label standard-tier yoghurt is now made with milk sourced from Britain with the exception of those with protected origins – including authentic Greek yoghurt and French fromage frais. This has seen us increase the amount of British milk in our standard-range yoghurts from two-thirds to 100% and has increased the demand for milk from farms across the whole country.

We have also extended our financial support for First Milk farmers who supply milk for our own-label cheese to help cover production costs throughout the winter and into the spring.

Visit **www.tescoplc.com/ar2016** to see more about our supplier relationships

Business model

Keeping it simple

Our business is organised around the three pillars of Customers, Product and Channels. The way we work is now much simpler and clearer.

At Tesco, we focus on the little things to make a big difference. Customers are the priority. We place them at the centre of everything we do to deliver our purpose – serving shoppers a little better every day.

Customers

Tesco exists to serve customers – and our business model has customers at its core.

We listen to our customers and act on what is important to them to deliver the best shopping trip: price, service, range and availability.

Reinvest

Our main focus is to improve Tesco for customers. We are committed to becoming more efficient and reinvesting some of the savings we make to improving the shopping trip.

The reason for this reinvestment is clear: the better a job we do for customers, the more we will improve sales; the more our sales improve, the more we can reinvest.

Channels

To bring the best products to customers, we work through a range of channels – from small shops to large shops and through our growing online business.

As part of improving our offer, we are investing in making our channels even more efficient and convenient for our customers.

Product

The offer we create for customers is developed by our Product team. Our ways of working in this team have been rewritten with an absolute focus on fair, transparent, mutually beneficial relationships with suppliers. The Product team work with our suppliers to source the best-possible range of quality products that meet and anticipate our customers' needs.

The Big 6

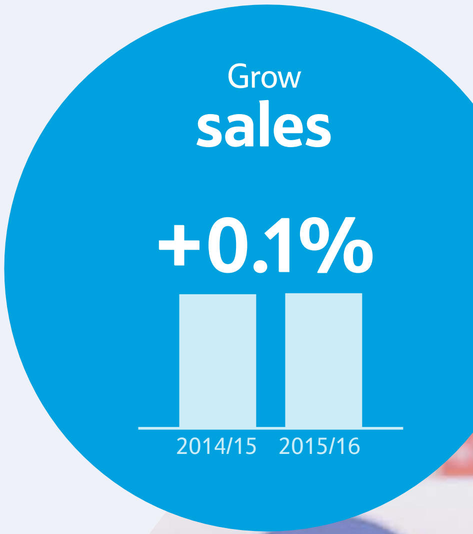
We aim to serve shoppers a little better every day and have six simple, key business performance measures.

On every KPI, we have made good progress. As a team, we are doing a better job for our customers and improving our relationships with our suppliers, whilst creating long-term sustainable value for shareholders.

£48.4bn

Group sales (exc. VAT, exc. fuel)[1]

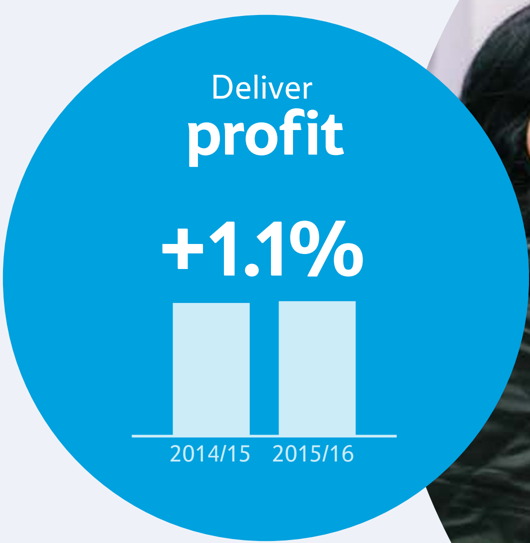
Increasing volume is key to the success of our business model and both volumes and transactions are increasing as customers are buying more products, more often at Tesco.



£944m

Group operating profit before exceptional items[1]

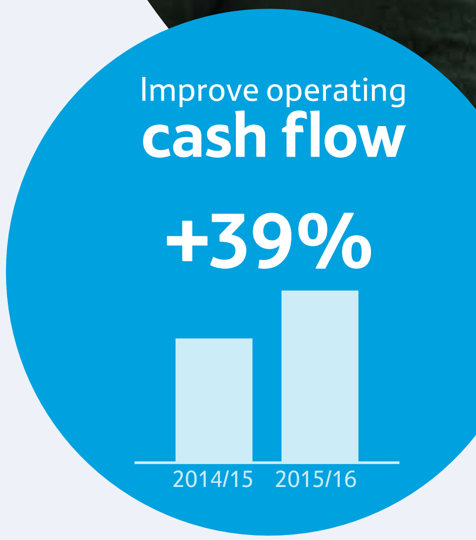
If we continue to deliver a better shopping trip for customers, building more value into our offer, we will achieve a stronger financial position.



£2,581m

Retail cash generated from operations[2]

Strong operating cash flow is needed to keep the business running and allows us to reinvest. These positive figures show our financial position is improving.



Customers
recommend us and come back time and again

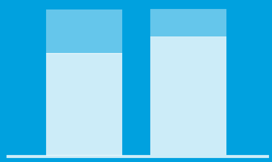
+1.2% loyalty

Group customer loyalty[3]

By putting customers first and making them our main focus, more shoppers are choosing to shop at Tesco. There is more progress to be made but the improvements are positive so far.

Colleagues
recommend us as a great place to work and shop

+11%



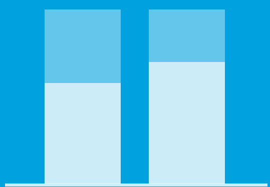
81%
Great place to work[4]

41 NPS
Great place to shop[5]

It's been a year of substantial change for colleagues, but their commitment, passion and energy has remained focused on serving shoppers a little better every day.

We build trusted partnerships

+12%



70%
Group supplier satisfaction[6]

We have simplified our relationships with suppliers and seen a sharp improvement in supplier satisfaction since last year.

1 Reported on a continuing operations basis. Growth is at a constant exchange rate, on a comparable 52-week basis.
2 Includes Korea to the point of disposal. Growth is at a constant exchange rate, on a comparable 52-week basis.
3 We define loyal customers based on their frequency of shopping with us and average weekly spend.
4 Based on our internal 'What Matters To You?' survey. Percentage increase relates to the 'Great place to work' measure.
5 Net Promoter Score ('NPS') equals 'fans' (those scoring 9-10 out of 10) minus 'critics' (those scoring 0-6) on an 11 point scale question of 0-10.
6 Based on the question "Overall, how satisfied are you with your experience of working with Tesco?" in our Supplier Viewpoint Survey.

Financial review

Alan Stewart
Chief Financial Officer

Group results 2015/16

52 weeks ended 27 February 2016 On a continuing operations basis	2015/16	2014/15	Year-on-year change[1] (Constant exchange rates)	Year-on-year change[1] (Actual) exchange rates)	*Change vs 53-week 2014/15 statutory results*
Group sales (exc. VAT, exc. fuel)	**£48,352m**	**£49,853m**	**0.1%**	**(1.6)%**	*(3.0)%*
Fuel	£6,081m	£7,072m	(11.3)%	(10.9)%	*(14.0)%*
Revenue (exc. VAT, inc. fuel)	£54,433m	£56,925m	(1.3)%	(2.8)%	*(4.4)%*
Group operating profit before exceptional items[2]	**£944m**	**£940m**	**1.1%**	**0.0%**	*0.4%*
– UK & ROI[3]	£505m	£498m	1.4%	0.6%	*1.4%*
– International	£277m	£254m	11.4%	9.1%	*9.1%*
– Tesco Bank	£162m	£188m	(13.8)%	(13.8)%	*(13.8)%*
Include exceptional items	£102m	£(6,690)m			
Group statutory operating profit/(loss)	£1,046m	£(5,750)m	n/m	n/m	*n/m*
Group profit before tax before exceptional items and net pension finance costs	£435m	£490m		(11.9)%	*(11.2)%*
Group statutory profit/(loss) before tax	£162m	£(6,334)m		n/m	*n/m*
Diluted EPS before exceptional items	3.41p	4.14p			*(17.6)%*
Diluted EPS before exceptional items and net pension finance costs	4.97p	5.46p			*(9.1)%*
Diluted EPS	2.76p	(69.56)p			*n/m*
Capex	**£1.0bn**	**£1.8bn**			*down 45.4%*
Net debt[4,5]	**£(5.1)bn**	**£(8.5)bn**			*down 39.7%*
Cash generated from retail operations[4]	**£2.6bn**	**£1.9bn**			*up 38.8%*

1 Change is shown on a comparable 52-week basis.
2 Exceptional items are excluded by virtue of their size and nature in order to better reflect management's view of the performance of the Group.
3 The elimination of intercompany transactions between continuing operations and the Korea discontinued operation, as required by IFRS 5 and IFRS 10, has resulted in a reduction to the prior period UK & ROI operating profit of £(9)m.
4 Includes both continuing and discontinued operations.
5 Net debt excludes the net debt of Tesco Bank.

"This has been a transformational year for Tesco, in which we have reset the business on a road of recovery."

This has been a transformational year for Tesco, in which we have reset the business on a road of recovery. We delivered sales excluding VAT, excluding fuel, of £48.4bn in the year, 0.1% above last year on a 52-week basis at constant exchange rates and saw improving like-for-like sales trends in all areas of the Group. This year we moved to a simpler profit measure based on operating profit before exceptional items and, on that basis, profits were £944m as we started to rebuild profit momentum whilst continuing to invest in the customer offer. Our statutory profit before tax was £162m. We generated £2.6bn cash from retail operations, a 39% increase year-on-year and reduced our total indebtedness by £6.2bn to £(15.5)bn.

Visit **www.tescoplc.com/ar2016** to find PDF and Excel downloads of our financial statements

Segmental results

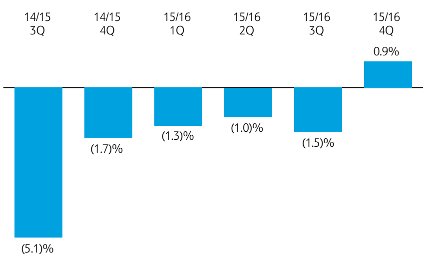
UK & ROI

	This year	52 week change at constant exchange rates	52 week change at actual exchange rates
Sales (exc. VAT, exc. fuel)	**£37,189m**	(0.5)%	(0.9)%
Like-for-like sales (exc. VAT, exc. fuel)	**(0.7)%**		
Revenue (exc. VAT, inc. fuel)	**£43,080m**		
Revenue includes: fuel	£5,891m		
Operating profit before exceptional items	**£505m**	1.4%	0.6%
Operating profit margin before exceptional items	**1.17%**	4bp	4bp

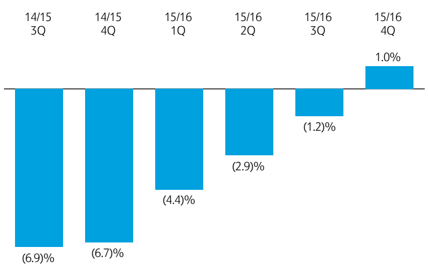
In the UK and the Republic of Ireland, there was a marked improvement in like-for-like sales performance from (1.3)% in the first half to (0.1)% in the second half.

In the UK, customers are responding well to changes we have made in all aspects of our offer and we have seen an improving trend through the year in both customer numbers and volume growth. Full-year UK sales declined by (0.4)% on a 52-week basis, reflecting both an improving trajectory in our like-for-like sales performance and a declining contribution from net new store space, due to store closures.

UK like-for-like sales performance[1]



ROI like-for-like sales performance[1]



[1] Exc. Vat, exc. fuel.

UK like-for-like sales, excluding VAT and excluding fuel, fell by (0.6)% in the year but improved over the course of the year, rising by 0.9% in the fourth quarter driven by a strong performance across all our store formats and product categories. High levels of deflation persisted due to our own price investments in addition to commodity price decreases.

In the Republic of Ireland, we made a significant investment to ensure our customers receive the most competitive offer possible. Like-for-like sales performance turned positive in the fourth quarter for the first time since 2012.

Our full-year UK & ROI operating profit before exceptional items was £505m, with margin growth of 81 basis points between the first and the second half. This improvement marks the next stage of our journey to rebuild profitability from the losses we made in the second half of 2014/15. We have made permanent reductions to our cost base, transformed the way we work with suppliers, started to generate leverage through increasing sales volumes and begun to improve productivity throughout our operations.

International

	This year	52 week change at constant exchange rates	52 week change at actual exchange rates
Sales (exc. VAT, exc. fuel)	**£10,208m**	1.8%	(4.3)%
Like-for-like sales (exc. VAT, exc. fuel)	**2.3%**		
Revenue (exc. VAT, inc. fuel)	**£10,398m**		
Revenue includes: fuel	£190m		
Operating profit before exceptional items	**£277m**	11.4%	9.1%
Operating profit margin before exceptional items	**2.66%**	23bp	34bp

International sales grew by 1.8% at constant exchange rates. We achieved positive like-for-like sales growth in both Asia and Europe in the second half, driven by improvements across our offer with a particular emphasis on price and fresh foods. We delivered market share gains in five of our seven international markets.

In Central Europe, the restructure of the management team for Czech Republic, Hungary, Poland and Slovakia is complete and moves us from operating as four individual country teams to one single regional team. We are in the process of moving to an operating model which will create substantial buying and operational synergies and help us to fund further improvements in the customer offer.

International profits increased by 11.4% at constant exchange rates to £277m, with margin growth of 138 basis points between the first and the second half. The 'food supervision fee' which had been proposed in Hungary was not introduced and therefore has no impact on these results. We continue to be cautious about potential legislative changes in our European markets. Following investments in the offer in both Asia and Europe, we have seen improving like-for-like sales growth and we are beginning to generate positive operational gearing.

Financial review continued

Segmental results continued

Tesco Bank

	This year	Year-on-year change
Revenue	**£955m**	**0.8%**
Operating profit before exceptional items	**£162m**	**(13.8)%**
Lending to customers	£8,542m	10.6%
Customer deposits	£7,397m	7.0%
Net interest margin	4.2%	0.0%
Risk asset ratio	20.0%	1.2%

Tesco Bank continues to offer customers a differentiated banking and insurance offer, with 7.6 million accounts at the year-end. Active customer account numbers have grown by 1.0%, supported by a strengthened customer proposition including higher value personal loan products, 95% loan-to-value mortgages and the removal of monthly current account fees. Customer lending increased by 10.6% to £8.5bn, with strong growth in mortgage balances. Operating profit before exceptional items reduced by (13.8)% to £162m. This decline was primarily due to the introduction of European Commission caps on interchange income from December 2015, following the initial reduction driven by MasterCard's agreement with the Competition and Markets Authority last April. The full-year effect of this change will be felt in the 2016/17 financial year.

Risk-weighted assets have risen in line with lending and the Core Tier 1 ratio has improved to 16.6%. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective.

Exceptional items in operating profit

	This year	Last year
Net impairment of property, plant and equipment, onerous lease provisions, intangible assets and investments in joint ventures and associates	£(408)m	£(5,389)m
Net restructuring and redundancy	£(126)m	£(406)m
Property transactions	£156m	–
Past service credit and associated costs arising on UK defined benefit pension scheme closure	£480m	–
Stock-related	–	£(500)m
Reversal of commercial income recognised in prior years:		
– Recognised in 13/14	–	£(53)m
– Recognised in years prior to 13/14	–	£(155)m
Other	–	£(187)m
Total exceptional items in operating profit	**£102m**	**£(6,690)m**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature, in order to better reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £102m, with a mix of both charges and credits:

- An information technology impairment and asset write-off of £(275)m, as we move towards a single online platform for customers and a net non-cash property impairment and onerous lease provision of £(133)m, including write-downs of construction-in-progress and non-trading sites of £(109)m.
- A UK & ROI net restructuring and redundancy charge of £(126)m relates principally to store colleague structures and working practices changes and business rationalisation, and is partially offset by the release of a prior year provision.
- We generated net profits (pre-tax) of £156m from property transactions. In order to increase our freehold ownership and reduce our exposure to indexed rent reviews, we regained sole ownership of 70 stores and two distribution centres in transactions with British Land in March 2015, and Phoenix Life Assurance and the British Airways Pension Fund in February 2016. In October 2015, we agreed the sale of 14 sites in the south of England to Meyer Bergman for mixed-use and residential development, generating cash proceeds of £218m in the year.
- Following the closure of our UK defined benefit pension scheme in November, a non-cash actuarial credit of £538m has been recognised, as all accrued deferred pension benefits now increase in line with the consumer price index, rather than the retail price index. This was partly offset by a £(58)m charge related to the scheme closure, including a payment to members, equivalent to one week's pay and capped at £500 per colleague, paid directly into a new defined contribution scheme.

Last year, we recognised exceptional items of £(6.7)bn, of which around £(0.6)bn was linked to a direct future cash outflow.

Visit **www.tescoplc.com/ar2016** to find PDF and Excel downloads of our financial statements

Joint ventures, interest and tax

Joint ventures and associates

Losses from joint ventures and associates increased by £(8)m to £(21)m, due to a higher level of losses from our partnership with CRH in China in addition to a lower initial level of dunnhumby profitability following the restructure of our relationship with Kroger in April 2015. These impacts were partially offset by increased profits recognised on our UK property joint ventures.

Finance costs and income

	This year	Last year
Interest receivable and similar income	£29m	£80m
Finance income	**£29m**	**£80m**
Interest payable	£(504)m	£(535)m
Capitalised interest	£6m	£44m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	£(19)m	£(26)m
IAS 19 net pension finance costs	£(155)m	£(134)m
Finance costs	**£(672)m**	**£(651)m**
Exceptional charge: Translation of Korea proceeds	£(220)m	–
Statutory finance costs	£(892)m	£(651)m

Interest receivable and other income decreased by £(51)m to £29m, due to reduced income from debt-hedging swaps. Finance costs increased by £21m to £(672)m. Interest payable includes an overall reduction of £49m in interest costs on bonds and medium term notes, which was largely offset by the unwinding of the discount on onerous lease provisions. The prior year also included set-up costs relating to new credit facilities.

Capitalised interest reduced by £38m, reflecting a lower level of work-in-progress. Net pension finance costs of £(155)m rose in line with the opening pension deficit, offset in part by a lower opening discount rate.

An exceptional non-cash loss of £(220)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea, which are held in GBP money market funds in a non-Sterling denominated subsidiary. This does not represent any economic cost to the Group.

Taxation

Tax on profit before exceptional items was £(8)m with an effective rate of tax for the Group of 3%. This tax rate is lower than the UK statutory rate primarily due to a lower book value than tax value of property assets disposed of in the year, partially offset by unrecognised tax losses.

On a statutory basis, including an exceptional credit of £86m relating to a release of provisions in respect of uncertain tax positions following settlement of a number of historic enquiries relating to years up to 2011, there is a tax credit of £54m.

The effective underlying tax rate for the 2016/17 financial year is expected to be around 30%.

Earnings per share

Diluted earnings per share before exceptional items were 3.41p, down (17.6)% on last year despite a lower tax charge due to higher net finance costs. Diluted earnings per share before exceptional items and net pension finance costs were 4.97p, (9.1)% lower year-on-year. Statutory diluted earnings per share from continuing operations were higher than last year at 2.76p reflecting significant exceptional items in the prior year.

Financial review continued

Protecting and strengthening our balance sheet

Summary of total indebtedness

	This year	Last year	Movement
Net debt (excludes Tesco Bank)	£(5,110)m	£(8,481)m	£3,371m
Discounted operating lease commitments	£(7,814)m	£(9,353)m	£1,539m
Pension deficit, IAS 19 basis (post-tax)	£(2,612)m	£(3,885)m	£1,273m
Total indebtedness	**£(15,536)m**	**£(21,719)m**	**£6,183m**

We have made significant progress over the course of this year to reduce our total indebtedness from £(21.7)bn to £(15.5)bn. In this measure of indebtedness, we include net debt, discounted lease commitments and our net pension liability as measured by IAS 19.

Our firm focus on generating cash from our trading activities and maintaining discipline in our capital expenditure will be key to making further progress in protecting and strengthening the balance sheet going forward.

Retail cash flow and net debt[1]

	This year	Last year
Cash flow from operations excluding working capital	**£2,231m**	**£715m**
(Increase)/decrease in working capital		
– impact from exceptional items	£(91)m	£1,805m
– cash impact of new approach to supplier payments	£(231)m	£(1,073)m
– underlying decrease in working capital	£672m	£413m
Cash generated from operations	**£2,581m**	**£1,860m**
Interest paid	£(422)m	£(609)m
Corporation tax received/(paid)	£125m	£(347)m
Net cash generated from retail operating activities	**£2,284m**	**£904m**
Cash capital expenditure	£(1,004)m	£(2,244)m
Free cash flow	**£1,280m**	**£(1,340)m**
Other investing activities	£543m	£253m
Net cash (used in)/from financing activities and intra-Group funding and intercompany transactions	£(854)m	£239m
Net increase/(decrease) in cash and cash equivalents	**£969m**	**£(848)m**
Include/(exclude) cash movements in debt items	£4,219m	£(1,010)m
Fair value and other non-cash movements	£(1,817)m	£(26)m
Movement in net debt	**£3,371m**	**£(1,884)m**

[1] Includes both continuing and discontinued operations.

We generated £2.2bn cash from continuing and discontinued retail operations and improved working capital by £0.4bn. On an underlying and continuing operations basis, working capital improved by £0.4bn driven by a £0.3bn reduction in inventory with improvements evident in all areas of the Group and a £0.1bn inflow from trade balances, including an improvement from an increased focus on up-front unit price. Additionally, there was a £0.3bn inflow generated by our discontinued business in Korea up to the point of disposal. The overall reduction in working capital also includes the net impact of exceptional items of £(0.1)bn and the first half £(0.2)bn outflow relating to the new approach to cash payments to suppliers which we outlined last year.

Interest paid was £187m lower than last year as three medium term notes which matured in the prior year were refinanced at lower rates. In addition, timing differences resulted in a lower number of instalments requiring payment in 2015/16 than the prior year.

Cash tax was a net refund of £125m, which arose primarily as tax losses made in the 2014/15 financial year were carried back to offset against taxable profits from 2013/14.

Cash movements of £4.2bn in debt items primarily reflect the proceeds from the sale of our Homeplus business in Korea, which have been placed in short-term investments.

Fair value and other non-cash movements include £1.5bn of debt acquired when we regained sole ownership of 70 stores and two distribution centres.

Discounted operating lease commitments

Discounted operating lease commitments reduced by £1.5bn in the year, including a £0.8bn reduction arising from the sale of our Homeplus business in Korea.

We completed three property transactions, regaining ownership of 70 stores and two distribution centres which reduced discounted lease commitments by a further £0.6bn.

With some of our lease agreements, we have an option on a specific date to buy back the property or to buy back the equity of our joint venture partner at market value. As we are not obliged to make lease payments after the buy-back date, we do not include these as part of our indebtedness. If we were to include them, it would increase our lease commitments by £2.6bn.

Pension

In November 2015, we replaced our defined benefit pension scheme with a defined contribution scheme, providing sustainable benefits for colleagues and greater certainty on future cash requirements.

On an accounting basis, the Group's net pension deficit after tax decreased from £(3.9)bn last year to £(2.6)bn at the year-end. This was driven by a recalculation of the deficit following the closure of the UK defined benefit scheme and an increase of 30 basis points in real corporate bond yields, leading to a corresponding increase in the discount rate used to measure our long-term liabilities. In accordance with the long-term deficit funding agreement with the Trustee of £270m per annum in place since April 2015, a cash contribution of £249m was made to the scheme. Following the significant reduction in future pension risk, by closing the defined benefit scheme, the Trustee is now working with its advisers and the Company to reduce risk further, by beginning to implement an asset derisking strategy.

Capital expenditure

	This year	Last year
UK & ROI	£0.7bn	£1.3bn
International	£0.3bn	£0.4bn
Tesco Bank	–	£0.1bn
Group	**£1.0bn**	**£1.8bn**

Capital expenditure was £1.0bn, a decrease of £0.8bn year-on-year, with lower spend in each region. Group capital expenditure in 2016/17 will be around £1.25bn including an increased spend to refresh UK stores and an accelerated store-opening programme in Thailand.

This year, we closed more selling space than we opened, leading to a net reduction of (1.2)m sq. ft., of which (0.8)m sq. ft. was in the UK & ROI. Internationally, we reduced net space by (0.4)m sq. ft. as repurposing of (0.4)m sq. ft. of existing space in Asia and (0.3)m sq. ft. of closures in Europe more than offset our reduced opening programme.

Property

	UK & ROI	International	Group
Property[1] – fully owned			
– Estimated market value	£13.3bn	£6.4bn	£19.7bn
– Net book value[2]	£12.6bn	£5.0bn	£17.6bn
% net selling space owned	52%	71%	61%
% total property owned – by value[3]	47%	75%	54%

[1] Stores, malls, investment properties, offices, distribution centres, fixtures and fittings and work-in-progress. Excludes joint ventures.
[2] Property, plant and equipment excluding vehicles.
[3] Excludes fixtures and fittings.

Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift inflation. The March 2015 asset swap with British Land and February 2016 transactions with Phoenix Life Assurance and the British Airways Pension Fund, through which we regained sole ownership of 70 large stores and two distribution centres, enabled us to increase the proportion of freehold property in the UK & ROI by 6% to 47%. These transactions resulted in a combined saving in fixed-uplift and index-linked rent of £115m per annum at current rental levels.

The sale of our property assets within the disposal of our business in Korea drove the year-on-year reduction of £3.2bn in the estimated market value of fully-owned property across the Group to £19.7bn at year-end. This valuation gives an estimated surplus of £2.1bn over the net book value, with our Group freehold ownership percentage now 54% by value and 61% by selling space, an increase of 5% by value and 3% by selling space on last year.

This estimated market value excludes our share of property joint ventures. Including this, the valuation would increase by £0.2bn, net of the debt in the joint ventures.

The Group operating lease charge reduced by 10% in the year to £1.2bn and we continue to evaluate opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation. Based on current rent, around three-quarters of our UK lease charge relates to fixed-uplift or index-linked rental agreements.

Outlook

We have made good progress over the last year. We are continuing to invest in our customer offer in order to improve our competitiveness in what remains a challenging, deflationary and uncertain market. This will be reflected in the pace of improvement in profitability in the current year, particularly in the first half.

We are increasingly confident that the actions we are taking are leading to sustainable improvements for customers and will result in a continued improvement in profitability and the creation of long-term value for shareholders.

Alan Stewart
Chief Financial Officer

Environmental and social review

Every little help makes a big difference – it's the value we live by to ensure we serve our customers, colleagues and their communities a little better every day.

Our approach

Our purpose is to serve shoppers a little better every day and an important part of delivering this purpose is about ensuring we tackle the social and environmental challenges affecting the communities we operate in and source from.

This year we reviewed our third value to ensure we capture the bigger impact we can have on these challenges through the cumulative impact of small, thoughtful actions. After consulting our colleagues we decided 'Every little help makes a big difference' was the best way of articulating what we are trying to achieve. It sits alongside our other two values: 'No one tries harder for customers' and 'We treat people how they want to be treated'. It reminds us nothing is too small – covering the little things we do every day as well as linking these things together to contribute to the bigger global initiatives in which we are involved.

If our colleagues live this value they can all play a role in making it easier for both customers and colleagues to make healthier choices; reduce food waste wherever it occurs and tackle food poverty with any surpluses; and work with our suppliers to source responsibly and develop sustainable supply chains.

Our reporting

This report looks at our business across all of our functions and sets out our focus; our corporate responsibility is a fundamental part of this.

Rather than a separate, printed corporate responsibility report, we publish further details on our corporate responsibility, our polices and our key data online.

This year, we became signatories of the United Nations Global Compact (UNGC) – an initiative that encourages businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The initiative is centred on a commitment to 10 principles in the areas of human rights, labour rights, environment and anti-corruption.

Becoming signatories of the UNGC is another sign of our commitment to these areas and we are proud of the action we have taken to date.

Our governance

We have a clear and robust governance framework for corporate responsibility. This is provided in two ways: internally, through our Board Committees; and externally, through advice and critical feedback.

Our Corporate Responsibility Committee is chaired by our PLC Chairman, John Allan. More information on the activities of the Corporate Responsibility Committee this year can be found in the corporate governance section on page 28.

Visit **www.tescoplc.com/society** for information on:
- Our approach
- Ongoing activities
- Our latest case studies

Our people

Our approach

In order to serve shoppers a little better every day, we need to continue to provide our colleagues with the best support and opportunities. We have introduced more flexible working, enhanced training opportunities and have a more open and transparent way of working.

Despite challenging times within our business, our colleagues have remained the beating heart of Tesco and have continued to put customers first while delivering outstanding service. Every day this is evident with colleagues going above and beyond their roles – one colleague, Susan McGuckin, even helped deliver a baby in the car park of our Dundee Kingsway store!

Throughout our transformation at Tesco, we have made sure colleagues are the first to know of any changes within the business that will affect them. This commitment to be open and transparent will continue once the transformation is complete.

Diversity in the broadest sense remains critical to our business, and the ratio of male to female colleagues at year-end is outlined in the table below.

We believe that monitoring the pay gap between men and women is an important step towards ensuring everyone is fairly rewarded for their work and enjoys the same opportunities, which is why we've monitored gender pay since 2002 and were one of the first companies to voluntarily report it publicly in 2012.

The government has published draft regulations requiring large employers to report their gender pay gap from 2018, which may mean changes to the way we currently calculate our gender pay gap. We have therefore postponed calculating these figures while the government finalises their requirements. Our most recent data from 2014 shows our overall gender pay gap was less than 1%.

Respecting human rights

We always respect the human rights of our customers, colleagues and the people who work in our supply chains. We are committed to upholding basic human rights and fully support the UN Universal Declaration of Human Rights, the International Labour Organization Core Conventions and the UN Guiding Principles on Business and Human Rights. We are a founding member of the Ethical Trading Initiative and our industry-leading team of labour-standards experts support our suppliers to work towards fully implementing its Base Code.

We want everyone to have their human rights upheld and we know our customers, colleagues and suppliers do too.

Our customers want to buy great products, produced safely and responsibly. By protecting human rights we can give customers this confidence, as well as ensuring we are a good neighbour wherever we operate.

We have strong, consistent people policies designed to make Tesco a great place to work; a business where everyone is welcome and feels confident to be themselves in a safe environment.

We continue to build strong, trusted partnerships with our suppliers so we can deliver great, safe products that are responsibly produced.

Moving from compliance to due diligence

Historically, our Ethical Trading programme was based on audits by independent companies, with compliance-based corrective action plans followed up by the same audit companies. Over time, we realised we could be even more effective by changing this model, particularly when the most important human rights challenges often occur in the lower tiers of long, global supply chains.

As a result we have been developing our own capability to identify human rights risk through a due diligence process that looks end-to-end in the supply chain and seeks to address systemic challenges, such as modern slavery, wherever they occur.

Rather than relying only on an audit model, we will be looking to focus our resource on collaborating with supplier partners, civil society, union and worker representation groups, and government bodies. We will also be looking to develop new grievance mechanisms.

We are now developing risk metrics to assess potential human rights impacts, and a range of tools and KPIs to help us address and, if necessary, remedy any abuses. We are doing this work in close consultation with the Ethical Trading Initiative, NGOs and trade unions.

Governance and monitoring

Our Company-wide Code of Business Conduct, supported by a training programme, helps colleagues follow key policies. This includes a section on our approach to human rights.

Our Governance Committees consider financial and non-financial risks to our business and the Compliance and Corporate Responsibility Committees in particular consider risks related to our Human Rights Policy, which are maintained on our Company risk register.

We have a large number of in-house, locally based labour-standards experts around the world who work with our suppliers every day to get to the bottom of the real issues in the supply chain, and offer support to address these issues.

We now have protector lines for both colleagues and suppliers so any concerns with business conduct can be raised efficiently and confidentially.

Visit **www.tescoplc.com/humanrights** for more detail on our full policy

Our diversity	Male		Female	
Board of Directors	**8**	73%	**3**	27%
Senior managers – Directors	**506**	76%	**156**	24%
Senior managers – Directors and managers	**3,119**	68%	**1,490**	32%
All employees	**205,795**	43%	**270,658**	57%

Environmental and social review continued

To show how every little help can make a big difference, you can look at our work on both health and food waste.

Health

We want to make it easier for customers, colleagues and our wider community to live more healthily. One way we can do this is by creating partnerships with health experts like Diabetes UK and the British Heart Foundation that support prevention and cure for the biggest health challenges we face.

By working together, we're combining the charities' expertise in health with Tesco's ability to reach people in local communities across the UK. This gives us a unique opportunity to encourage the nation to make healthier choices in the way they live their lives. This year we have raised £7.89m and this is going towards prevention projects and important health research.

We have also now reached over 1.3 million children as part of The Tesco Eat Happy Project, which includes Let's Cook courses and Farm to Fork Trails. These are helping children to learn more about where their food comes from and to obtain the skills to get more involved in cooking at home. And to help customers we have continued our reformulation work where for example on soft drinks we have removed 4.6 billion calories and over 1,480 tonnes of sugar.

Food waste

We have continued to make progress on trying to prevent food waste from farm to fork.

With suppliers

Our overall approach has always been to make as much use of the edible crop as possible and we've included produce of different shapes and sizes for many years now. In some cases, we believe that our specifications can be broadened to accommodate more of the crop. This year, we introduced a new range to use parts of the crop that currently fall outside our specifications. The range will begin with potatoes and parsnips and we plan to add a number of other fruit and vegetables. In addition, we're developing a range of new ways to change how we forecast and order to help suppliers reduce waste. For example, we are trialling flexible ordering, where we work with our growers to offer them a range of volumes to supply, rather than a specific number.

Own operations

Another vital area of work for us is the way we tackle food waste within our own operations. The Community Food Connection (CFC), run in partnership with FareShare FoodCloud, aims to deliver our overall goal at Tesco to never throw away food that could be eaten. The CFC programme allows stores to alert local charities and community groups to how much surplus food is available at the end of each day, through the FareShare FoodCloud app. Charities simply respond by text message to confirm that they will collect the surplus food.

We have now expanded the CFC to over 100 large stores and we expect to be able to roll out around 100 stores a month to be in all large stores by the end of 2016. We have been donating surplus food from our distribution centres since 2012. In total, nearly 9 million meals have been donated with over 4.6 million in the past 12 months. We are confident that with CFC we now have the solution to donate this food to people in need and stop it going to waste.

When you add the food provided from our surplus redistribution work to the food donated by our customers and topped up by Tesco through the Neighbourhood Food Collection, we have donated food equivalent to over 18 million meals to help people in need in the UK.

Visit **www.tescoplc.com/ar2016** to see more about our Community Food Connection programme

International

Tesco is a global retailer and we have programmes in place to tackle food waste in each of our markets. All of our Central European markets are donating surplus food to local foodbank partners and we are planning trials in Malaysia and Thailand. We are also keen to show leadership on the issue at a global level, which is why Dave Lewis, our Chief Executive, has agreed to chair Champions 12.3; a coalition of leaders from government, business, research institutions and civil society. The coalition will be dedicated to accelerating progress towards achieving the UN Sustainable Development Goal Food Waste Target 12.3 to halve per capita global food waste at the retail and consumer level and reduce food losses along production and supply chains (including post-harvest losses) by 2030.

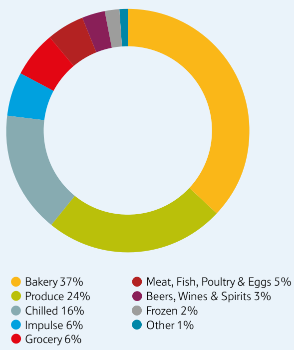
UK operations food waste data

We are the only UK retailer to publish independently assured food waste data for our own operations and we will continue to do so annually. In 2015/16, 59,400 tonnes □ of food went to waste, primarily in our stores which is equivalent to 1% □ of the number of food products we sold in our stores over the same period. The basis for our definition of food waste is that if we are unable to redistribute surplus food to human consumption it becomes waste. Last year we sent 17,800 tonnes of bakery waste to animal feed with the remainder sent to anaerobic digestion and incineration with energy recovery. We have not sent any food waste direct to landfill since 2009.

The food waste figure for this year shows a net increase of 4% on last year (for information on previous years data and calculations please see www.tescoplc.com/foodwastefigures). The benefit of collecting and analysing our data is that it enables us to highlight where exactly increases have occurred so we can develop plans to address hotspot areas. Whilst we have seen an increase overall we have also seen reductions in some categories. Where we have seen an increase in a particular category we will work with the teams to ensure we add to the programmes already in place across our stores to find ways to reduce this level of waste. Importantly, we have also invested in a nationwide rollout of Community Food Connection with FareShare FoodCloud, which will redirect millions of meals of Tesco surplus food to charity by the end of 2017.

Visit **www.tescoplc.com/disclosures** for more detail on our methodologies, assurance statements and other disclosures

Tesco UK food waste by category breakdown
(% breakdown of total tonnage value)



Greenhouse gas emissions

Our carbon footprint is calculated according to the Greenhouse Gas Protocol. Our net carbon footprint in 2015/16 was 5.1 million tonnes of CO_2e. This year we have reduced our net carbon intensity per sq. ft. of retail and distribution floor space by 1.8% compared to last year, and 41.7% since 2006/07.

	Global tonnes of CO_2e		
	2015/16	2014/15	Base year 2006/07
Scope 1	**1,347,150** ■	1,317,812	1,372,394
Scope 2*			
Location-based method	**2,624,322** ■	2,730,228	2,281,727
Market-based method	**2,033,658** ■	2,125,885	Not Available
Scope 1 and 2 carbon intensity (kg CO_2e/sq. ft. of stores and distribution centres)	**30.54**	30.70	51.20
Scope 3	**1,129,072** ■	1,216,740	1,142,013
Total gross emissions	**5,100,544**	5,264,780	4,796,134
CO_2e from renewable energy exported to the grid	**1,513** ■	1,205	–
Total net emissions	**5,099,031**	5,263,575	4,796,134
Overall net carbon intensity (total net emissions kg CO_2e/sq. ft. of stores and distribution centres)	**39.21** ■	39.91	67.20

* Tesco has historically only presented performance using the location-based method for calculating Scope 2 emissions. The market-based method is shown in accordance with the Greenhouse Gas Protocol Scope 2 Guidance and all intensity, net and gross emissions shown are calculated using the location-based method. This year we have also updated our historic emissions to account for business changes and conversion factor updates. For further details see www.tescoplc.com/carbonfigures.

□■ Independent limited assurance for both food waste and greenhouse gas emissions data has been provided by KPMG LLP using the assurance standards ISAE 3000 (and for data marked with ■, ISAE 3410). KPMG has issued an unqualified opinion over the data highlighted in this report with a □ and ■ and their respective full assurance opinions are available at: www.tescoplc.com/foodwastefigures and www.tescoplc.com/carbonfigures.

Principal risks and uncertainties

We have performed a robust and systematic review of those risks that we believe could seriously affect the Group's performance, future prospects, reputation or its ability to deliver against its priorities.

We maintain a Group Risk Register of the principal risks faced by the Group. Our risk management process is operated throughout the Group. All business units perform regular risk assessments that consider and assess the Group's principal risks and specific local risks pertinent to the market in which they operate. This process ensures a consistent approach to the assessment of risk across the Group as well as informing the Group risks from a bottom-up perspective. The content of the Group Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee and the Board.

As part of a wider and ongoing process to enhance our risk management activities and capabilities, we have refreshed the process by which Tesco evaluates and reports principal risks and uncertainties. We show the alignment of our risks to our priorities by principal risk in the table on page 25. In some cases a change of emphasis in the risk reflects both the external and internal business environment, including wider economic factors facing our Group that have also been considered as part of this process.

This development of our risk process has resulted in the inclusion of liquidity risk as a principal risk in this section. In our Annual Report 2015, this risk was included as part of a separate financial risks review, now set out in Note 22 on page 123 of the Annual Report and Financial Statements 2016.

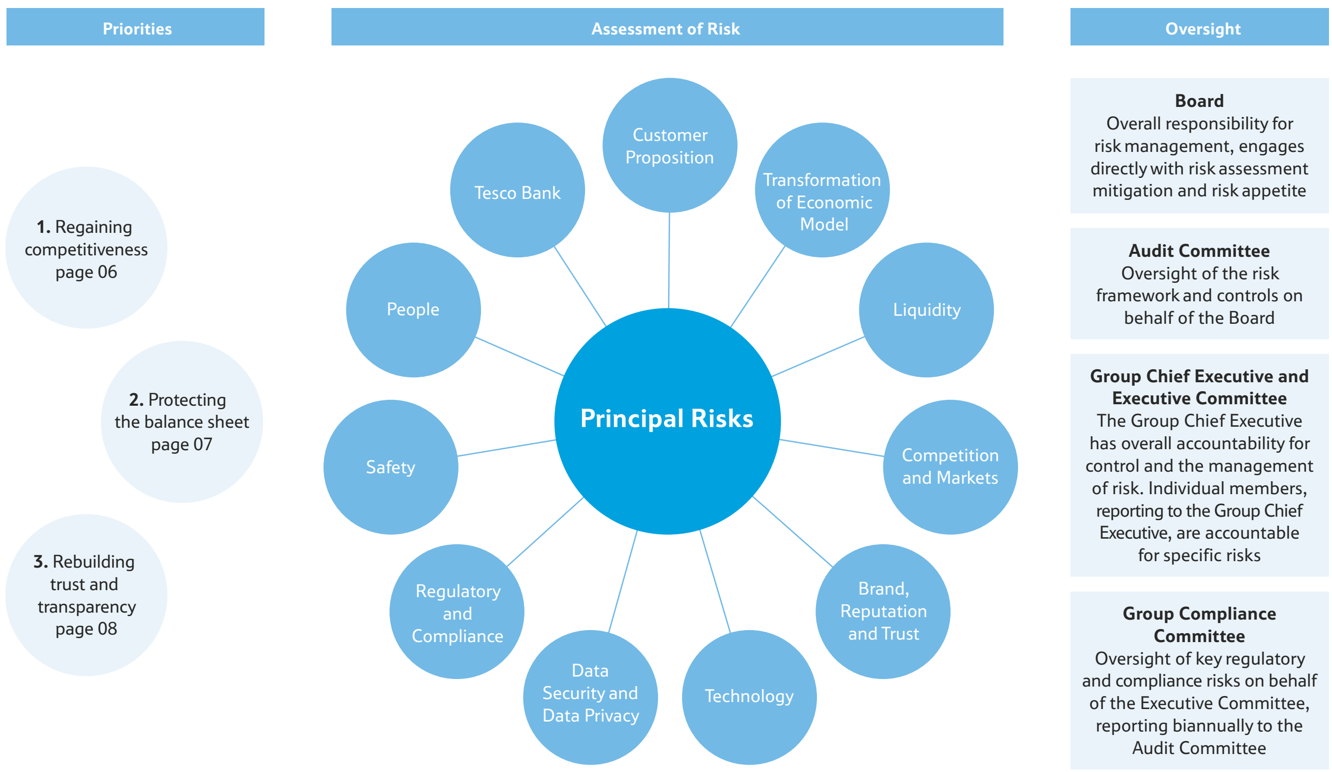
Our process for identifying and managing risk is set out in more detail on page 47 of the corporate governance report. The table on page 25 sets out our principal risks, their movement during the year and examples of controls and mitigating factors. A significant process for the enhancement of our internal control environment is under way.

The risks identified do not comprise all of the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

Key to risk movement

Risk increasing
No risk movement
Risk decreasing

Risk Management Framework



Principal risk	Risk movement	Key controls and mitigating factors
Customer proposition		
Failure to listen to our customers and to understand the changing marketplace leads to a loss of market share as customer purchases are made with competitors. We are unable to build and sustain loyalty resulting in an adverse impact on our financial results. Link to priorities 1 2 3	We are addressing the challenge of changing customer wants and increased customer choice as a result of heightening competitive activity. The customer need is central to our decision-making.	We have developed strategic plans to enhance our understanding of our customer needs. Customer insight supports development of customer-focused strategies across each market and we have developed strategic customer profiles to understand specific market expectations. We have invested in the customer experience by increasing colleague hours on the shop floor and by providing further customer service training for colleagues across all stores. We continue to invest in availability and price as well as running our Feet on the Floor programme – whereby non-store colleagues spend a day on the shop floor to ensure customer focus is maintained.
Transformation of economic model		
The transformation of our economic model does not allow us to respond to changes in the external economic environment, nor does it progress sufficiently quickly to maintain or increase operating margin, to generate sufficient cash to meet business objectives. This may result in an adverse impact on the business and shareholder confidence. Link to priorities 1 2 3	We are in the process of transforming our business and how we operate to drive improvement and better performance.	Significant transformation programmes are being undertaken across the Group, including organisational design, data strategy, reset of supplier relationships, cost reduction and people & capability. There is Executive Committee and Board overview of key strategic initiatives to improve sales and margin, and to reduce cost. Periodic sales margin planning and forecasting activity are reviewed by Group and local finance functions.
Liquidity		
Business performance does not deliver cash as expected; access to funding markets or facilities is restricted; failures in operational liquidity management; Tesco Bank cash call; or adverse changes to the pension deficit funding requirement, create calls on cash higher than anticipated, leading to impacts on financial performance, cash liquidity or the ability to continue to fund operations. Link to priorities 1 2 3	We have a strong focus on improved liquidity management and have taken a number of steps to address this.	The funding plan and its key elements (e.g. debt issuance, cash resources, available credit facilities and cash flow forecasting) are subject to regular executive review, supported by rolling liquidity updates and key financial metrics. Treasury and debt-related policies covering UK and International markets are in place and periodic reviews of the Going Concern and Longer Term Viability Statement is undertaken by the Audit Committee and the Board. Following the significant reduction in future pension risk by closing the UK defined benefit scheme, we are implementing a derisking strategy to further reduce pension risk and better match our cash flows. Specific activities have been undertaken to reduce our debt-level with enhanced cost control measures in place. Further information on these risks can be found in Note 22 on page 123 of the financial statements. Whilst Tesco Bank is financially separate from Tesco PLC, there is a regular review of Tesco Bank's risk appetite by Tesco Bank Board and the Tesco PLC Board. This sets out Tesco Bank's key risks, their optimum ranges, alert limits, controls and tolerance limits and ensures ongoing awareness of any potential risk to Tesco PLC.
Competition and markets		
We do not have an effective, coherent and consistent strategy to respond to our competitors and changing markets, resulting in a loss of market share and failure to improve profitability. Link to priorities 1 2 3	We face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.	Executive oversight and ownership of business plans provide strategic direction for the Group with plans regularly reviewed and challenged. Dedicated Board strategy days are held to develop and challenge strategic direction. The use of market scanning and ongoing competitor analysis provides insight, an ability to anticipate market movements and develop an effective proposition. We remain closely aligned with local trade associations, governments and other policy makers across our markets. We have realigned our individual European businesses to sit within a simplified Central European structure under a single management team to provide greater clarity and a consistent strategic approach.

Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
Brand, reputation and trust		
Failure to manage our brand means we are unable to consolidate loyalty and rebuild trust, creating a perception among customers, colleagues, communities and suppliers that result in a loss of market share or unfavourable effects on our ability to do business. Link to priorities 1 2 3	We are working to ensure that we rebuild trust and transparency across our stakeholders through initiatives such as price transparency, Brand Guarantee and the launch of new fresh-food brands. This helps to ensure that our brand perception reflects the values that we demonstrate.	Brand guidelines have been updated to provide Group-wide consistency over the use of the Tesco brand. Group commercial and corporate affairs policies and procedures have been updated. Communications, media relations and corporate responsibility plans are in place and include internal and external stakeholder engagement. There is a Group Corporate Responsibility Committee that oversees corporate responsibility activity. The Code of Business Conduct has been refreshed with specific guidance over brand, social media and communications, ethical trading and the establishment of a tone at the top with defined consequences in the event of non-compliance.
Technology		
A significant failure of IT infrastructure or key IT system results in loss of information, inability to operate effectively and/or financial or other regulatory penalties. Link to priorities 1 2 3	Our IT landscape requires further investment in core infrastructure and data centres, as well as to support the store environment.	Controls include a technology strategy outlining a number of approved technology policies and procedures. The Technology leadership team provides central governance across major project approval, configuration changes, application updates and the development of new systems. We are increasing our investment in IT with a fully-funded development plan covering a range of back office and customer systems. Technology assessments are performed on an ongoing basis to identify further areas of need and opportunities for improvement.
Data security and data privacy		
Failure to maintain control over customer, colleague, commercial and/or operational data leads to a loss of data, either through deliberate targeted action or inadvertent error. The misuse of personal data, for example without the customer's consent or retaining for longer than is necessary, may also result in reputational harm, regulatory investigations and potential fines. Link to priorities 1 2 3	We operate a large number of disparate IT systems, some of which are legacy systems and we hold significant amounts of sensitive data in a number of locations.	Our systems are secured with access controls, while regular vulnerability and penetration testing provides additional security. Compliance assessments are executed across UK and international business units against the information security policies. We are strengthening our data-related controls as part of a significant IT security improvement programme. The strengthening includes enhanced information security policies and governance, review of defence measures against attacks and continued migration away from unsupported systems. A Group-wide, comprehensive privacy compliance programme is being developed, which covers governance, risk assessment, policies and processes, training, incident management, monitoring and review. This is designed to drive the right behaviours and ensure obligations are met with regards to the handling of personal data.
Regulatory and compliance		
Failure to comply with legal or regulatory requirements relating to our business activities, resulting in reputational damage, fines or other adverse consequences including criminal penalties and consequential litigation, adverse impact on our financial results or unfavourable effects on our ability to do business. Link to priorities 1 2 3	Our regulatory and legal landscape continues to evolve in all of our locations, and across each of our businesses. There is a risk of breach of existing legal or regulatory requirements, and of not adapting our business as demands change. There are specific actions under way to address matters identified last year relating to commercial income and supplier relationships.	The Group-wide Code of Business Conduct has been refreshed, with specific compliance programmes existing around key legislation (e.g. UK Bribery Act), built around a risk and compliance model. Colleagues in high-risk areas receive annual training and a communications programme supports ongoing awareness of Code and other regulatory risks. Leadership teams are trained on their regulatory duties and receive management data on compliance risks and breaches. Groceries Supply Code of Practice (GSCOP) compliance is addressed in a number of ways, including through a GSCOP audit and monitoring programme and the appointment of a Code Compliance Officer. Equivalent legislation will be issued in ROI in 2016 and steps are being taken to prepare for this. There is an externally managed whistleblowing service across the Group for colleagues and suppliers (except Thailand, where it is internally managed) and a supplier helpline for the anonymous reporting of inappropriate conduct. Tesco Bank's Board oversees Tesco Bank's compliance with regulatory requirements.

Principal risk	Risk movement	Key controls and mitigating factors
Safety		
We do not meet safety standards in relation to workplace or product, resulting in death, injury or illness to customers, colleagues, or third parties. Link to priorities 1 2 3	We continue to focus our efforts on controls to ensure workplace and product safety.	For workplace safety, controls include Group safety policies and procedures, Group safety standards and rapid escalated incident-reporting to the CEO. Implementation is driven by a dedicated Group Safety function, which provides advice to the Group on safety matters across geographies. A framework for standardised safety risk assessments has been developed. An extensive programme of technical product testing and reporting is in place with country teams responsible for the delivery and implementation of product safety policies and systems. We are proud to make the results of our provenance-testing publicly available. A supplier audit programme is in place to monitor product integrity and labour standards, which includes unannounced specification inspections of supplier facilities and products.
People		
Failure to attract, motivate and retain the most talented colleagues and develop the required culture, leadership and behaviours to meet our purpose, resulting in an inability to achieve our business objectives. Link to priorities 1 2 3	Our people are our most valuable asset. We continue to manage and consider diversity and inclusion as well as colleague engagement.	Standardised recruitment policies and processes have been established and a Board-sponsored people strategy is being implemented to attract and retain the best people. Diversity and inclusion are key elements of our people agenda. Remuneration policies and succession planning are subject to periodic benchmarking to ensure they remain appropriate for the Group. We provide ongoing opportunities for personal and professional development through our established leadership development and graduate programmes. 'Our Tesco' and 'What Matters To You?' initiatives allow us to connect, listen and respond to our colleagues. The consolidation of our UK offices into a single campus and the restructure of our Central European businesses has created an environment that fosters improved communication and collaboration between teams.
Tesco Bank		
Continual and progressive changes in the regulatory environment in which the Bank operates could impact the level of capital and liquidity that is expected to be held. Regulatory uncertainty could also impact the future earnings profile of the Bank. Link to priorities 1 2 3	The Bank actively manages its response to proposed regulatory changes and has a track record of adapting activities in advance of the implementation of regulatory change.	There is Bank Board reporting throughout the year in line with relevant regulatory requirements, with updates to the Tesco PLC Audit Committee by the Bank CFO/Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank's Board. The Bank has formed good working relationships with the Prudential Regulation Authority and the Financial Conduct Authority and is also a member of the British Bankers Association. Through these relationships, the Bank is able to adopt a proactive approach to engaging in proposed regulatory change. The Bank monitors proposed regulatory guidance and changes during consultation and implementation phases. As a result, the Bank would expect to have sufficient time to respond and adapt its funding and business plans as appropriate. The Bank has a defined risk appetite which is approved and reviewed regularly by both the Bank's Board and the Tesco PLC Board. The risk appetite defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day-to-day risk management of the business, its strategic priorities, long-term plan, capital planning, liquidity management and stress testing. Adherence to risk appetite is monitored through a series of ratios and limits.

Longer Term Viability Statement

The Directors have assessed the viability of the Company over a three-year period, taking into account the Company's current position and the potential impact of scenarios arising from the principal risks set out above. Based on the results of our testing of a number of severe but plausible scenarios, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during this period.

The Directors have determined that a three-year period is an appropriate timeframe for assessment given the dynamic nature of the retail sector and is in line with the Company's strategic planning period.

We have based our assessment on our current long-term plan, which makes assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing our sector; and the costs associated with delivering our strategy. Against this we have conducted sensitivity analysis and modelled a range of scenarios (including reverse stress-testing) based on the materialisation of principal risks, including market and competition, economic and technology failure, which would result in declining sales and increased margin pressures.

Our principal risks are identified through our risk management process, which relies on our judgement of risk likelihood and their potential impacts, whilst also understanding the existing mitigations and developing further appropriate controls. The principal risks faced by the Company are recorded on a Group Risk Register, which is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee, relevant sub-committees and the Board. We have considered our principal risks and risk appetite against our strategic objectives.

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.

Paul Moore
Company Secretary
12 April 2016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Corporate governance

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:

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

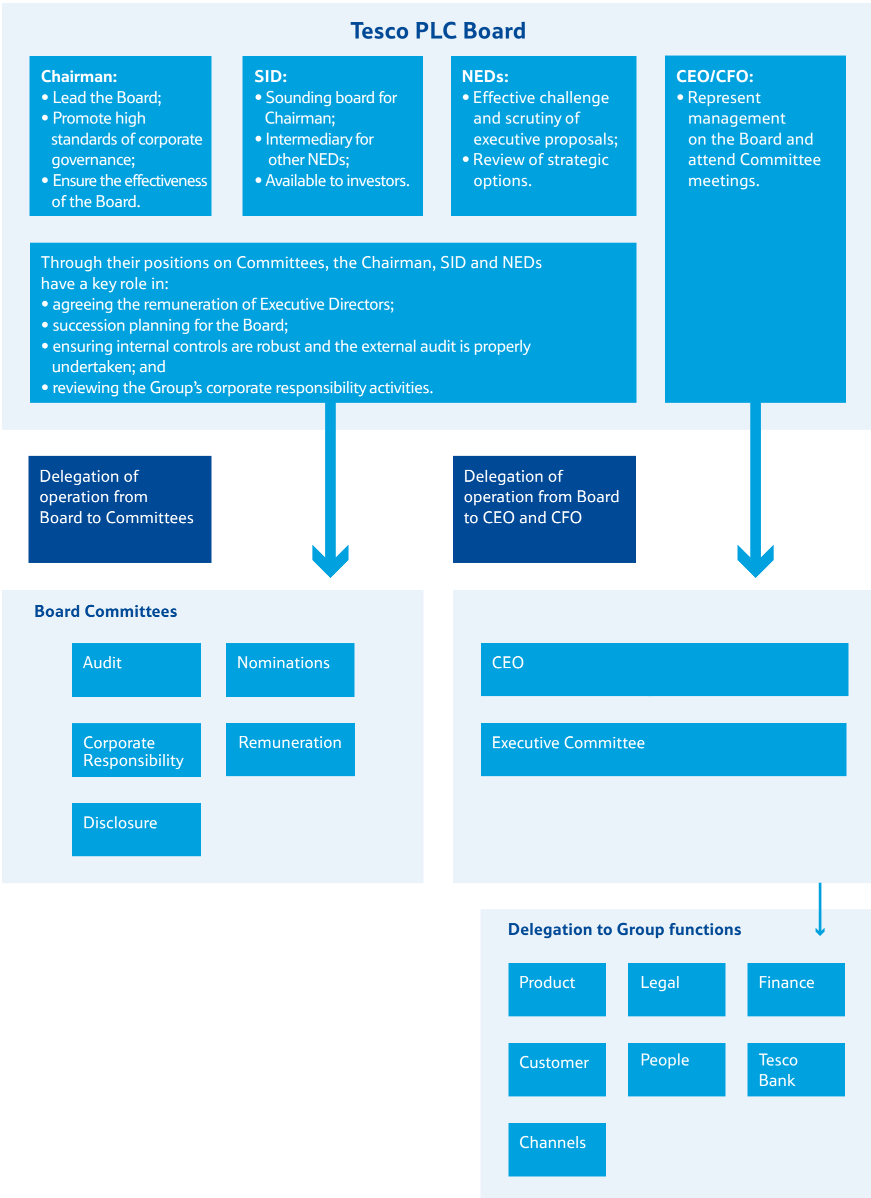
The Tesco PLC Board has responsibility for the long-term success of the Group but the day-to-day management is delegated to Dave Lewis as CEO and Alan Stewart as CFO.

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

Board of Directors

John Allan Non-executive Chairman ▲ ✚
John was appointed to the Board as Non-executive Chairman on 1 March 2015. Age: 67

Career John's early career was with Lever Bros and Bristol-Myers in a variety of marketing roles. Having held a number of executive positions in different organisations, John joined the Board of Deutsche Post when it acquired Exel in 2005 and managed the integration of the two businesses. John held the post of CFO from 2007 to 2009 with Deutsche Post.

John became Chairman of Dixons Retail PLC in September 2009 and held this role during a comprehensive turnaround programme during which a friendly merger of equals was completed with Carphone Warehouse in August 2014 to form Dixons Carphone.

Skills and competencies John has substantial experience in marketing, buying and retail operations in addition to substantial executive leadership experience both in the UK and overseas.

External appointments John is currently Chairman of Barratt Developments PLC and Non-executive Director of Worldpay Group PLC.

Dave Lewis Group Chief Executive
Dave was appointed to the Board as Group Chief Executive on 1 September 2014. Age: 51

Career Dave completed a BA in Business Studies in 1987 and went on to complete the Advanced Management programme at Harvard Business School.

Dave joined Unilever in 1987 and worked in a variety of different roles over nearly three decades, which took him across Europe, Asia and the Americas.

Skills and competencies During his career, Dave has been responsible for a number of business turnarounds. He has experience across many sectors both in the UK and overseas, and has significant experience in brand marketing, customer management and general management roles.

External appointments Dave is currently a Non-executive Director of Sky PLC, and a Director and a member of the Governance Committee of the Consumer Goods Forum. He is also Chair of Champions 12.3, a UN programme formed of a voluntary coalition of 30 leaders across the globe, coming together to increase the momentum to achieve the UN Sustainable Development Target 12.3 by 2030.

Alan Stewart Chief Financial Officer
Alan Stewart was appointed to the Board as Chief Financial Officer on 23 September 2014. Age: 56

Career A qualified accountant, Alan started his career in investment banking with HSBC. He became CFO at Thomas Cook Holdings in 1998 and was appointed UK CEO in 2001. From there he moved to WHSmith as Group CFO. In 2008, he was appointed CFO at AWAS, a leading aircraft leasing business before moving to Marks & Spencer in 2010 to take up the role of CFO.

Skills and competencies Alan brings extensive corporate finance and accounting experience in industries as varied as retail, travel and banking. He has held a number of senior roles and has significant listed company experience at Board level.

External appointments Alan is currently a Non-executive Director of Diageo plc, a member of the CIMA Advisory Board and Chairman of the Pensions Committee at The 100 Group.

Richard Cousins Senior Independent Director ■ ▲
Richard Cousins was appointed as Non-executive Director on 1 November 2014 and became the Senior Independent Director on 7 April 2015. Age: 57

Career Richard worked for BPB PLC for 15 years and was Group Chief Executive from 2000 to 2005. Richard was a Non-executive Director of Reckitt Benckiser Group PLC from 2009 to 2014 and of HBOS PLC and Bank of Scotland from 2007 to 2009.

Skills and competencies Richard brings valuable UK and international corporate expertise to the Board. He has experience in operational research, strategic planning and has held a number of key management roles.

External appointments Richard has been the Group CEO of Compass Group PLC since 2006 and is also a member of the Advisory Board of Lancaster University Business School.

Deanna Oppenheimer Non-executive Director ● ✚
Deanna was appointed to the Board as Non-executive Director on 1 March 2012. Age: 58

Career Deanna held various senior roles at Barclays, including Vice Chair of Global Retail Banking and Chief Executive of Europe Retail and Business Banking. She has also served as a Non-executive Director of Catellus and Plum Creek Timber.

Skills and competencies Deanna has strong banking and retail experience. She also has expertise in brand management.

External appointments Deanna is the founder of CameoWorks LLC (a financial services advisory firm) and a Non-executive Director at the AXA Group. She is a Non-executive Director of Tesco Bank and a Non-executive Director and Chair of the Risk Committee of Worldpay Group PLC.

Byron Grote Non-executive Director ■
Byron Grote joined the Board as a Non-executive Director with effect from 1 May 2015. Age: 68

Career Byron spent nine years at Standard Oil of Ohio prior to it being acquired by BP PLC in 1987. From 1988 to 2000, he worked across BP in a variety of commercial, operational and executive roles and was appointed CFO of BP PLC in 2002, a role that he held until 2011. Byron then served as BP's Executive Vice President, Corporate Business Activities.

Skills and competencies Byron brings extensive executive and Non-executive financial and strategic experience to the Board.

External appointments Byron is currently a Non-executive Director on the Boards of Anglo American PLC, Standard Chartered PLC and Akzo Nobel NV, and was previously a Non-executive Director of Unilever PLC. He is also a member of the European Audit Committee Leadership Network and an emeritus member of the Cornell Johnson School Advisory Council at Cornell University.

Mikael Olsson Non-executive Director ● ✚
Mikael joined the Board as a Non-executive Director on 1 November 2014. Age: 58

Career Mikael was CEO and President of the IKEA Group from 2009 until 2013. During his time at IKEA, he held a wide range of roles across the business and was a member of the Executive Management Group of IKEA from 1995 until 2013.

Skills and competencies With close to 35 years in leading roles at the world's largest home furnishings retailer, Mikael brings valuable retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment.

External appointments Mikael has been a Non-executive Director of Volvo Cars Group since 2013 and Vice Chairman of the Board since November 2013. Mikael is also Non-executive Director of Ikano S.A., Lindengruppen AB and The Schiphol Group and a Board member of the Global Child Forum.

Mark Armour Non-executive Director ■
Mark joined the Board as a Non-executive Director on 2 September 2013. Age: 61

Career Mark was CFO of Reed Elsevier Group PLC (now RELX Group PLC) from 1996 until 2012 and of its two parent companies, Reed Elsevier PLC and Reed Elsevier NV. Prior to joining Reed Elsevier in 1995, Mark was a Partner at Price Waterhouse in London. Mark is a fellow of the Institute of Chartered Accountants.

Skills and competencies Mark brings significant financial and international experience to the Board, gained from his long career as a CFO for a major global business. He also has considerable experience of digital business transition, which is relevant for our progress on multi-channel initiatives.

External appointments Mark is a Non-executive Director of the Financial Reporting Council and a Non-executive Director and Chairman of the Audit Committee of SABMiller PLC.

Alison Platt Non-executive Director ●
Alison joined the Board as a Non-executive Director on 1 April 2016. Age: 53

Career Alison is the Chief Executive of Countrywide PLC and was previously Managing Director at Bupa, responsible for International Development Markets. She has held a range of senior posts including Chief Operating Officer of the UK private hospitals business at Bupa and a number of senior positions in British Airways.

She was previously chair of 'Opportunity Now', which seeks to accelerate change for women in the workplace and was also a Non-executive Director of the Foreign & Commonwealth Office between 2005 and 2010.

Skills and competencies Alison has a wealth of relevant experience of the property sector and customer service delivery. She also has significant business-to-business and international commercial experience.

External appointments Alison is a Non-executive Director of Cable & Wireless Communications PLC.

Simon Patterson Non-executive Director ■ ●
Simon joined the Board as a Non-executive Director on 1 April 2016. Age: 42

Career Simon is a Managing Director of Silver Lake Partners, a leading global technology investment firm, having joined the firm in 2005. Prior to joining Silver Lake, he was a member of the founding management team of the logistics software company GF-X (acquired by Descartes) and worked in various management roles at the Financial Times. He has previously served on the Boards of Skype, MultiPlan and Gerson Lehrman.

Skills and competencies Simon has significant management experience and has held various leadership roles in established and start-up digital media and software businesses.

External appointments Simon is currently a Board member of Dell Inc. and Intelsat S.A. and a Trustee of the Natural History Museum in London.

Lindsey Pownall Non-executive Director ✚
Lindsey joined the Board as a Non-executive Director on 1 April 2016. Age: 54

Career Lindsey Pownall was, until 31 December 2015, Chief Executive of Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined Samworths as a Commercial Manager over 20 years ago and was promoted to Sales Director of a key division in 1997. Lindsey was then promoted in 1999 to Managing Director of Samworth's largest chilled food business, manufacturing sandwiches for the high street, before joining the Samworth Board in 2001.

Skills and competencies Lindsey has significant experience in food, grocery and retail brand development as well as a wealth of experience in supply leadership and strategic development.

External appointments None.

Committee membership (at 12 April 2016)
▲ = Nominations Committee
■ = Audit Committee
● = Remuneration Committee
✚ = Corporate Responsibility Committee

Stuart Chambers and **Ken Hanna** retired as Non-executive Directors on 26 June 2015.

Patrick Cescau retired as a Non-executive Director on 7 April 2015.

Gareth Bullock retired as a Non-executive Director on 5 March 2015.

Sir Richard Broadbent retired as Chairman on 1 March 2015.

Corporate governance report continued
Executive Committee

The Executive Committee is composed of individuals with proven track records in their area of expertise and commitment to the teams that they lead.

Dave Lewis Group Chief Executive
Dave was appointed to the Board as Group Chief Executive on 1 September 2014. His full biography appears on p.32.

Alan Stewart Chief Financial Officer
Alan was appointed to the Board as Chief Financial Officer on 23 September 2014. His full biography appears on p.32.

Matt Davies UK & ROI CEO
Matt was appointed to the Executive Committee as UK & ROI CEO on 11 May 2015.

As UK & ROI CEO, Matt is responsible for all of Tesco's businesses in these two key countries.

Matt began his career at Arthur Anderson where he qualified as a Chartered Accountant in 1995. He then moved in-house, holding senior finance positions in a number of companies before being appointed as CEO of Pets At Home Group PLC in 2004. Matt held this position for eight years, after which he moved to Halfords Group PLC, where he became CEO, a role he held until 2015.

Matt served as a Non-executive Director at Dunelm Group PLC from 2012 to 2015.

Trevor Masters International CEO
Trevor joined the Executive Committee in 2007.

As International CEO, Trevor is responsible for Tesco's businesses in Asia, Central Europe and Turkey.

Trevor joined Tesco in 1979, starting his Tesco career as a Store Manager and later becoming a Store Director.

Trevor held the role of Operations Director for Extra format stores in the UK during a period which saw the expansion of the Extra estate from 9 to 200 stores. He has also served as CEO Central Europe and CEO Asia.

Alison Horner Chief People Officer
Alison joined the Executive Committee on 1 March 2011.

As Chief People Officer, Alison is responsible for setting the overall agenda for and developing people management programmes at Tesco including reward and employee relations.

Alison joined Tesco in 1999 as a Personnel Manager and was later promoted to Personnel Director for Tesco's UK operations. Alison is a pension trustee.

Alison is a Non-executive Director of Carillion PLC and a member of the Manchester Business School Advisory Board.

Benny Higgins CEO, Tesco Bank and Group Strategy Director
Benny joined the Executive Committee on 28 January 2013.

As CEO of Tesco Bank, Benny is responsible for our Bank and as Group Strategy Director he has responsibility for the development of our strategic options.

Benny began his career in 1983 qualifying as an actuary. He has since held senior positions at the Royal Bank of Scotland and has been Chief Executive of Tesco Bank since 2008. Benny was appointed as Group Strategy Director in January 2015.

Benny holds positions with a number of external financial and treasury bodies.

Adrian Morris Group General Counsel
Adrian joined the Executive Committee on 6 September 2012.

As Group General Counsel, Adrian is responsible for the legal, company secretarial and compliance functions across Tesco globally.

Adrian joined Tesco in September 2012 as Group General Counsel. Prior to Tesco, Adrian worked at BP PLC as Associate General Counsel for Refining and Marketing and prior to that at Centrica PLC, initially as European Group General Counsel and then as General Counsel for British Gas.

Jason Tarry Chief Product Officer
Jason joined the Executive Committee on 1 January 2015.

As Chief Product Officer, Jason is responsible for everything related to the design, procurement and delivery of all products to Tesco channels. In addition, he is responsible, together with the Chief Customer Officer, for the customer promotional plan.

Jason joined Tesco in October 1990 on the graduate recruitment programme. He has held a number of positions in both food and non-food divisions. Jason was appointed CEO of Group Clothing in 2012, which included UK & ROI store and online operations as well as taking F&F to Tesco's Asia business and further afield via franchise partnerships.

Robin Terrell Chief Customer Officer
Robin joined the Executive Committee on 25 February 2013.

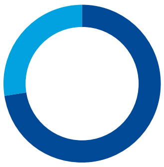
As Chief Customer Officer, Robin is responsible for ensuring that Tesco responds effectively to the needs and interests of our customers.

From 1999, Robin worked at Amazon, ultimately as VP & Managing Director, with responsibility for Amazon's UK and French businesses. Robin has also held senior e-commerce and multi-channel roles at Figleaves.com, John Lewis and House of Fraser.

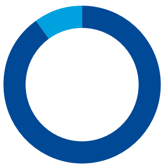
Since joining Tesco in February 2013, he held the position of Group Multi-channel Director prior to being appointed as the Chief Customer Officer.

Robin is a Non-executive Director at Karen Millen.

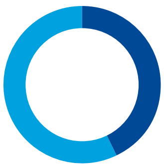
Corporate governance report continued



1. Gender split at Board level

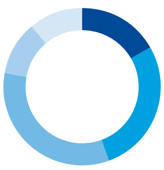


2. Gender split at executive level
During the year, two female members stepped down from the Executive Committee on leaving the Company.



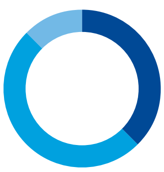
3. Gender split at all employee level

- 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.

Corporate governance report continued

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.

Corporate governance report continued

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.

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.

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.

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

Directors' remuneration report

Remuneration Committee Chair's introduction

Deanna Oppenheimer
Remuneration Committee Chair

In this section

"Future arrangements continue to closely align to Tesco's long-term strategy"

Dear Shareholder,

I am pleased to introduce the Directors' remuneration report for 2015/16. The changes in this year's report are all within the existing policy approved by over 96% of voting shareholders at the 2015 AGM. Let me highlight the key remuneration outcomes and plans for the coming year.

2015/16 reward outcomes

Stretching 2015/16 annual bonus targets were set last year in the context of significant uncertainty and volatility for both Tesco and the retail sector, at a time when nearly all key indicators in the business were on a steep, negative trend. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and agreed management has reversed the negative trajectory and were making strong progress in delivering the turnaround plan. In particular, the Group has achieved increased volumes and positive like-for-like sales, reduced costs, increased cash flow, and completed significant disposals and business restructuring to strengthen the balance sheet.

As a result, financial targets for sales and operating profit, representing 80% of the bonus, were met almost fully for both Dave Lewis and Alan Stewart. In combination with strong performance against personal objectives from both of our Executive Directors (as detailed on page 55) this means the 2015/16 annual bonus will pay out at 95.7% of the maximum for the CEO and CFO respectively with 50% deferred into shares, in line with our policy. The Executive Directors believe that their remuneration should demonstrate their commitment to the business at this early stage of the turnaround. As such, for the 2015/16 bonus, they offered to defer a further 50% of their cash bonus into shares, vesting on the earlier of three years or the resumption of dividend payments. This increases to 75% the proportion of the bonus that is deferred into shares and creates a further direct alignment with shareholders through the link to resuming dividend payments and the long-term value creation opportunity of the business.

Remuneration framework for 2016/17

In the 2014/15 Directors' remuneration report, the Committee's stated intention was to undertake a further review of incentives in 2015/16 to ensure future arrangements continue to closely align to Tesco's long-term strategy and deliver value to shareholders and other key stakeholders.

We completed this review and, following discussions with our major shareholders, the Committee has decided that some changes to the remuneration of senior executives, including Executive Directors, were appropriate. These changes apply to the operation of the Performance Share Plan only and are within existing policy approved by shareholders at the 2015 AGM. They are summarised below:

Overall remuneration – There are no changes to the overall % levels of remuneration.

Annual bonus – The Committee believes that the current annual bonus plan measures, focused on sales, profit and individual measures, remain appropriate for 2016/17 and so no changes are to be made.

Performance Share Plan ('PSP') – The following changes have been made to the PSP for 2016/17 within the existing Remuneration Policy:

- We are changing the comparator group against which Total Shareholder Return ('TSR') will be measured to a sector-based index comprising constituents of the FTSE350 Food & Drug and FTSE350 General Retail sectors. This ensures our measurement of comparative TSR performance is more closely aligned to the competitive markets in which Tesco operates and reflects the intense focus the Board believes that Tesco needs to have within the challenging retail market at this time. This also reflects feedback from shareholders last year, which expressed a preference for the use of well-established industry classifications in the selection of peers.
- We have introduced a new component for the PSP relating to Tesco's key stakeholder metrics of customers, suppliers, and colleagues, with a 20% weighting. Building increased trust in these constituencies is critical to delivering our strategy and the importance of this focus is reflected in the Big 6 KPIs on which Tesco regularly reports to shareholders. The weighting of the relative TSR measure will therefore be reduced to 50% (previously 70%) as a result of this change.
- Retail cash generated from operations will be retained with a 30% weighting, as generating quality cash flow remains a key area of focus for the business and is a measure of performance that is critical to Tesco's position as a long-term, sustainable retailer.

These changes ensure that the remuneration arrangements are tightly connected to Tesco's strategic priorities. As such, they will be clear and motivating to management and will support the execution of the strategy in line with shareholder interests.

Other matters

The overall remuneration arrangements are summarised in the 'Remuneration at a glance' section of this report on page 50. The Remuneration Policy, as approved by shareholders at the 2015 AGM, is set out in full from page 64 onwards for information.

Byron Grote joined the Committee in July 2015 and Alison Platt joined in April 2016. Both bring considerable experience that further enhances the Committee going forward.

Due to the appointment of Deloitte as the Company's auditor during the year, the Committee conducted a review to replace Deloitte as the Committee's independent remuneration advisor. Following this review, the Committee appointed PricewaterhouseCoopers.

As the Company proceeds through a period of considerable change, the Committee, working with management, will continue to align incentive arrangements with Tesco's strategy, business results, and market demands. As always, we value your views as shareholders as part of this process.

Deanna Oppenheimer
Remuneration Committee Chair

Directors' remuneration report continued

Annual remuneration report

The following report outlines Tesco's remuneration framework, how the remuneration policy was implemented in 2015/16 and how the Committee intends to apply the policy in 2016/17.

Remuneration at a glance

The approach to remuneration throughout Tesco is guided by a framework of common principles, which are outlined below.

Reward objectives

Attract
- Enable Tesco to recruit the right people

Motivate
- Incentivise colleagues to deliver our business goals together

Recognise
- Acknowledge individual contribution and performance

Align
- Create shareholder value and support the achievement of business strategy

Retain
- Foster loyalty in Tesco so that colleagues want to stay with us

Reward principles

Competitive
- We assess competitiveness on a total reward basis
- Reward reflects an individual's role, experience, performance and contribution
- Reward is set with reference to external market practice and internal relativity

Simple
- Reward is simple, clear and easy to understand
- We avoid unnecessary complexity
- Reward is delivered accurately

Fair
- Policies are transparent and applied consistently and equitably
- Reward decisions are trusted and properly governed
- Reward is legal and compliant

Sustainable
- Reward is aligned with the business strategy, reflects our performance, and is affordable
- Our reward framework is flexible to meet the changing needs of the business
- We reward in a responsible way

Overview of Executive Director remuneration

The table below summarises key information relating to our remuneration policy and how it was implemented during the year. The Remuneration Policy, which was approved at the AGM held on 26 June 2015, is reprinted in full for reference from page 64.

Remuneration element and link to strategy	Key features of policy	How we implemented the policy in 2015/16	How we will implement the policy in 2016/17
Base salary Supports the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy.	Base salary is normally reviewed annually with changes effective from 1 July but may be reviewed more frequently if the Committee determines this is appropriate.	Executive Director salaries for 2015/16 were as follows: • CEO – £1,250,000 • CFO – £750,000 No increases were made to salaries at the salary review date (1 July 2015).	Directors salaries are reviewed annually with an implementation date of 1 July. No increases will be made to salaries at the salary review date (1 July 2016).
Annual incentive Rewards Executive Directors for the delivery of annual financial, operational and strategic goals.	The annual bonus is normally delivered: • 50% in cash; and • 50% in shares deferred for three years. The 50% deferral into Company shares provides alignment with shareholders interests. The malus and clawback provisions enable the Company to mitigate risk.	Maximum opportunity was as follows: • CEO – 250% of base salary • CFO – 225% of base salary The performance measures were: • 50% sales; • 30% operating profit; and • 20% individual measures.	No changes are proposed for 2016/17.
Long-term incentive Rewards Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value and aligns the economic interests of Executive Directors and shareholders.	Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise). The Committee has the discretion to amend the final vesting level if it does not consider that it reflects the underlying performance of the Company.	Maximum opportunity was as follows: • CEO – 275% of base salary • CFO – 250% of base salary The performance measures for the 2015/16 grant were: • 70% relative TSR performance compared with a retail group; and • 30% cumulative Retail Cash Generated from Operations.	Performance measures for the 2016/17 award will be: • TSR (50%) weighted index of FTSE350 Food & Drug retailers and FTSE350 General Retailers. • Cumulative Retail Cash Generated from Operations (30%). • Stakeholder metrics (new measure) (20%): customers, suppliers and colleagues.

Further details on the strategic alignment of these performance measures is provided overleaf.

Performance measures and strategy

The following table sets out how each of the performance measures within the annual bonus and PSP link to Tesco's strategy.

Variable pay element	Performance measure	Link to strategy
Annual bonus	Sales*	• To deliver turnaround performance, top-line revenue growth is fundamental and will be the foundation to ensuring sustainable levels of profit in the future.
	Operating profit*	• Incentivises the delivery of Tesco's strategy by encouraging the creation of shareholder value through profitable financial strategy.
	Individual	• Focuses on the delivery of critical operational and strategic goals of the business for the year.
PSP	TSR	• Directly aligns Executive Directors' interests with those of shareholders in delivering relative high share price growth and returns over the performance period.
	Cash from operations*	• Continues to be a key measure and reflects the need to protect and strengthen our financial position so that we can maintain the flexibility to invest in a better shopping experience for customers.
	Key stakeholder metrics** (2016/17 awards only)	• These metrics are critical to delivering Tesco's long-term strategy and the importance of this focus is reflected in the Big 6 KPIs, on which Tesco regularly reports to shareholders. Alongside improving our financial performance, we need to continue to improve stakeholder alignment, particularly in relation to the customer and supplier metrics.

* Big 6 financial measure. Measured on a constant currency basis.

** Customers, suppliers and colleagues are three of the Big 6 elements (see page 12 for further information). The PSP measures will, to the extent possible, be aligned with how these KPIs are measured for business performance management and reporting purposes.

Annual bonus performance against targets in 2015/16 (audited)

The table below sets out performance against the metrics applicable to 2015/16 annual bonus outcomes.

Measures	Underpin	Target performance			Actual performance	Payout (% maximum)
		Threshold	Target	Stretch		
Sales (50%)*	n/a	£48.0bn	£48.9bn	£49.8bn	£49.8bn	98%
Operating profit* (30%)	£549m	£589m	£711m	£853m	£954m	100%
Individual (20%)	n/a	–	–	–	–	83.5%

* Sales and operating profit for 2015/16 at constant exchange rates, with sales adjusted to exclude IFRIC13 (see page 95 for more details). A reconciliation with reported figures for operating profit are set out in Note 2 to the accounts.

Performance for the formulaic financial elements of the plan (sales and operating profit) has been strong with sales almost achieving the stretch target and operating profit exceeding the stretch target set at the beginning of the year. A Group operating profit underpin, set at the beginning of the year, also applies to the annual bonus, below which no portion of the annual bonus pays out. The underpin for the 2015/16 year of £549m was met. In relation to individual elements, the CEO and CFO both achieved 16.7% out of a maximum 20% and accordingly, the annual bonus will pay out at 95.7% of the maximum for Dave Lewis and Alan Stewart.

Further details of the individual metrics and the annual bonus performance against targets are included on page 52.

PSP performance against targets in 2015 /16 (audited)

No awards which have previously been granted to the Executive Directors vested in the year ended 27 February 2016.

The following report outlines the remuneration framework, and how the Committee intends to apply the remuneration policy in 2016/17. This annual remuneration report will be submitted to an advisory shareholder vote at the AGM on 23 June 2016.

Directors' remuneration report continued

Annual remuneration report

How the remuneration policy will be applied in 2016/17

	Element	Operation and opportunity	Performance measures
Fixed pay	Base salary	• CEO – £1,250,000. • CFO – £750,000. • Next review due 1 July 2017.	• n/a
	Pension (Cash in retirement)	• 25% of base salary cash allowance in lieu of pension.	• n/a
	Benefits	• Core benefits include car benefits, driver, security, life assurance, disability and health insurance, and colleague discount. • Executive Directors are eligible to participate in the Company's all-employee share schemes, Sharesave and the Share Incentive Plan, on the same terms as UK colleagues. Sharesave is an HMRC-approved savings-related share option scheme. The Share Incentive Plan is an HMRC-approved plan comprising free shares and partnership shares.	
Performance-related pay	Annual bonus (One-year performance) (Cash and shares)	• CEO – stretch opportunity of 250% of base salary. • CFO – stretch opportunity of 225% of base salary. • 50% in cash. • 50% in shares, which are deferred for three years. • Malus applies to deferred shares to allow the Committee discretion to scale back awards made prior to the satisfaction of those awards in certain circumstances. • Clawback applies to cash payments to allow the Committee discretion to take back cash bonuses for a period of three years from payment in certain circumstances.	• 50% based on sales • 30% based on profit • 20% based on individual measures • See below for further details
	Performance Share Plan (Three-year performance) (Shares)	• CEO – stretch award of 275% of base salary. • CFO – stretch award of 250% of base salary. • Malus provisions apply to awards, allowing the Committee discretion to scale back awards made prior to the satisfaction of awards in certain circumstances. • Clawback provisions also apply to allow the Committee discretion to take back exercised awards up to the fifth anniversary of the grant of awards in certain circumstances.	• Shares vest in three years' time subject to performance targets being met. • For awards made in 2016/17, performance will be assessed based on Tesco's TSR performance compared with an index of retail companies, 30% on cumulative Retail Cash Generated from Operations and 20% based on key stakeholder metrics. • See below for further details.

Further details on Tesco's short- and long-term performance measures

Annual bonus

Performance measure	Weighting	Definition of measure
Sales growth	50%	Sales (exc. VAT, exc. fuel)
Profit	30%	Operating profit before exceptional items
Individual measures	20%	Delivery of operational and strategic goals in the year

Underpin

To ensure that we do not incentivise Executive Directors to grow sales at the expense of satisfactory profitability, an underpin will apply below which no portion of the bonus will be paid.

Bonus targets

Executive bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. We therefore do not publish details of the targets on a prospective basis but they will focus on the delivery of the operational and strategic goals of the business for the year. For 2016/17 these continue to include the delivery of the Big 6 alongside all colleagues.

However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the bonus outcome is reported. In relation to exchange rates, the targets are set based on 2015/16 average exchange rates and then at the conclusion of the next financial year, are assessed on a constant currency basis.

The targets set are considered to be appropriately stretching taking into account the internal budget and external forecasts.

Performance Share Plan (PSP)

The performance measures for the PSP award for 2016/17 have been changed from those used in 2015/16. The priority is to have a plan aligned with three key strategic priorities:

- delivery of significant value to shareholders through share price and dividend performance;
- returning the business to be one that generates sustainable, quality cash flow; and
- building trust with key stakeholders (customers, suppliers, colleagues).

Therefore, we will use a combination of relative Total Shareholder Return, Cumulative Retail Cash Generated from Operations and key stakeholder measures to determine the vesting of awards.

PSP measures

Performance measure	Weighting	Definition of measure
Relative TSR vs index comprising companies from FTSE350 Food & Drug Retailers and FTSE350 General Retailers indices	50%	Growth in share price plus dividends reinvested. These incorporate Tesco's key competitors within the FTSE350 Food & Drug Retailers and FTSE350 General Retailers indices. The groups are weighted towards the Food & Drug Retailers to reflect Tesco's long-term business split between food and general retail
Retail cash generated from operations	30%	Cumulative retail cash generated from operations +/- movement in working capital, excluding Tesco Bank
Key stakeholder measures	20%	Three stakeholder metrics: customers, suppliers and colleagues

Following a one-off amendment in 2015 (as explained in last year's report), the initial measurement period for the TSR calculation will be based on the three-month average share price of 1 December 2015 to 27 February 2016. This represents the three months immediately prior to the start of the three-year performance period. In 2015, the cumulative retail cash generated from operations element was also amended for the sale of the Korean business with the threshold and stretch targets being £6.6bn and £7.3bn respectively.

PSP targets

Performance measure		Definition	Weighting	Stakeholder Performance 2014/15	Threshold			Stretch	
					Vesting level	Performance required	Performance Description	Vesting level	Performance required
TSR		Relative TSR v a retail sector index	50%	–	25%	Performance equal to index	Performance equal to index of FTSE350 Food & Drug and General retailers	100%	8% (6%+2%) p.a. outperformance of the index – see notes below
Cash Generation		Cumulative retail cash generated from operations	30%	–	25%	£8.6bn	Cumulative retail cash generated from operations +/- movement in working capital, excluding Tesco Bank	100%	£9.4bn
Stakeholder measure	i) Customers	The proportion of customers recommending Tesco as a place to shop	6.66%	-6	0%	+2	Performance above that achieved in the financial year prior to grant	100%	+24
	ii) Suppliers	The proportion of suppliers scoring satisfaction at 7 or above (on a 10 point scale)	6.66%	59%	0%	70%	Performance above that achieved in the financial year prior to grant	100%	82%
	iii) Colleagues	The proportion of colleagues endorsing Tesco as a great place to work	3.33%	75%	0%	81%	Performance above that achieved in the financial year prior to grant	100%	84%
	iii) Colleagues	The proportion of colleagues recommending Tesco as a place to shop	3.33%	+22	0%	+41	Performance above that achieved in the financial year prior to grant	100%	+47

* Customers and Colleagues metrics for 'Great place to shop' scores range from -100 to +100. The prior year results for stakeholder metrics are shown for information.

Based on a review of FTSE100 outperformance hurdles in use, analysis of the historic performance of key retail peers, and forward-looking modelling, the level of TSR outperformance of the index equivalent to above upper quartile performance required for stretch vesting is determined to be 6% p.a. relative to the peer set. However, for the purpose of 2016/17 awards, the Committee wishes to signal Tesco's intention to grow returns to shareholders. As such, an additional 2% p.a. outperformance stretch will be applied to the normal 6% such that the TSR outperformance required for stretch vesting is 8% p.a. In relation to the Stakeholder measures, the base line at commencement is shown above.

Directors' remuneration report continued

Annual remuneration report

What did we pay Executive Directors in the year?

The table below provides a summary 'single total figure' of remuneration for 2015/16 and 2014/15. Where necessary, further explanations of the values provided are included below. This table and all relevant explanation has been audited.

Single total figure of remuneration (audited)

Executive Directors

	Year	Salary (£'000)	Benefits (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Pension (£'000)	Total before buyouts (£'000)	Buyouts[1] (£'000)	Total (£'000)
Dave Lewis	2015/16	1,250	80	2,989	–	313	4,632	–	4,632
	2014/15	570	97	–	–	143	810	3,323	4,133
Alan Stewart	2015/16	750	40	1,614	–	188	2,592	–	2,592
	2014/15	297	42	–	–	74	413	1,724	2,137

[1] The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis and Alan Stewart to compensate them for awards forfeited from their previous employers. The awards were made based on the expected value of the awards forfeited, taking into account performance at their previous employers and delivered in restricted shares, which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards have no impact on the single figure for 2015/16 nor any future years.
Alan Stewart received a payment in respect of his 2014/15 bonus forfeited based on the payment he would have received had he remained in post at his previous employer (pro-rated for time). The actual amount was unknown when the 2014/15 remuneration report was published, therefore an estimated amount of £400,000 was shown. The final amount was £236,232, therefore a negative adjustment of £(163,768) has been applied to the 2014/15 single figure.

Salary

Salaries are normally reviewed in July each year. The Committee considered the Chief Executive and Chief Financial Officer's pay review in light of pay review budgets across the Group and for pay recommendations from the Chief Executive for Executive Committee members. As a result, the Committee determined that the salaries for the Chief Executive and the Chief Financial Officer would remain unchanged in 2015/16 and for 2016/17.

	Directors	
Salary	Dave Lewis	Alan Stewart
Increase in year (%)	None	None
Annual salary (£'000)	1,250	750
Salary received in year (£'000)	1,250	750

Benefits (audited)

Benefits comprise core benefits and any taxable business expenses including the applicable tax.

		Directors	
Benefit	Description	Dave Lewis	Alan Stewart
Car benefits (£'000)	Company car or cash alternative and driver	55	39
Healthcare benefits (£'000)	Disability and health insurance	1	1
Security (£'000)	Installation of security measures to meet business standards	14	–
Other (£'000)	Membership fees and other costs	10	–
Total (£'000)		80	40

Annual bonus 2015/16 (audited)

	Directors	
Annual bonus 2015/16 (audited)	Dave Lewis	Alan Stewart
Stretch bonus opportunity (% of salary)	250%	225%
Actual bonus (% of salary)	239%	215%
Actual bonus (£'000)	2,989	1,614
Deferred into shares (75%) (£'000)	2,242	1,211

	Target performance					
Bonus measures	Underpin	Threshold	Target	Stretch	Actual performance	Payout (% maximum)
Sales (50%)*	n/a	£48.0bn	£48.9bn	£49.8bn	£49.8bn	98%
Operating profit (30%)*	£549m	£589m	£711m	£853m	£954m	100%
Individual (20%)	n/a	–	–	–	–	83.5%

* Sales and operating profit for 2015/16 at constant exchange rates, with sales adjusted to exclude IFRIC13 (see page 95 for more details). A reconciliation with reported figures for operating profit are set out in Note 2 to the accounts.

The table below details the Executive Directors' Individual Objectives in 2015/16.

	Objective	Weighting	Min	Target	Stretch	FY 15/16 Result	Payout
Dave Lewis CEO	(i) Cash generation – deliver stock and cash targets	6.66%	£1.4bn	£1.5bn	£1.6bn	£2.2bn	16.7%
	(ii) Portfolio reshaping & debt reduction	3.33%	–	£5.0bn	–	£5.1bn	
	(iii) Supplier relationship – improvement ratings v 2014/15	6.66%	1% improvement in Supplier Viewpoint Survey lead question	5% improvement in Supplier Viewpoint Survey lead question	10% improvement in Supplier Viewpoint Survey lead question	18.91%	
Alan Stewart CFO	(i) Cash generation – deliver stock and cash targets	6.66%	£1.4bn	£1.5bn	£1.6bn	£2.2bn	16.7%
	(ii) Portfolio reshaping & debt reduction	3.33%	–	£5.0bn	–	£5.1bn	
	(iii) Deliver restructuring savings in line with announcements in January	6.66%	£200m	£250m	£300m	£372m	

Performance for the formulaic financial elements of the plan (sales and operating profit) has been strong with sales just under the stretch target and operating profit exceeding the stretch target set at the beginning of the year. These were on a constant currency basis and excluding IFRIC13 adjustment.

In relation to performance against individual objectives, the CEO and CFO had targets set for cash generation, portfolio reshaping and debt reduction. In addition, Dave Lewis was set a supplier relationship improvement measure and Alan Stewart was set a restructuring savings measure. These elements were achieved at 16.7% of the maximum 20% showing very good progress in these areas. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and agreed that management were making significant progress in delivering the turnaround plan. In particular the Group has achieved increased volumes and positive like-for-like sales, reduced costs, increased cash flow, and undertaken significant disposals and business restructuring to strengthen the balance sheet. A Group operating profit underpin applies to the annual bonus, below which no portion of the annual bonus pays out. The underpin for 2015/16 was met. On the basis of the above, the annual bonus will pay out at 95.7% of the maximum for Dave Lewis and Alan Stewart. The policy is that 50% of this will be deferred into shares for three years. Additionally, the Executive Directors offered for an additional 50% of the cash award to be deferred into shares, vesting at the earlier of three years or the resumption of dividend payments. This increases to 75% the proportion of bonus that is deferred into shares. The shares will be subject to malus per our normal policy.

Performance Share Plan

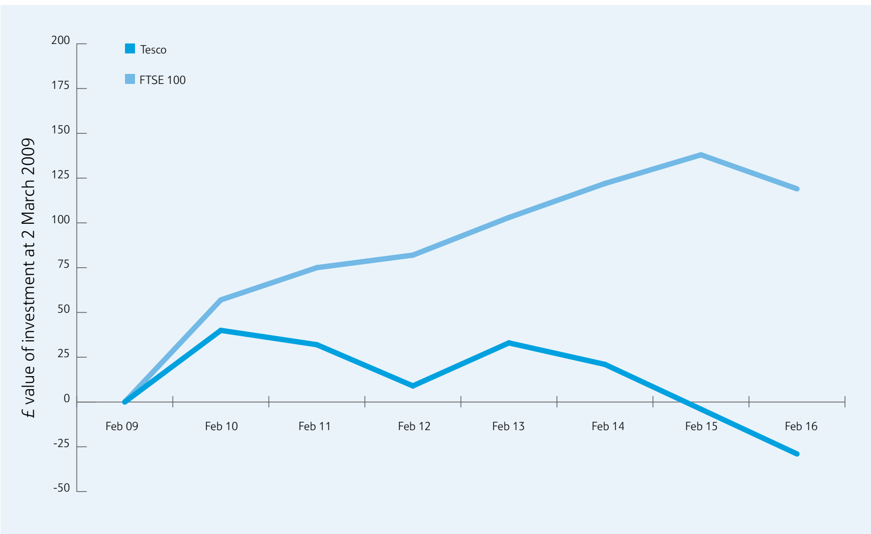
No Performance Share Plan awards were due to vest in the year for either Dave Lewis or Alan Stewart. Given their respective start dates, the first awards under the plan were made in 2015/16 and are due to vest on 24 July 2018.

Pension

Dave Lewis and Alan Stewart receive a cash allowance in lieu of pension. More information on pension arrangements is set out on pages 64 and 66.

	Directors	
Pension	Dave Lewis	Alan Stewart
Annual cash allowance in lieu of pension (% of salary)	25%	25%
Annual cash allowance in lieu of pension (£'000)	313	188
Cash in lieu of pension received in year (£'000)	313	188

Share price



Source: Datastream

This chart illustrates the performance of Tesco against the FTSE100, which is a broad market index of which Tesco is a constituent.

Directors' remuneration report continued

Annual remuneration report

The table below lays out the historical single figure data for the role of CEO as well as annual bonus and Performance Share Plan payout levels as a percentage of stretch opportunity for the CEO. In each year, the award is shown based on the final year of the performance period, i.e. the year in which it is included in the single figure.

CEO remuneration history

	2010/11	2011/12	2012/13	2013/14[1]	2014/15[2]		2015/16
	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis	Dave Lewis
CEO single figure of remuneration (£'000)	7,150	4,595	1,280	1,634	764	4,133	4,632
Annual bonus vesting (% of stretch award)	75%	0%	0%	0%	0%	0%	95.7%
PSP vesting (% of stretch award)	75%	46.5%	0%	0%	0%	n/a	0%
Share option vesting (% of stretch award)	100%	100%	0%	n/a	n/a	n/a	n/a

1 Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014.

2 The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis to compensate him for awards forfeited from his previous employer. The awards were made based on the expected value of the awards forfeited, taking into account performance at his previous employer and delivered in restricted shares which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards have no impact on the single figure for 2015/16 nor any future years.

Shareholding guidelines and share ownership

Share ownership guidelines

The requirement for executives to hold shares in the Company are for the value of such shares to equate to:

CEO	Four times base salary for the CEO within five years of appointment
CFO	Three times base salary for the CFO within five years of appointment

The purpose is to create alignment with the interests of shareholders and this requirement is at the upper end of typical market practice for similar-size companies.

The Remuneration Committee believes that a significant shareholding by Executive Directors aligns their interests with shareholders and demonstrates their ongoing commitment to the business.

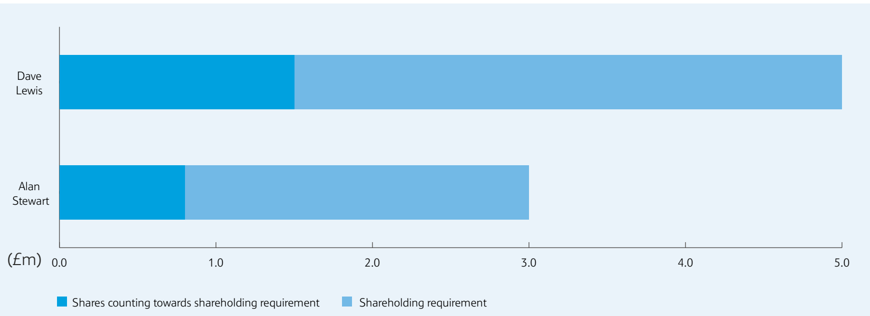
Shareholding guidelines policy

- Shares included – shares held outright and by an Executive Director's connected persons. Shares held in plans which are not subject to performance (such as vested buyout awards) will be included (on a net of tax basis).
- Shares not included – vested but unexercised market value share options and unvested awards (e.g. PSP). Share options (e.g. Sharesave) will not be included.
- Accumulation period – new appointees will be expected to achieve this minimum level of shareholding within five years of appointment.
- PSP participation – full participation in the PSP will generally be conditional upon maintaining the minimum shareholding.
- Holding policy – where an Executive Director does not meet the shareholding requirement they will be required to hold, and not dispose of, at least 50% of the net number of shares that vest under incentive arrangements until they meet this requirement.

Given the importance of owning shares, the Executive Committee and a number of other senior managers are also required to build a holding of Tesco shares.

The chart below illustrates the value of Executive Directors' shareholdings, based on the three-month average share price to 27 February 2016 of 161.3p per share, compared with the shareholding guideline.

Although the chart indicates that Dave Lewis and Alan Stewart have not yet met their shareholding guidelines, under the policy they have five years to do so (i.e. until 1 September 2019 and 23 September 2019 respectively). Since appointment, Dave Lewis and Alan Stewart have already made material progress towards meeting the guidelines and are expected to meet them within the allotted time period.



Shares held by Executive Directors at 27 February 2016 (audited)

Director	Share category	Shares counting towards shareholding guidelines: Ordinary shares held at 27 February 2016	Shares counting towards shareholding guidelines: Share Incentive Plan shares, subject to conditions at 27 February 2016	Shares counting towards shareholding guidelines: Interests in vested options, not subject to performance conditions, at 27 February 2016	Shareholding guidelines: Net number of shares counted towards shareholding guideline	Shareholding guidelines: Shareholding guideline (number of shares)[1]	Shareholding guidelines: Shareholding guidelines (%)	Shareholding guidelines: Guideline met?	Additional shares not counting towards shareholding guidelines: Interests in unvested options, not subject to performance conditions, at 27 February 2016	Additional shares not counting towards shareholding guidelines: Interests in options, subject to performance conditions, at 27 February 2016
Dave Lewis	Ordinary shares[2]	100,893	–	–	100,893	–	–		–	–
	All-employee Share Incentive Plan (subject to forfeiture)	–	–	–	–	–	–		–	–
	Deferred Bonus plan	–	–	–	–	–	–		–	–
	PSP	–	–	–	–	–	–		–	1,566,987
	Buyout awards	–	–	1,670,294	885,256	–	–		–	–
	Sharesave	–	–	–	–	–	–		11,920	–
	Total	100,893	–	1,670,294	986,149	3,099,814	32	No	11,920	1,566,987
Alan Stewart	Ordinary shares[2]	50,837	–	–	50,837	–	–		–	–
	All-employee Share Incentive Plan (subject to forfeiture)	–	–	–	–	–	–		–	–
	Deferred Bonus plan	–	–	–	–	–	–		–	–
	PSP	–	–	–	–	–	–		–	854,720
	Buyout awards	–	–	945,451	501,089	–	–		–	–
	Sharesave	–	–	–	–	–	–		11,920	–
	Total	50,837	–	945,451	551,926	1,395,916	40	No	11,920	854,720

1 Based on a three-month average share price to 27 February 2016 of 161.3p. The requirement is for the CEO to hold shares to the value of 400% of salary and the CFO to hold 300% of salary within five years of appointment.
2 Ordinary shares held by Director and connected persons and shares in the all-employee Share Incentive Plan, not subject to forfeiture.
Between 27 February 2016 and 11 April 2016, Dave Lewis acquired 72 and Alan Stewart acquired 71 partnership shares under the all-employee Share Incentive Plan.

The table above sets out shares held by the Executive Directors and whether these count towards the shareholding guidelines.

Share awards made during 2015/16 (audited)

The following summarises share awards made to Dave Lewis and Alan Stewart in 2015/16.

	Plan	Type of award	Date of awards	Gross number of shares	Face value[1] (£)	Threshold vesting (% of face value)	Stretch vesting (% of face value)	End of vesting period
Dave Lewis	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment.	24 July 2015	1,566,987	3,437,499	25%	100%	24 July 2018
Alan Stewart	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment.	24 July 2015	854,720	1,874,999	25%	100%	24 July 2018
	Awards were granted under listing rule 9.4.2	Nil cost options subject to continued employment only.	6 July 2015	56,950	118,114	n/a	n/a	6 July 2018

1 The face value has been calculated using the market price on grant of 219.37 pence (24 July 2015) and 207.40 pence (6 July 2015).

Share dealing policy

Tesco has a share dealing policy in place for Executive Directors and for members of the Executive Committee. This policy prevents Executive Directors and Executive Committee members and their connected persons dealing in shares at times when this would be prohibited by the UK Listing Authority's Listing Rules. At all times, Executive Directors and Executive Committee members must seek advance clearance before dealing in shares on their own behalf or in respect of their connected persons. The policy has been reviewed for compliance with the Market Abuse Regulations.

Directors' remuneration report continued

Annual remuneration report

Further details of 'buyout' awards

The Committee's policy is that, where appropriate, awards forfeited on leaving a previous employer should be 'bought out' taking into account the expected level of performance. Buyout awards should vest over an equivalent period to awards forfeited.

Alan Stewart

In the 2014/15 Report, it was disclosed that Alan Stewart would, during 2015/16, receive an award in respect of his 2014/15 Marks & Spencer Group PLC bonus forfeited. This was to be based on the payment he would have received had he remained at M&S (pro-rated for time) and was to be paid 50% in cash and 50% in Tesco shares deferred for three years. The final award was made in June 2015 under Listing Rule 9.4.2. and is set out in the table on the previous page. The value of this award is £236,232 (pro-rated for eight months), delivered half in cash (£118,116) and half through a grant of nil cost options over 56,950 shares on 6 July 2015, calculated with reference to a market price of 207.4 pence per share. This option will vest on 6 July 2018. Awards accrue dividend equivalents and are subject to malus, in the circumstances set out on page 66, until the shares are transferred.

Payments to former Directors (audited)

There were no payments made to former Directors that exceeded the de minimis threshold of £10,000 set by the Company. There were no payments for loss of office made to directors in the year.

Other policy information

Risk management

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk taking or inappropriate behaviours that are incompatible with Tesco's values and the long-term interests of shareholders. If necessary, the Committee would take appropriate steps to address this.

Outside appointments

Tesco recognises that its Executive Directors may be invited to become Non-executive Directors of other companies. Such Non-executive duties can broaden a Director's experience and knowledge, which can benefit Tesco.

Subject to approval by the Board, Executive Directors are allowed to accept Non-executive appointments, provided that these appointments are not likely to lead to conflicts of interest, and they may retain the fees received. Dave Lewis is a Non-executive Director of Sky PLC and received fees of £92,500 during the year. Alan Stewart is a Non-executive Director of Diageo PLC and received fees of £85,750 in the year.

Funding of equity awards

Executive Director incentive arrangements are funded by a mix of newly issued shares and shares purchased in the market. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of discretionary plans is 2.7% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employee Share Schemes Trustees Limited or Tesco International Employee Benefit Trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 27 February 2016, the Trusts held 6,489,874 shares.

Other disclosures

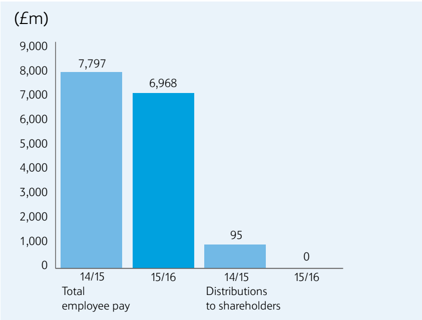
Change in CEO remuneration compared with changes in employee remuneration

The following table illustrates the change in CEO salary, benefits and bonus between 2014/15 and 2015/16 compared with other UK colleagues. The Committee decided to use other UK colleagues for the purpose of this disclosure as over half of Tesco's colleagues are based in the UK and the CEO is also predominantly based in the UK (albeit with a global role and responsibilities). The Committee therefore considered that this is an appropriate comparator group given that pay changes across the Group depend on local market conditions.

Tesco has a history of paying store colleagues well. The Company has one of the highest established hourly rates in the industry which is significantly above both the National Minimum and National Living Wage, and pays employees the same regardless of age. Our total reward package for a typical customer assistant is ahead of the voluntary Living Wage on a national basis. The Company is committed to rewarding colleagues with a total reward package that they really value. Tesco is working on ways to provide more choice between cash and benefits so that employees can build a competitive and valuable package that suits them.

	Salary	Benefits	Bonus
CEO	0%	-18%	–
UK colleagues	0%	0%	58%

For UK employees, including the CEO and CFO, there were no increases in salary or benefits in line with the salary budget for the year. With regards to bonus, a Turnaround Bonus, where colleagues may be rewarded up to 5% of earnings should Tesco achieve its turnaround plan, was in the year awarded to colleagues below senior management. These were in the form of shares being awarded up to the value of 5% of their salary. The above table does not include the Turnaround Bonus amounts. For 2015/16, bonuses for UK eligible colleagues have paid out at an average of 84.65% of the maximum bonus opportunity, an increase of 58.41% compared to the prior year. The CEO bonus paid out at 95.7% of maximum, reflecting excellent performance which has laid the foundations for sustainable recovery. This also resulted in a significant year-on-year increase for colleagues. As the CEO did not receive a bonus in 2014/15, no % increase is shown. For the CEO, the bonus makes up a much greater proportion of total pay opportunity than for the general colleague population such that more pay is at risk and determined by overall Company performance. In 2014/15, no bonus was awarded to the CEO reflecting challenging trading conditions and an in-year appointment.



Relative importance of spend on pay

The chart on the left shows total colleague pay compared with distributions to shareholders. Tesco's colleagues are essential to how the Company does business and meets the needs of our customers. In 2015/16, we employed, on average, 482,152 colleagues across the Group (compared to 480,607 in 2014/15, excluding Korea).

Total employee pay includes wages and salaries, social security, pension and share-based costs (£6,968m in 2015/16 and £7,797m in 2014/15 – see Note 3 of the financial statements on page 100).

Distributions to shareholders include interim and final dividends paid in respect of each financial year (£95m in respect of 2014/15 and £nil in respect of 2015/16 (see Note 25 of the financial statements on page 129). The new management team identified protecting and strengthening the balance sheet as one of our three key turnaround priorities. This resulted in a number of steps to address our balance sheet leverage, one of which was the suspension of the dividend. There were no share buy-backs in 2014/15 or 2015/16.

Non-executive Director fees and responsibilities

Committee membership in 2015/16

The table below sets out the positions held by Tesco's Non-executive Directors as well as information on appointments and departures in the year.

Director	Title	Senior Independent Director (SID)	Remuneration Committee	Nominations Committee	Audit Committee	Corporate Responsibility Committee
John Allan	Joined as Chairman on 1 March 2015		°	•		•
Mark Armour	Appointed to the Board on 2 September 2013				°	
Richard Cousins	Appointed to the Board on 1 November 2014 Appointed to the Audit Committee on 2 December 2014 Appointed SID on 7 April 2015	X		°	°	
Mikael Olsson	Appointed to the Board on 1 November 2014 Appointed to the Remuneration Committee and to the Corporate Responsibility Committee on 2 December 2014		°			°
Deanna Oppenheimer	Appointed to the Board on 1 March 2012 and as Chair of the Remuneration Committee on 1 January 2015		•	°		°
Byron Grote	Appointed to the Board on 1 May 2015 Appointed Audit Committee Chairman on 26 June 2015 and member of the Remuneration Committee on 24 July 2015 and Nominations Committee on 1 December 2015		°	°	•	
Alison Platt	Appointed to the Board and the Remuneration Committee on 1 April 2016		°			
Simon Patterson	Appointed to the Board and Audit Committee on 1 April 2016				°	
Lindsey Pownall	Appointed to the Board and Corporate Responsibility Committee on 1 April 2016					°
Gareth Bullock	Retired from the Board on 5 March 2015				°	
Patrick Cescau	Retired from the Board and as SID on 7 April 2015	X		°	°	°
Stuart Chambers	Retired from the Board on 26 June 2015		°	°		
Ken Hanna	Retired from the Board on 26 June 2015		°	°	•	

x Senior Independent Director
• Committee Chairman
° Committee member

Directors' remuneration report continued

Annual remuneration report

Non-executive Director fee policy for 2015/16

There were no changes to Non-executive Directors' fees during the year.

Non-executive Director fees	
Basic fees	£70,000 p.a.
Additional fees	
Senior Independent Director	£26,000 p.a.
Chairman of the Audit and Remuneration Committees	£30,000 p.a.
Membership of Audit, Corporate Responsibility, Nominations and Remuneration Committees	£12,000 p.a. for each Committee

Deanna Oppenheimer was appointed to the Board of Tesco Personal Finance Group Limited (Tesco Bank) in July 2012. She was paid a basic fee of £70,000 p.a. for this role and an additional fee for Committee membership of £12,000 p.a. in line with other members of the Board of Tesco Personal Finance Group Limited. These fees are provided below for information.

Chairman fees

John Allan was appointed as Non-executive Chairman with effect from 1 March 2015. He receives a fee of £650,000 p.a. inclusive of all Board fees, which is fixed for a period of three years. He is also eligible to receive benefits as set out in the policy for Non-executive Directors on page 69.

Fees paid during 2015/16

The following table sets out the fees paid to the Non-executive Directors for the year ended 27 February 2016. As the Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes, this information is not included in the table. This table has been audited.

Single total figure of remuneration – Non-executive Directors (audited)

The table below sets out the single figure of remuneration for Tesco's Non-executive Directors.

		Fees (£'000)		Taxable expenses (£'000)			
Director	Date	Tesco PLC	Tesco Bank	Tesco PLC	Tesco Bank	Benefits (£'000)	Total (£'000)
John Allan	2015/16	650	–	–	–	10	660
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Mark Armour	2015/16	82	–	–	–	–	82
	2014/15	82	–	–	–	–	82
Richard Cousins	2015/16	115	–	–	–	–	115
	2014/15	23	–	–	–	–	23
Mikael Olsson	2015/16	94	–	4	–	–	98
	2014/15	25	–	2	–	–	27
Deanna Oppenheimer	2015/16	119	82	25	7	–	233
	2014/15	96	82	56	8	–	242
Byron Grote	2015/16	85	–	1	–	–	86
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Bullock	2015/16	4	72	–	1	–	77
	2014/15	82	82	–	–	–	164
Patrick Cescau	2015/16	19	–	–	–	–	19
	2014/15	132	–	–	–	–	132
Stuart Chambers	2015/16	34	–	–	–	–	34
	2014/15	110	–	5	–	–	115
Ken Hanna	2015/16	45	–	–	–	–	45
	2014/15	124	–	3	–	–	127

The figures in this table show the amount receivable in the year and are from the date of appointment or until the date that each Director ceased to be a Director of Tesco PLC. Gareth Bullock, Patrick Cescau, Stuart Chambers and Ken Hanna left the Board during the year.

The figures in this table include fees paid to Gareth Bullock and Deanna Oppenheimer in respect of their membership of the Board and Committees of Tesco Personal Finance Group Limited (Tesco Bank).

The Chairman's benefits are made up of security costs and medical insurance. The Non-executive Directors' benefits comprise taxable travel expenses related to their role and the benefit costs shown have been grossed up for tax, where applicable.

Beneficial share ownership (audited)

There are no shareholding guidelines for the Non-executive Directors. The table below outlines the current share interests of the Non-executive Directors. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors and no shares were acquired between 27 February and 12 April 2016.

Director	Ordinary Shares held at 27 February 2016	Ordinary Shares held at 28 February 2015
John Allan[2]	194,349	n/a
Mark Armour	25,000	25,000
Gareth Bullock	–	25,000
Patrick Cescau	–	18,340
Stuart Chambers	–	25,000
Richard Cousins	17,357	–
Ken Hanna	–	25,000
Mikael Olsson	5,000	–
Deanna Oppenheimer[1]	103,500	52,500
Byron Grote[1]	143,700	n/a

1 Deanna Oppenheimer and Byron Grote held their shares in the form of American Depositary Receipts. Each ADR is equivalent to three ordinary shares.
2 John Allan also held 198,000 bonds in the Company.

The Committee

Role of the Remuneration Committee

The Committee's key responsibilities are:

- to determine and recommend to the Board the remuneration policy for Executive Directors, senior management and the Chairman;
- to ensure the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors and senior management needed to run the Company, and to ensure that the individual's contribution to the long-term success of the Company is rewarded in a manner that remains appropriate in the context of the remuneration arrangements throughout the Group;
- to ensure that the structure of remuneration arrangements is aligned with the creation of sustainable returns for shareholders and that the level of reward received by Executives reflects the value delivered for shareholders; and to monitor the level and structure of remuneration of senior management.

As required by the Financial Conduct Authority ('FCA'), Tesco Bank has a separate independent Remuneration Committee.

The Group Remuneration Committee is consulted on, and makes recommendations in relation to, the remuneration arrangements for Tesco Bank colleagues, with the aim of encouraging consistency with Group remuneration policy, but it does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.

The Committee's terms of reference can be viewed at www.tescoplc.com.

Membership of the Remuneration Committee and attendance at meetings

	Number of possible meetings	Actual meetings attended
Deanna Oppenheimer (Committee Chair)	6	6
Stuart Chambers	1	1
Ken Hanna	1	1
Mikael Olsson	6	6
Byron Grote	4	4
John Allan	6	6

Byron Grote joined the Committee with effect from 24 July 2015. Alison Platt was appointed to the Tesco Board and joined the Committee on 1 April 2016. Stuart Chambers and Ken Hanna stepped down from the Board and the Committee at the 2015 AGM.

The Committee schedules meetings two years in advance with six meetings typically in a year. The Committee also convenes on an ad hoc basis between formal meetings when necessary. The Directors' biographies can be found on pages 32 and 33 of this report. No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco.

Directors' remuneration report continued

Annual remuneration report

Remuneration Committee activities 2015/16

The following provides a summary of the key areas of focus at each of the Committee's meetings during the year and shortly following the end of the financial year:

		April 2015	July 2015	Oct 2015	Dec 2015	Jan 2016	Feb 2016	April 2016 (following the year-end)
Strategy and policy	Review of market trends			■				
	Consideration of remuneration strategy and policy		■	■	■			
	Discussion about approach to DRR/review of DRR*			■			■	
	Approval of DRR*	■						■
	Review of shareholder feedback and votes from the AGM		■					
Salary review	Review of salaries for Executive Directors and senior management		■					■
Annual bonus	Review of performance	■	■	■				■
	Determination of bonus outcome	■						■
	Consideration of measures and targets		■		■			
	Setting of measures and targets	■						■
PSP	Review of performance	■		■				■
	Determination of vesting levels	■						■
	Consideration of measures and targets					■	■	
	Setting of measures and targets	■			■		■	■
Other	Report from Tesco Bank Remuneration Committee		■					
	Review of reward below Board			■			■	
	Review of pension benefits		■	■			■	
	Committee effectiveness review and review of terms of reference						■	
	Professional development updates	■						■
	Remuneration advisor selection		■	■				
	Regulatory developments				■			
	Shareholder consultation						■	
	Other issues as required	■	■	■	■	■	■	■

* Directors' remuneration report.

Committee advisors

Remuneration advisors are appointed by the Committee following a selection process and their roles are kept under review. During the year, PricewaterhouseCoopers LLP ('PwC') were appointed as independent Remuneration Committee advisors by the Committee. The previous advisors, Deloitte LLP ('Deloitte'), were required to step down as a result of their appointment as auditor of the Group. On Deloitte's appointment as auditor, a transition plan was put in place while a new advisor to the Committee was selected. This ensured that remuneration advice provided by Deloitte was consistent with ethical auditing guidelines and that their independence as auditor was not compromised. Fees for advice provided to the Remuneration Committee for the year were £148,337 and £51,825 for PwC and Deloitte respectively. Fees are charged on a time and materials basis. PwC provided advice to management in relation to the interpretation of the Remuneration Reporting Regulations, as well as wider market practice. Separate teams within PwC provided unrelated advisory services in respect of corporate tax planning, transfer pricing, technology consulting and internal audit services to the Group during the year.

Deloitte provided advice to management in relation to below Board remuneration and implementation of share plans. Separate teams within Deloitte provided unrelated advisory services in respect of corporate tax planning, technology consulting, risk management, share schemes, international taxation, corporate finance, pension, treasury and forensic services to the Group during the year. Deloitte were also appointed auditor at the AGM in June 2015.

PwC is one of the founding members of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by PwC is objective and independent. The Committee is comfortable that the PwC engagement partner and team that provide remuneration advice to the Committee do not have connections with Tesco PLC that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts. Towers Watson also provided the Committee with benchmarking data and assessments during the year and fees for this were £9,000.

Paul Moore, the Company Secretary, is Secretary to the Committee. The CEO attends meetings at the invitation of the Committee. They are not present when their own remuneration is being discussed. The Committee is supported by Alison Horner (Chief People Officer) as well as the Reward, Corporate Secretariat and Finance functions.

Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice including investor guidelines. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority. The auditor's report, set out on pages 77 to 84, covers the disclosures referred to in this report that are specified for audit by the Financial Conduct Authority. The report has been drawn up in accordance with the UK Corporate Governance Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as updated in 2013) and the Financial Conduct Authority Listing Rules.

Shareholder voting

Tesco remains committed to ongoing shareholder dialogue and carefully reviews voting outcomes on remuneration matters. In the event of a substantial vote against a resolution in relation to Directors' remuneration, Tesco would seek to understand the reasons for any such vote, and would detail any actions taken in response in the next Directors' Remuneration Report.

The following table sets out the voting results in respect of remuneration at the 2015 AGM.

AGM Resolution % of votes	For	Against
To approve the Directors' Remuneration Report [1]	89.05%	10.95%
To approve the Directors' Remuneration Policy [2]	96.51%	3.49%

[1] 444,864,254 votes were withheld.
[2] 473,362,689 votes were withheld.
Votes withheld are not counted in the votes for or against a resolution but would be considered by the Committee in the event of a significant number of votes being withheld.

The Committee was pleased with the level of support for our remuneration arrangements at the 2015 AGM but noted that a number (10.95%) of shareholders voted against the Remuneration Report. Feedback received from shareholders as part of the subsequent consultation process identified two areas of focus. The first was the details of contractual payments made to former Directors. The second was the TSR group, with a preference stated for a TSR group more closely aligned with Tesco's operating activities. The feedback received in relation to TSR is reflected in the changes made to the TSR comparator group. This now includes Tesco's key retail competitors through the use of the FTSE350 Food & Drug Retailers Index and the broader retail market through the use of the FTSE350 General Retailers Index, with the groups weighted to reflect Tesco's split in food and general retail.

Directors' remuneration report continued

Remuneration Policy

Policy table

The following sets out the Directors' Remuneration Policy ('Policy'). The Policy was approved by shareholders at the 2015 AGM held on 26 June 2015 (a copy of which is available on the Tesco website at www.tescoplc.com). The Policy applies to payments made from this date.

Further details regarding the operation of the Policy for the 2015/16 financial year can be found on pages 50-51 of this report.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Base salary	• The role of base salary is to support the recruitment and retention of the Executive Directors of the calibre required to develop and deliver the strategy • Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience	• The Committee sets base salary taking into account: – The individual's skills and experience and their performance – Salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally – Pay and conditions elsewhere in the Group • Base salary is normally reviewed annually with changes effective from 1 July but may be reviewed more frequently if the Committee determines this is appropriate	• While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other colleagues in the Group • However, increases may be above this level in certain circumstances such as: – Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive Director gains experience – Where an Executive Director has been promoted or has had a change in responsibilities, salary increases in excess of the above limit may be awarded – Where there has been a significant change in market practice	n/a
Pension	• To provide an appropriate level of retirement benefit as part of a holistic benefit package	• Executive Directors receive a cash allowance in lieu of pension • The Committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments the Board will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group • Where pension is provided as a salary supplement or into a defined contribution scheme, it will not exceed the maximum amount stated in the next column. Where a defined benefit pension is provided, the value will vary reflecting the nature of such schemes	• Maximum cash in lieu of pension of 25% of base salary	n/a
Benefits	• To provide a market-competitive level of benefits for the Executive Directors	• The Committee sets benefit provision at an appropriate market-competitive level taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other colleagues in the Group • **Core benefits** – Benefits currently include but are not limited to a company car or car allowance, fuel, private use of a chauffeur, life assurance, disability and health insurance (for the Executive Director and his family), health screening, Directors' and Officers' liability insurance and provision of indemnity, security, club membership and staff discount on the same basis as other colleagues • The Committee may remove benefits that Executive Directors receive or introduce other benefits if it is considered appropriate to do so • Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these • **All-employee share plans** – Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as UK colleagues	• The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit. When determining the level of benefits the Committee will consider the factors outlined in the 'Operation' column	n/a

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures
Benefits continued		• **Mobility policy** – Where an Executive Director is required to relocate to perform their role, the policy is that they may be offered some or all of the following: a relocation allowance, location allowance, cost of living allowance, disturbance allowance, housing benefit, flight budget, assistance with school fees, international family healthcare, pension allowance, spousal allowance and tax advice, assistance and equalisation. The level of such benefits would be determined based on the circumstances of the individual and typical market practice		
Annual bonus	• The role of the annual bonus is to reward Executive Directors for the delivery of our annual financial, operational and strategic goals • The performance measures have been selected as they are considered to be key to delivering long-term shareholder value creation • Deferral into Company shares provides alignment with shareholders' interests • The malus and clawback provisions enable the Company to mitigate risk (see page 66)	• The annual bonus is normally delivered: – 50% in cash – 50% in shares, which are deferred • Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules • The Committee may determine that a different balance of cash and deferred shares may apply • Performance is assessed over a financial year • The Committee determines the level of bonus taking into account performance against targets and the underlying performance of the business • The deferred shares will normally vest after three years (or an alternative period determined by the Committee) • Deferred shares are normally awarded in the form of nil cost options but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date of grant	• Maximum annual bonus opportunity of 250% of base salary • For details of award levels for 2015/16, see the annual remuneration report on page 54	• The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance • Any portion of the bonus based on stakeholder measures will be subject to meeting a financial underpin • The Committee determines the exact metrics each year depending on the key goals for the forthcoming year • Normally around 30% of the bonus is paid for threshold performance, around 50% of the bonus is paid if target levels of performance are delivered with the full bonus being paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set • The Committee sets bonus targets each year to ensure that they are appropriately stretching in the context of the business plan
Performance Share Plan ('PSP')	• The role of the PSP is to reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value • To align the economic interests of Executive Directors and shareholders • To act as a retention tool • The malus and clawback provisions enable the Company to mitigate risk (see page 66)	• Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise) • Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules • The Committee has the discretion to amend the final vesting level if it does not consider that it reflects the underlying performance of the Company • PSP awards are normally awarded in the form of nil cost options over shares but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date at grant	• The maximum annual award that can be granted under the PSP is 350% of base salary • For details of award levels for 2015/16, see the annual remuneration report on page 57	• Awards vest based on Total Shareholder Return, financial or strategic performance conditions (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on TSR and/or financial metrics • For threshold levels of performance up to 25% of the award vests, increasing to 100% of the award for stretching performance • The Committee sets targets each year so that targets are stretching and represent value creation for shareholders while remaining motivational for management

Directors' remuneration report continued

Remuneration Policy

Information supporting the Policy table

Shareholding guidelines

Tesco also operates shareholding guidelines. See page 56 of the Annual Remuneration Report for further details.

Dividend equivalents

Awards may incorporate the right (in cash or shares) to receive the value of dividends between grant and exercise in respect of the number of shares that vest. The calculation of dividend equivalents may assume reinvestment of those dividends in Company shares on a cumulative basis.

Clawback and malus provisions

The Committee has the discretion to scale back deferred share awards and Performance Share Plan awards prior to the satisfaction of awards in the event that results are materially misstated or the participant has contributed to serious reputational damage of the Company or one of its business units or their conduct has amounted to serious misconduct or fraud.

Where Performance Share Plan awards are settled prior to the fifth anniversary of the grant of the award, the Committee has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances described above.

Cash bonus payments can also be 'clawed back' in the circumstances described above up to the third anniversary of payment.

Cash payments

If the Committee considers it to be appropriate, it may determine that share awards may be settled in cash.

Terms of share awards

The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans.

For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion affect the current or future value of awards, the number of shares subject to an award may be adjusted.

The Committee may amend performance targets in accordance with the terms of an award or if a transaction occurs, which causes the Committee to consider (taking into account the interest of shareholders) that an amended performance condition would be more appropriate and would continue to achieve the original purpose.

Discretionary Share Option Plan

Prior to 2011, Executive Directors were granted market value options under the Company's 2004 Discretionary Share Option Plan. Outstanding awards are no longer subject to performance and may be exercised until the tenth anniversary of the date of award. No further awards will be made under this plan.

Payments outside Policy

The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretion available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes, 'payments' includes the Committee satisfying awards of variable remuneration, and an award over shares is 'agreed' at the time the award is granted.

Minor changes

The Committee may make minor changes to this Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without seeking shareholder approval for that amendment.

Selection of performance measures

Annual bonus

The annual bonus performance measures have been selected to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and incentivising them to achieve specific strategic and operational objectives. The particular bonus metrics are selected by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months.

Performance Share Plan ('PSP')

Performance measures for the PSP are selected to ensure that they incentivise Executive Directors to deliver long-term sustainable returns for shareholders.

Performance targets for both the annual bonus and PSP (where financial measures are used) are set, taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

Remuneration arrangements throughout the Group

Remuneration arrangements throughout the Group are based on the same principle: that reward should be sufficient to attract and retain high-calibre talent without paying more than is necessary and that reward should support the creation of long-term shareholder value and promote the long-term success of the Company. Tesco is one of the largest public company employers in the world. Our colleagues undertake a variety of roles reflecting the countries we operate in and the range of skills we need to run our various businesses. Reward packages therefore differ taking into account location, seniority and level of responsibility but they are all built around the common reward objectives and principles outlined previously. The following are based on current practice, which may change during the life of the policy.

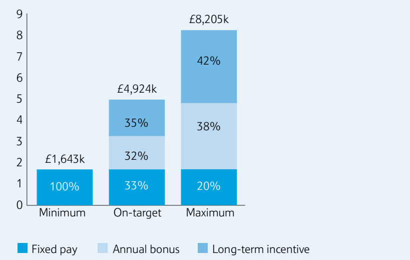
- Annual bonus – annual bonuses throughout the Group are linked to business success and individual performance and contribution. A profit underpin is set below which no bonus awards will be made under the Plan.
- Share incentives – currently our annual bonus is delivered in a mix of cash and deferred shares to create alignment with shareholder interests. We have a shareholding policy for the Executive Committee and the next level of management within the business.
- Clawback and malus – malus and clawback provisions exist within our incentive plans.
- Pensions – pensions across the Group vary widely according to local market practice. In the UK, all Tesco colleagues had the opportunity to participate in a career-average defined benefit scheme. In 2015, we consulted with colleagues to close this scheme and replace it with a defined contribution plan. On 21 November 2015, the defined benefit scheme was closed and the new defined contribution plan launched. The changes to our defined benefit scheme have significantly reduced our pension risk – and in the long term will make our pension costs more stable.
- Colleagues as shareholders – it is an important part of our values at Tesco that all employees, not just management, have the opportunity to become Tesco shareholders. More than 300,000 colleagues participate in our all-employee share schemes. They hold more than 87 million shares in our Share Incentive Plan and more than 285 million options over shares in our Sharesave scheme.

When determining Executive Director remuneration arrangements, the Committee takes into account pay conditions throughout the Group to ensure that the structure and quantum of Executive Directors' pay remains appropriate in this context.

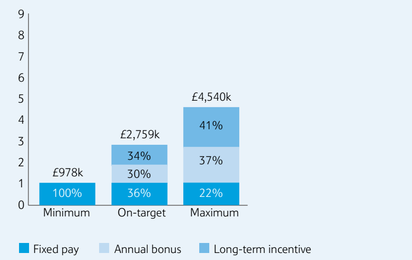
Remuneration outcomes in different performance scenarios

Tesco remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short and long-term goals that are aligned with our short and long-term strategic objectives and the creation of shareholder value. The Committee considers the level of remuneration that may pay out in different performance scenarios to ensure that this is considered appropriate in the context of the performance delivered and the value added for shareholders. The charts below show hypothetical values of the remuneration package for Executive Directors under three assumed performance scenarios:

CEO – Dave Lewis (£million)



CFO – Alan Stewart (£million)



Performance scenarios

Maximum award opportunities (% of salary)	CEO	CFO
Annual bonus	250%	225%
PSP	275%	250%
Minimum	No bonus payout No vesting under the Performance Share Plan	
On-target performance	50% annual bonus payout 50% vesting under the Performance Share Plan	
Maximum performance	100% annual bonus payout 100% Performance Share Plan vesting	

No share price growth or the payment of dividend equivalents has been assumed. Potential benefits under all employee share schemes have not been included.

Fixed pay is based on current values as set out in the table below:

	Salary	Benefits	Pension	Total fixed pay
	From appointment		25% of salary	
CEO – Dave Lewis (£'000)	1,250	80	313	1,643
CFO – Alan Stewart (£'000)	750	40	188	978

Remuneration policy for new hires

The Committee would generally seek to align the remuneration package offered to new Executive Directors with the remuneration policy outlined in the table above. When determining appropriate remuneration arrangements, the Committee will take into account all relevant factors including the experience and calibre of the candidate, the candidate's current reward opportunity, and the jurisdiction the candidate was recruited from.

In respect of an Executive Director's appointment, the Committee may offer variable remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual (subject to the maximum variable limit outlined below).

Variable remuneration awarded in respect of an Executive Director's appointment shall be limited to the current aggregate annual and PSP award policy of 600% of base salary. This limit includes awards granted under the normal policy outlined above but excluding any awards made to compensate the Executive Director for awards forfeited from their previous employer.

The Committee may make awards when appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested.

The Committee's key principle is that buyout awards will generally be made on a comparable basis to those forfeited.

Directors' remuneration report continued

Remuneration Policy

To facilitate buyout awards, the Committee may grant awards to a new Executive Director under Listing Rule 9.4.2, which allows for the granting of awards to facilitate, in unusual circumstances, the recruitment of an Executive Director, or under other relevant company incentive plans.

The Company will pay legal fees incurred by any new Executive Directors in respect of their appointment.
In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

In the event of the appointment of a new Chairman or Non-executive Director, remuneration arrangements will normally reflect the policy outlined on page 69 for Chairmen and Non-executive Directors.

Executive Director service agreements and policy on Executive Directors leaving Tesco

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

The following table summarises the policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	• 12 months' notice by the Company and six months' notice by the Executive Director • For new appointments, the Committee reserves the right to vary this period to 24 months for the initial period of appointment and for the notice period to then revert to 12 months after the initial 12 months of employment
Expiry date	• Dave Lewis and Alan Stewart entered into service agreements with Tesco PLC on 19 July 2014 and 9 July 2014 respectively • These are rolling service agreements with no fixed expiry date
Termination payments (does not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	• If the Company terminates a Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company then the Executive Director has the right to a termination payment to reflect the unexpired term of the notice • Any termination payment in lieu of notice will be based on base salary and benefits only • Benefits comprise car-related benefits, healthcare and health insurance and staff discount • No account will be taken of pension when determining termination payments • Termination payments will normally be subject to mitigation and paid in instalments to facilitate this (other than for long-serving Executive Directors or in the event of a change of control of the Company where the termination payment is made in full on departure) • Where an Executive Director has less than eight years of continuous service then any termination payment will normally be made in 13 equal four-weekly payments. Where an Executive Director has more than 15 years' continuous service then the termination payment is made in full on departure. For periods of continuous service between eight years and 15 years, termination payments will normally be split between initial payments and phased payments • Payment in full on termination on change of control arises if the Company terminates or gives notice within 12 months after a change of control • Where an Executive Director retires from the business, they will not normally receive a termination payment • The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment • In the event of termination, an Executive Director may have an entitlement to compensation in respect of statutory rights under employment protection legislation in the UK and potentially elsewhere
Other information	• The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance. Where an Executive Director leaves by reason of death, disability or ill-health, they, or in the case of death their personal representatives, are entitled to a pro-rata performance-based bonus for the year of leaving • In the event that an Executive Director retires from the Company, they shall be entitled to retain their private medical cover and annual medical examinations in retirement. Any Executive Directors appointed from 24 February 2013 will not be entitled to this benefit • Under the employment agreements, while in employment Executive Directors are also entitled to sick pay, paid holiday, maternity and paternity leave • Where appropriate, the Company will meet an Executive Director's reasonable legal fees in connection with the termination of his employment and/or the reasonable cost of outplacement services • The Committee has the discretion to scale back deferred share awards and performance share awards prior to the satisfaction of awards in the event that results are materially misstated or the participant has contributed to serious reputational damage of the Company or one of its business units or their conduct has amounted to serious misconduct or fraud • Where Performance Share Plan awards are settled prior to the fifth anniversary of the grant of the award, the Committee has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances above • Cash bonus payments can also be clawed back up to the third anniversary of payment in the circumstances described above

In addition to the information provided in the table above, clawback and malus provisions will apply to all awards. Further details are provided on page 66. The service agreements are available to shareholders to view at the Company's registered office.

Share plan rules – leaver provisions

The treatment of outstanding share awards in the event that an Executive Director leaves is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans. In specific circumstances, the Committee may exercise its discretion to modify the policy outlined to the extent that the rules of the share plan allow such discretion. The Committee will not exercise discretion to allow awards to vest where the participant is dismissed for gross misconduct.

	Death	Good leavers as determined by the Committee in accordance with the plan rules	Leavers in other circumstances (other than summary dismissal)
		'Good leavers' are: injury, ill-health or disability, redundancy, retirement, the entity which employs the Executive ceasing to be part of the Group or any other reason determined by the Committee taking into account the circumstances of departure and performance	
Executive Incentive Plan 2014 (deferred bonus shares)	• Unvested awards vest on death • Normally 12 months to exercise (if options)	• Unvested awards vest at cessation (Committee discretion to defer vesting to normal vesting date) • Normally 12 months to exercise (if options)	• Awards normally lapse
Performance Share Plan 2011	• Unvested awards normally vest on death. The level of vesting is determined by the Committee taking into account performance and the time elapsed between grant and death • If awards are in the form of options, the personal representatives of the participant will normally have 12 months from the date of death to exercise or a longer period as determined by the Committee of up to 10 years from grant	• Awards granted in the 12 months prior to leaving normally lapse (where more than one award has been made in the 12 month period in respect of different financial years the most recent award will lapse) • If a participant leaves holding three unvested awards (in respect of different financial years), the most recent granted award shall normally lapse • Other unvested awards normally continue until the normal vesting date. The Committee will determine the level of vesting taking into account performance • If awards are in the form of options, participants normally have 12 months from vesting (or leaving for vested options) to exercise or a longer period determined by the Committee of up to 10 years from grant	• Unvested awards normally lapse unless the Committee determines otherwise • If awards are in the form of options, participants normally have 12 months from cessation to exercise vested options or a longer period as determined by the Committee of up to 10 years from grant
All-employee share plans	• Leaver provisions under all-employee share plans are as determined in accordance with HMRC-approved provisions		

Other vesting circumstances

Awards may also vest early if:

(i) a participant is transferred to a country, as a result of which the participant will suffer a tax disadvantage or become subject to restrictions on his award (under the PSP and 2014 Executive Incentive Plan); or

(ii) in the event of a takeover, winding-up or other corporate event affecting the Company, which may affect the value of share awards (such as a demerger or special dividend).

The number of shares under an award which vest in these circumstances will be determined by the Committee. In the case of the PSP, when determining the level of vesting the Committee will consider performance and the time elapsed since grant.

Where an Executive Director leaves as a result of summary dismissal, they will forfeit outstanding share incentive awards.

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items
• Fees for the Chairman and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary • Fees are set taking into account the following factors: – The time commitment required to fulfil the role – Typical practice at other companies of a similar size and complexity to Tesco • Non-executive Directors' fees are set by the Board and the Chairman's fee is set by the Committee (the Chairman does not take part in any discussion about his fees) • Fees are reviewed by the Board at appropriate intervals (normally once every two years) • Fees paid to the Chairman and Non-executive Directors may not exceed the aggregate limit of £2m set out in the Company's Articles of Association	• The Non-executive Director fees policy is to pay: – A basic fee for membership of the Board – An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role – An additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role • Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate • Non-executive Directors of Tesco PLC may also serve on the Board of Tesco Personal Finance Group Limited • Such Non-executive Directors also receive a basic fee for serving on this Board and additional fees for Committee membership in line with other members of this Board. Fees for membership of the Board of Tesco Personal Finance Group Limited are determined by the Board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals • The Chairman of Tesco PLC receives an all-inclusive fee for the role • Where significant travel is required to attend Board meetings, additional fees may be paid to reflect this additional time commitment	• The Non-executive Directors are not entitled to participate in the annual bonus or Performance Share Plan • The Non-executive Directors have the benefit of Directors' and Officers' liability insurance and provision of indemnity. They also have a staff discount on the same basis as other employees. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so • The Chairman may have the benefit of a company car and driver, home security, staff discount and healthcare for himself and his partner. The Committee may introduce additional benefits for the Chairman if it is considered appropriate to do so • The Company reimburses the Chairman and Non-executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these • The Company will pay reasonable legal fees for advice in relation to terms of engagement • If a Non-executive Director was based overseas then the Company would meet travel and accommodation expenditure as required to fulfil Non-executive Directors' duties

Directors' remuneration report continued

Remuneration Policy

Non-executive Director letters of appointment

Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. The unexpired term of Non-executive Directors' appointments can be found on page 36. In line with the UK Corporate Governance Code, all Non-executive Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors' appointments can be terminated by either party without notice. Non-executive Directors have no entitlement to compensation on termination.

The letters of appointment are available for shareholders to view at the Company's registered office.

Considering colleagues' views

The Committee does not consider that it is appropriate to consult colleagues directly when developing the Directors' Remuneration Policy.

A significant portion of Tesco colleagues are shareholders so are able to express their views in the same way as other shareholders.

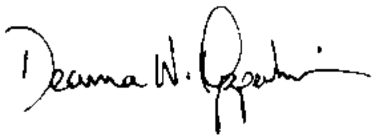
The Company undertakes an employee engagement survey, which occurs annually across Tesco's global operations and semi-annually for colleagues in the UK. This survey asks for feedback and comments on many aspects of employment with Tesco, including employee reward and benefits. This insight, combined with feedback gleaned from social media channels, forms a key part of shaping future plans and taking action to improve.

The Committee reviews information regarding the typical remuneration structure and reward levels for other UK-based employees to provide context when determining executive remuneration policy.

Considering shareholders' views

The Committee believes that it is very important to maintain an open dialogue with shareholders on remuneration matters. The Committee regularly consults significant shareholders regarding potential changes to remuneration arrangements and the views of shareholders are important in determining any final changes. Going forward, the Committee will continue to liaise with shareholders regarding remuneration matters more generally and Tesco arrangements as appropriate. It is the Committee's intention to consult major shareholders in advance of making any material changes to remuneration arrangements for Executive Directors.

Approved by the Board
12 April 2016



Deanna Oppenheimer
Chair of the Remuneration Committee

Directors' report

The Directors present their report, together with the audited accounts for the year ended 27 February 2016. Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Future developments	01 to 27
Greenhouse gas emissions	23
Financial instruments and financial risk management	119 to 127
Corporate governance report	30 to 47

Disclosures required pursuant to Listing Rule 9.8.4R can be found on the following pages:

	Pages
Statement of capitalised interest	103 and 110
Allotment for cash of equity securities	135
Waiver of dividends	71

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 01 to 27.

Group results

Group revenue (exc. VAT) decreased by £2,492m to £54,433m, representing a decrease of 4.4%. Group profit before tax was £162m from a loss before tax of £6,334m in 2014/15. The profit for the year including discontinued operations was £129m. £138m was attributable to equity holders of the parent company.

Dividends

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 27 February 2016.

Certain nominee companies representing our employee benefit trusts hold shares in the Company in connection with the operation of the Company's share plans and evergreen dividend waivers remain in place on shares held by them that have not been allocated to employees.

Share capital and control of the Company and significant agreements

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares are set out in Note 27 on page 135. No shareholder holds securities carrying special rights with regards to control of the Company. There are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2015 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting.

Shares held by the Company's Employee Share Incentive Plan Trust, International Employee Benefit Trust, Tesco Ireland Share Bonus Scheme Trust and Tesco Employee Share Scheme Trust, rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. Voting rights are not exercisable by the employees on whose behalf the shares are held in trust.

The Company is not party to any significant agreements that would take effect, alter or terminate following a change of control of the Company. The Company does not have agreements with any Director or officer that would provide compensation for loss of office or employment resulting from a takeover, except that provisions of the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure and Transparency Rules (DTR) are published via a Regulatory Information Service and is available on the Company's website. The Company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 27 February 2016 and as at the date of this report:

	% of issued share capital as at 27 February 2016	% of issued share capital as at the date of this report
Norges Bank	6.19	5.96
Deutsche Bank AG	5.28	5.28
BlackRock, Inc.	5.01	5.01
Schroders plc	5.003	4.991

Articles of Association

The Company's Articles of Association may only be amended by special resolution at a general meeting of the shareholders.

Directors' report continued

Directors and their interests

The biographical details of the current serving Directors are set out on pages 32 and 33. The Directors who served during the year were: John Allan; Mark Armour; Sir Richard Broadbent; Gareth Bullock; Patrick Cescau; Stuart Chambers; Richard Cousins; Byron Grote; Ken Hanna; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; and Alan Stewart. With effect from 1 April 2016, Simon Patterson, Alison Platt and Lindsey Pownall joined the Board of Directors. The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 48 to 70.

At no time during the year did any of the Directors have a material interest in any significant contract with the Company or any of its subsidiaries. A qualifying third-party indemnity provision as defined in Section 234 of the Companies Act 2006 is in force for the benefit of each of the Directors and the Company Secretary (who is also a Director of certain subsidiaries of the Company) in respect of liabilities incurred as a result of their office, to the extent permitted by law. In respect of those liabilities for which Directors may not be indemnified, the Company maintained a Directors' and Officers' liability insurance policy throughout the financial year.

Employment policies

This year we have made significant progress in updating and revising our people policies to provide our colleagues with direct access to the information they need to help and support them at work. We are making it simpler for colleagues to put our customers first and serve Britain's shoppers a little better every day by giving them easily accessible policies and information on our intranet. We recognise the importance of a fair, honest and transparent culture, and we are working together with our recognised trade union in the UK, Usdaw, to ensure our policies are right for our business and that they support our people. Further details can be found on page 21.

We have fully revised our Equal Opportunities, Diversity and Inclusion policies, to give both our managers and colleagues up-to-date information about working in, and supporting, a diverse environment recognising the talents that different colleagues bring to our business and supporting them as individuals. We pride ourselves on having an inclusive environment where colleagues are treated with dignity and respect. By encouraging diversity, and employing people with different experiences, backgrounds and talent, we aim to reflect the customers and communities we serve and strengthen and grow as a business. Our selection, training, development and promotion policies ensure equal opportunities for all colleagues regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability (including colleagues who become disabled during service) or trade union affiliation. All decisions are based on merit.

We are working continually to improve the communication channels we use to engage, consult, inform and connect with colleagues, both to enable awareness of the financial and economic factors affecting the Group's performance and to ensure our colleagues' voices are heard. Our colleagues' feedback is important to us and we recognise that to drive our business forward we must respond to their feedback to ensure they are engaged in the decisions we make for the business.

We actively encourage colleagues to become involved in the financial performance of our business through a variety of voluntary share schemes.

Political donations

The Group did not make any political donations (2014/15: £nil) or incur any political expenditure during the year (2014/15: £nil).

Compliance with the Groceries (Supply Chain Practices) Market Investigation Order 2009 and the Groceries Supply Code of Practice (the 'Code')

The Code places obligations on grocery retailers with a turnover greater than £1 billion to maintain a Code compliance programme, which includes training staff and providing information to the Competition and Markets Authority. In addition, the Code sets out a number of provisions which relate to different aspects of the relationship between a retailer and supplier.

The Code establishes an overarching principle that retailers must deal with their suppliers fairly and lawfully. Specific obligations include giving reasonable notice in circumstances such as changes to supply chain procedures and when ceasing or significantly reducing purchases from a supplier. The Code also contains a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

In our last Annual Report we acknowledged our conclusion that there had been a number of instances of probable breaches of the Code which fell short of the high standards we expect to uphold in our dealings with our suppliers. The Groceries Code Adjudicator (GCA), Christine Tacon, made consistent findings in her report into historic supplier issues at Tesco, published in January 2016.

During the last year we have publicly apologised to our suppliers and fundamentally changed the way we work with them, addressing the historic practices referred to in the report. The GCA acknowledged that the overwhelming majority of suppliers she spoke to as part of her investigation are now more positive towards Tesco compared to the period under investigation. We are currently working on the implementation of the GCA's recommendations.

Outside of the investigation and report, we have continued our positive engagement with the GCA and her office. Both our Group Chief Executive and Chief Product Officer have met with the GCA to share the changes we are making in our business, and our legal team have briefed their counterparts in the GCA's office ahead of announcements such as publishing our payment terms for all suppliers.

Our Code Compliance Officer has also continued to take an active and visible role during the year and regularly reports to our Compliance Committees and Audit Committee.

This year, 16 Code-related complaints were raised by suppliers. As at 27 February 2016, all complaints had either been resolved through discussion with the suppliers concerned, or withdrawn, although one complaint has since been reopened after the supplier contacted us after the end of the reporting year. In 13 instances, the complaints were referred to our Code Compliance Officer, and 6 of those 13 cases were raised simultaneously with the supplier's buying contact. A formal dispute was only raised in one matter and was referred to the GCA for arbitration, but resolved directly between us and the supplier before arbitration commenced.

Going concern and viability

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This Longer Term Viability Statement is set out on page 27.

Events after the balance sheet date

On 12 April 2016, the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. ('Lazada') to Alibaba Group Holding Limited ('Alibaba') for gross cash consideration of US$129m (£90m).

The Group's investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved the issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following 12 to 18 months.

Directors' statement of disclosure of information to auditor

Having made the requisite enquiries, the Directors in office at the date of this Annual Report and Financial Statements have each confirmed that, so far as they are aware, there is no relevant audit information (as defined by Section 418 of the Companies Act 2006) of which the Group's auditor is unaware, and each of the Directors has taken all the steps he/she ought to have taken as a Director to make himself/herself aware of any relevant audit information and to establish that the Group's auditor is aware of that information. This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Principal risks and uncertainties on pages 24 to 27.

By order of the Board

Paul Moore
Company Secretary
12 April 2016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Financial statements

Statement of Directors' responsibilities

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards ('IFRS') as adopted by the European Union ('EU') and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and which enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and priorities.

Each of the Directors, whose names and functions are set out on pages 32 and 33 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic report contained within this document includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

Independent auditor's report to the members of Tesco PLC

Opinion on financial statements of Tesco PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 27 February 2016 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 "Reduced Disclosure Framework"; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements comprise the Group income statement, the Group statement of comprehensive income (loss), the Group and Parent Company balance sheets, the Group and Parent Company statements of changes in equity, the Group cash flow statement, and the related Notes 1 to 34 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements. The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within the Directors' report and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 27.

We have nothing material to add or draw attention to in relation to:

- the Directors' confirmation on page 24 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 24 to 27 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in Note 1 about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements;
- the Directors' explanation on page 27 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and we confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The Audit Committee requested that whilst not currently required under International Standards on Auditing (UK and Ireland), we include in our report any key observations in respect of these assessed risks of material misstatement, in anticipation of the EU Regulations which will require such disclosure from the Group's 2017/18 financial year.

The description of the risks below should be read in conjunction with the significant matters considered by the Audit Committee discussed on page 46.

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

The key risks we identified are:

- store impairment review;
- recognition of commercial income;
- inventory valuation and provisions;
- pension obligation valuation and accounting for the pension curtailment;
- provisions and reserves in Tesco Bank;
- compliance with laws and regulations;
- management override of controls; and
- retail technology environment, including IT security.

Independent auditor's report to the members of Tesco PLC continued

Risk description	How the scope of our audit responded to the risk	Key observations
Store impairment review		
As described in Note 1 (accounting policies) and Note 11 (property, plant and equipment), the Group held £17,900m (2014/15: £20,440m) of property, plant and equipment at 27 February 2016. In light of the continued competitive environment in which the Group operates, there is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. When a review for impairment is conducted, the recoverable amount is determined based on the higher of 'value in use' and 'fair value less costs of disposal': • value in use is calculated from cash flow projections for five years using data from the Group's internal forecasts and as such relies upon the Directors' assumptions, such as the estimates of future trading performance, longer-term growth rates and discount rates utilised; and • fair value less costs of disposal, reflecting the market valuation of the Group's stores less costs which would be incurred on disposal, is determined on a sample basis by independent valuation specialists where appropriate. As a result of the Group's impairment review completed during the year, an impairment charge of £18m (2014/15: £4,116m) was recognised.	Our audit procedures included testing the design and implementation of key controls around the impairment review processes and assessing the appropriateness of the methodology applied by the Directors in calculating the impairment charges, and the judgements applied in determining the cash generating units ("CGUs") of the business, which the Group has determined as being individual stores and, in the UK, the general merchandising online business. In relation to the completeness of the Group's impairment review process, we have assessed the completeness of the Group's impairment charges and impairment reversals with reference to CGU performance. In relation to the Group's 'value in use' valuations, we have assessed the review completed by the Group by: • assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 Impairment of Assets and checking the integrity of the impairment model utilised by the Group; • challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and our understanding of the Group's strategic initiatives; • assessing the long-term growth rates and discount rates applied to the impairment review for each country, comparing the rates utilised to third party evidence and in relation to the discount rate, our independently estimated discount rates; and • completing sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular relating to forecast future cash flows, including any sub-lease income received, long-term growth rates and discount rates applied. In relation to the Group's 'fair value less costs of disposal', we have challenged the assumptions used by the Group in determining the fair market value of the assets, including those completed by external valuers, using internal property valuation specialists and assessing whether appropriate valuation methodologies have been applied.	We note that cash flow forecasting, impairment modelling and property values are all inherently judgemental. Nevertheless, whilst we note further actions are required by the Group to achieve these forecasts over the medium term, we concluded that the assumptions applied in the impairment models were within an acceptable range, and that the overall level of net impairment recognised was reasonable. We also agree that the disclosure of the net impairment as an exceptional item is in accordance with the Group's policy on exceptional items and is reasonable.

Risk description	How the scope of our audit responded to the risk	Key observations
Recognition of commercial income		
As described in Note 1 (accounting policies, including disclosure within 'use of assumptions and estimates' disclosure) to the financial statements, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers for goods sold. In accordance with IFRS, commercial income should only be recognised as a deduction from cost of sales within the income statement when the performance conditions associated with it have been met. As such, judgement exists in determining the period over which the reduction in cost of sales should be recognised, requiring both a detailed understanding of the contractual arrangements in addition to complete and accurate source data on purchase volumes and fulfilment of promotional programmes. In light of the accounting errors identified in the prior year in this area, the Group completed a detailed internal review of the factors which gave rise to these errors and the controls associated with the recognition of commercial income amounts.	In completing our work, we obtained a detailed understanding of the work completed by Tesco, together with obtaining an understanding and evaluating the design and implementation of controls that the Group has established in relation to commercial income. This included testing the completeness and accuracy of the systematic inputs upon which the Group's controls rely, such as sales volume data. In addition, our substantive audit procedures across the Group's retail operations included a combination of the following: • we tested that amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample of individual supplier agreements. We circularised a sample of suppliers to test whether the arrangements recorded were complete and interviewed a sample of buyers to supplement our understanding of the contractual arrangements. Where responses were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; • we used data analytics to profile commercial income, identifying key risk deals upon which we completed detailed testing; and • we reviewed Groceries Supply Code of Practice ("GSCOP") reporting and correspondence to the supplier hotline in order to help identify any areas where further investigation was required.	The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet as at 27 February 2016.

Independent auditor's report to the members of Tesco PLC
continued

Risk description	How the scope of our audit responded to the risk	Key observations

Inventory valuation and provisions

As described in Note 1 (accounting policies) and Note 15 (inventories), the Group carries inventory at the lower of cost and net realisable value. As at 27 February 2016, the Group held inventories of £2,430m (2014/15: £2,957m).

The Group applies particular judgement in the following areas relating to inventory:

- following changes in the Group's inventory provisioning methodology in the prior year, the Group provides for obsolescence based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate provisioning percentages categories of inventory; and
- the Group capitalises certain directly attributable overheads within the cost of inventory. These overheads relate to the costs incurred in bringing inventory to its final destination for sale and in line with normal market practice includes the costs associated with the Group's distribution centres.

In addition, given the overall level of inventory across the business in multiple locations, we identified the existence of inventory to be a further area of focus for our audit work.

We tested the operating effectiveness of controls associated with the existence and condition of inventory by attending a sample of inventory counts throughout the year in all significant locations (including stores and distribution centres). Across the Group, we attended 222 inventory counts within stores and 28 inventory counts within distribution centres.

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

- critically assessing the Group's inventory provisioning policy, with specific consideration given to aged inventory (especially for non-food and general merchandising products) as well as stock turn calculations including the impact of seasonality;
- verifying the value of a sample of inventory to confirm it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices;
- using data analytics in relation to the UK business to recalculate the provision based on the Group's provisioning policy; and
- reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year in relation to stock loss or other inventory adjustments.

In relation to the capitalisation of directly attributable costs, we assessed the nature of costs capitalised and for a sample of individual products, assessing whether costs had been correctly allocated.

The results of our audit work were satisfactory and we concur with the nature of costs capitalised within the inventory balance and the level of provision held.

In relation to the inventory provisioning policy, we concur that the total level of provision is within an acceptable range.

Pension obligation valuation and accounting for the pension curtailment

As described in Note 1 (accounting policies) and Note 26 (post-employment benefits), the Group has a defined benefit pension plan in the UK. At 27 February 2016, the Group recorded a net retirement obligation of £3,175m (2014/15: £4,842m), comprising scheme assets of £10,302m (2014/15: £9,677m) and scheme liabilities of £13,477m (2014/15: £14,519m).

During the period, the Group closed the UK scheme to new entrants and future accrual and replaced it with a new defined contribution scheme. As such, a curtailment gain of £538m (2014/15: £nil) has been recognised and treated as an exceptional item, offset by one-off payments of £58m relating to auto-enrolment and top-up payments to the new contribution defined contribution scheme.

The pension valuation and associated curtailment gain is dependent on market conditions and key assumptions made, in particular relating to investment markets, discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.

In relation to the pension curtailment gain, we have assessed the basis of the gain recognised and tested the integrity of the calculation.

In testing the pension valuation and curtailment gain, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.

We tested the membership data utilised in the valuation of the schemes to assess whether the basis of the valuation is appropriate.

Furthermore, we have assessed the disclosure of the curtailment gain as an exceptional item.

From the work completed, we are satisfied that the methodology and assumptions applied in relation to determining the pension valuation and curtailment gain are appropriate.

We also agree that the disclosure of the curtailment gain as an exceptional item is in accordance with the Group's policy on exceptional items and is reasonable.

Risk description	How the scope of our audit responded to the risk	Key observations
Provisions and reserves in Tesco Bank		
As described in Note 1 (accounting policies) and Note 22 (financial risk factors) and Note 24 (provisions), the Group is required to make a number of complex judgements relating to provisions and reserves held by Tesco Bank, specifically in relation to: • loan impairment provisioning, where judgements include estimating the level of impaired loans and the expected cash recoveries thereon; • conduct risk provisioning, where judgements are required in relation to assessing the level of provision required in relation to historical payment protection insurance and the Consumer Credit Act redress programme; and • insurance reserving in light of the Group's exposure to insurance claims through its investment in Tesco Underwriting Limited.	We have tested the design and implementation of key controls relating to loan impairment provisioning, conduct risk provisioning and insurance reserving. In addition, we have challenged the judgements taken by management, specifically: • in relation to loan impairment provisioning, using internal specialists, we tested a sample of the data used in the models as well as testing the model methodology and calculations. We assessed whether the modelling assumptions used considered all relevant risks, and whether the additional adjustments to reflect un-modelled risks were reasonable in light of historical experience, economic climate, current operational processes and the circumstances of the customers as well as our own knowledge of other practices; and • in relation to conduct risk provisioning, we challenged the adequacy of provisions recognised by critically assessing the key assumptions used in the provision models, comparing the assumptions to available peer and historical data. This work also included, amongst other things, reviewing regulatory correspondence and the bank's complaint logs as well as comparing the bank's position with our own knowledge and experience; and • in relation to insurance reserving, using internal insurance specialists, we have understood the key judgements and assumptions used to estimate the level of claims reserves.	As a result of our work, we concluded that the provisions and reserves held by Tesco Bank in relation to loan impairment provisions, conduct risk provisions and insurance reserving were reasonable.
Compliance with laws and regulations		
In light of the ongoing investigation by the Serious Fraud Office ("SFO") in the UK following the commercial income misstatements identified in the prior year (see page 46 of the Audit Committee report and Note 31 (commitments and contingencies) of the Group financial statements), the Group has a number of potential litigation and other exposures for which the outcome is uncertain. As a result, judgement is required in assessing the nature of these exposures and their accounting and disclosure requirements.	In assessing the potential exposures to the Group, we have completed a range of procedures including: • assessing the design and implementation of controls in relation to the monitoring of known legal exposures; • reading Board and other meeting minutes to identify areas subject to Group consideration; • meeting with the Group's internal legal advisors in understanding ongoing and potential legal matters impacting the Group; • reviewing third party correspondence with external legal advisors, regulators and GSCOP; and • reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.	From the work completed, we concur with management's position that no provision is required and that the disclosures provided are appropriate.

Independent auditor's report to the members of Tesco PLC continued

Risk description	How the scope of our audit responded to the risk	Key observations
Management override of controls		
There are a number of areas within the Group's financial statements which comprise accounting estimates by management and accordingly there is a risk that the Group's results are influenced through management bias in determining such estimates. Specifically this risk lies in those areas with high levels of judgement such as commercial income, value-in-use calculations within the impairment reviews, inventory accounting and provisioning. Furthermore, the presentation of non-GAAP measures is judgemental, with IFRS only requiring separate presentation of material items. Management judgement is therefore required in determining the classification of exceptional items.	In order to address this risk, in addition to the procedures set out in the commercial income, impairment and inventory risks set out above, we have completed audit procedures including: • assessing the design and implementation of controls which address the risk of management override, such as the overall 'entity level' controls which underpin the overall control environment for the Group; • auditing key areas of management estimate and judgement, including consideration of exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures; • using data analytics, tested journal entries for fraud characteristics by testing the completeness of the journal population reviewed and risk profiling the population to focus our work on journals of interest; • assessing transactions completed outside of the normal course of business; and • obtaining an understanding of the work of internal audit so as to assist us in directing our audit effort and obtain greater understanding of the controls in place across the Group.	From our work completed, we have no matters to highlight in these areas. However, we note that consistent with other businesses of a similar scale to the Group, there are offsetting non-recurring income and expense items included within underlying profit which do not meet the Group's definition of exceptional items. We concur that these have been appropriately included within underlying profit as they do not distort the overall result reported.
Retail technology environment, including IT security		
The Group's retail operations utilise a range of information systems where we identified deficiencies in certain controls at the IT infrastructure level. These could have an adverse impact on the Group's controls and financial reporting systems.	We tested the design and operating effectiveness of the Group's controls over the information systems that are important to financial reporting and identified weaknesses in the control environment. Where these deficiencies affected applications and databases within the scope of our audit, we completed a combination of controls and substantive testing in order to determine whether we could place reliance on the completeness and accuracy of system generated information, including: • determined whether authorised inappropriate changes had been made to the affected databases and IT application systems; and • assessed the design and operating effectiveness of any controls that mitigated the identified risks. In addition, and where appropriate, we extended the scope of our substantive audit procedures.	We identified weaknesses in relation to user access and change management controls in relation to the Group's retail financial reporting systems and which the company is addressing as detailed within the Audit Committee Report on page 47. Where these deficiencies affected applications and systems within the scope of our audit, we completed additional substantive testing in order to assess the completeness and accuracy of system generated information.

Last year the previous auditor's report included two other risks which are not included in our report this year: commercial income – impact on prior periods (there have been no such adjustment recognised in the current period) and impairment of investments in associated undertakings (following the impairment recognised in the prior period, we do not believe that this risk requires separate identification).

There are two new risks which have been detailed above in the current year: pension obligation valuation and accounting for the pension curtailment (following the closure of the Group's UK defined benefit scheme to future accrual during the year) and IT environment, including IT security (in light of the identified weaknesses in relation to user access and change management controls).

Our application of materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £50m (2014/15: materiality determined by the previous auditor of £50m). Professional judgement was applied in determining an appropriate level of materiality and we considered a number of profit based and other measures with reference to the Group's performance. We have concluded that it was appropriate to determine materiality with reference to the Group's average profitability over a three year period (2013/14, 2014/15 and 2015/16), adjusted for exceptional items.

In our professional judgement, we believe that the use of an adjusted profit measure is appropriate as the amounts which have been excluded from the Group's profit before tax are one-off items which would otherwise skew the level of materiality determined and are not reflective of the Group's trading activity. However, we capped the materiality determined to that applied by the previous auditor in the prior year in light of the Group's lower level of profit in the current year and as a result of 2015/16 being our first year of appointment.

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.5m (2014/15: £2.5m determined by the previous auditor), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our group audit was scoped by obtaining an understanding of the Group and its environment, including group-wide controls, and assessing the risks of material misstatement at the group level. Following the disposal of the Group's business in Korea, the Group has wholly-owned grocery retail operations in nine countries, together with interests in a number of other businesses both in the United Kingdom and internationally.

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our group audit scope primarily on the audit work on nine retail locations (United Kingdom, Ireland, Czech Republic, Hungary, Poland, Slovakia, Turkey, Malaysia and Thailand), Tesco Bank and dunnhumby. All of these were subject to a full audit and represent 97% of the Group's revenue.

In addition, four other businesses in the United Kingdom were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations.

At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The most significant component of the Group is its retail business in the United Kingdom. As such, there is extensive overlap between the Group and United Kingdom audit team to ensure an appropriate level of involvement in this audit work. During the course of our audit, we visited 75 retail stores in the United Kingdom to attend either inventory counts or in order to complete store control visits, and seven distribution centre inventory counts.

Since this was our first year as the Group's auditor, we visited 10 of the 11 significant locations set out above at least twice and the least significant of those locations once, in addition to the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting four of these locations. We also had a dedicated audit partner focussed on overseeing the role of the component audit teams located outside of the UK and Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's International business. The audit visits by the Group audit team were timed to enable us to be involved during the transition, planning and risk assessment process in addition to during the completion of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

In addition, all key component audit teams were represented during a centralised two-day planning meeting held in the United Kingdom following our appointment and prior to the commencement of our detailed audit work. The purpose of this planning meeting was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks and workshops on our planned audit approach. Group management also attended to support these planning activities.

Going forward, we will continue to visit all key components at least on an annual basis.

Independent auditor's report to the members of Tesco PLC
continued

Opinion on other matters prescribed by the Companies Act 2006

In our opinion:

- the part of the Directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006; and
- the information given in the strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of Directors' remuneration have not been made or the part of the Directors' remuneration report to be audited is not in agreement with the accounting records and returns. We have nothing to report arising from these matters.

Corporate Governance Statement

Under the Listing Rules we are also required to review part of the Corporate Governance Statement relating to the company's compliance with certain provisions of the UK Corporate Governance Code. We have nothing to report arising from our review.

Our duty to read other information in the Annual Report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the audit committee which we consider should have been disclosed. We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Directors' Responsibilities Statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the company and the company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Panos Kakoullis (Senior Statutory Auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
12 April 2016

Group income statement

	Notes	52 weeks ended 27 February 2016 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	53 weeks ended 28 February 2015 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Continuing operations							
Revenue	2	**54,433**	**–**	**54,433**	**56,925**	**–**	**56,925**
Cost of sales		(51,629)	50	(51,579)	(54,247)	(4,881)	(59,128)
Gross profit/ (loss)		**2,804**	**50**	**2,854**	**2,678**	**(4,881)**	**(2,203)**
Administrative expenses		(1,874)	22	(1,852)	(1,690)	(884)	(2,574)
Profits/ (losses) arising on property-related items		14	30	44	(48)	(925)	(973)
Operating profit/ (loss)		**944**	**102**	**1,046**	**940**	**(6,690)**	**(5,750)**
Share of post-tax losses of joint ventures and associates	13	(21)	–	(21)	(13)	–	(13)
Finance income	5	29	–	29	80	–	80
Finance costs	5	(672)	(220)	(892)	(651)	–	(651)
Profit/ (loss) before tax		**280**	**(118)**	**162**	**356**	**(6,690)**	**(6,334)**
Taxation	6	(8)	62	54	(28)	698	670
Profit/ (loss) for the year from continuing operations		**272**	**(56)**	**216**	**328**	**(5,992)**	**(5,664)**
Discontinued operations							
Profit/ (loss) for the year from discontinued operations	7	81	(168)	(87)	188	(290)	(102)
Profit/ (loss) for the year		**353**	**(224)**	**129**	**516**	**(6,282)**	**(5,766)**
Attributable to:							
Owners of the parent		359	(221)	138	524	(6,265)	(5,741)
Non-controlling interests		(6)	(3)	(9)	(8)	(17)	(25)
		353	**(224)**	**129**	**516**	**(6,282)**	**(5,766)**
Earnings/ (losses) per share from continuing and discontinued operations							
Basic	9	4.42p		1.70p	6.46p		(70.82)p
Diluted	9	4.40p		1.69p	6.46p		(70.82)p
Earnings/ (losses) per share from continuing operations							
Basic	9	3.42p		2.77p	4.14p		(69.56)p
Diluted	9	3.41p		2.76p	4.14p		(69.56)p

The notes on pages 90 to 141 form part of these financial statements.

Group statement of comprehensive income (loss)

52 weeks ended 27 February 2016	Notes	52 weeks 2016 £m	53 weeks 2015 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	26	1,164	(1,473)
Tax on items that will not be reclassified	6	(300)	291
		864	**(1,182)**
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		5	(8)
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries		168	5
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group Income Statement		(88)	(17)
Gains/ (losses) on cash flow hedges:			
Net fair value gain/ (losses)		318	(2)
Reclassified and reported in the Group Income Statement		(292)	102
Change in hedge relationship	20	186	–
Tax on items that may be reclassified	6	(30)	(7)
		267	**73**
Total other comprehensive income/ (loss) for the year		**1,131**	**(1,109)**
Profit/ (loss) for the year		129	(5,766)
Total comprehensive income/ (loss) for the year		**1,260**	**(6,875)**
Attributable to:			
Owners of the parent		1,270	(6,850)
Non-controlling interests		(10)	(25)
Total comprehensive income/ (loss) for the year		**1,260**	**(6,875)**
Total comprehensive income/ (loss) attributable to owners of the parent arises from:			
Continuing operations		1,436	(6,971)
Discontinued operations		(166)	121
		1,270	**(6,850)**

The notes on pages 90 to 141 form part of these financial statements.

Group balance sheet

	Notes	27 February 2016 £m	28 February 2015 £m
Non-current assets			
Goodwill and other intangible assets	10	2,874	3,771
Property, plant and equipment	11	17,900	20,440
Investment property	12	78	164
Investments in joint ventures and associates	13	785	940
Other investments	14	1,135	975
Loans and advances to customers	17	4,723	3,906
Derivative financial instruments	21	1,532	1,546
Deferred tax assets	6	49	514
		29,076	**32,256**
Current assets			
Inventories	15	2,430	2,957
Trade and other receivables	16	1,607	2,121
Loans and advances to customers	17	3,819	3,814
Derivative financial instruments	21	176	153
Current tax assets		15	16
Short-term investments	18	3,463	593
Cash and cash equivalents	18	3,082	2,165
		14,592	**11,819**
Assets of the disposal groups and non-current assets classified as held for sale	7	236	139
		14,828	**11,958**
Current liabilities			
Trade and other payables	19	(8,568)	(9,922)
Borrowings	20	(2,826)	(2,008)
Derivative financial instruments and other liabilities	21	(62)	(89)
Customer deposits and deposits from banks	23	(7,479)	(7,020)
Current tax liabilities	6	(419)	(95)
Provisions	24	(360)	(671)
		(19,714)	**(19,805)**
Liabilities of the disposal groups classified as held for sale	7	–	(5)
Net current liabilities		**(4,886)**	**(7,852)**
Non-current liabilities			
Borrowings	20	(10,711)	(10,651)
Derivative financial instruments and other liabilities	21	(889)	(946)
Post-employment benefit obligations	26	(3,175)	(4,842)
Deferred tax liabilities	6	(135)	(199)
Provisions	24	(664)	(695)
		(15,574)	**(17,333)**
Net assets		**8,616**	**7,071**
Equity			
Share capital	27	407	406
Share premium		5,095	5,094
All other reserves		(141)	(414)
Retained earnings		3,265	1,985
Equity attributable to owners of the parent		**8,626**	**7,071**
Non-controlling interests		(10)	–
Total equity		**8,616**	**7,071**

The notes on pages 90 to 141 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The financial statements on pages 85 to 141 were authorised for issue by the Directors on 12 April 2016 and are subject to the approval of the shareholders at the Annual General Meeting on 23 June 2016.

Group statement of changes in equity

	Share capital £m	Share premium £m	All other reserves					Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m				
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**–**	**7,071**
Profit/ (loss) for the year	–	–	–	–	–	–	–	138	138	(9)	129
Other comprehensive income/ (loss)											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	5	5	–	5
Currency translation differences	–	–	–	–	–	81	–	–	81	(1)	80
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	1,164	1,164	–	1,164
Gains/ (losses) on cash flow hedges	–	–	–	–	212	–	–	–	212	–	212
Tax relating to components of other comprehensive income	–	–	–	–	(36)	6	–	(300)	(330)	–	(330)
Total other comprehensive income/ (loss)	**–**	**–**	**–**	**–**	**176**	**87**	**–**	**869**	**1,132**	**(1)**	**1,131**
Total comprehensive income/ (loss)	**–**	**–**	**–**	**–**	**176**	**87**	**–**	**1,007**	**1,270**	**(10)**	**1,260**
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(5)	–	(5)	–	(5)
Share-based payments	–	–	–	–	–	–	15	273	288	–	288
Issue of shares	1	1	–	–	–	–	–	–	2	–	2
Dividends	–	–	–	–	–	–	–	–	–	–	–
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	**1**	**1**	**–**	**–**	**–**	**–**	**10**	**273**	**285**	**–**	**285**
At 27 February 2016	**407**	**5,095**	**40**	**16**	**211**	**(401)**	**(7)**	**3,265**	**8,626**	**(10)**	**8,616**

	Share capital £m	Share premium £m	All other reserves					Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m				
At 22 February 2014	**405**	**5,080**	**40**	**16**	**(44)**	**(490)**	**(20)**	**9,728**	**14,715**	**7**	**14,722**
Loss for the year	–	–	–	–	–	–	–	(5,741)	(5,741)	(25)	(5,766)
Other comprehensive income/ (loss)											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	(8)	(8)	–	(8)
Currency translation differences	–	–	–	–	–	(12)	–	–	(12)	–	(12)
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	(1,473)	(1,473)	–	(1,473)
Gains/ (losses) on cash flow hedges	–	–	–	–	100	–	–	–	100	–	100
Tax relating to components of other comprehensive income	–	–	–	–	(21)	14	–	291	284	–	284
Total other comprehensive income/ (loss)	**–**	**–**	**–**	**–**	**79**	**2**	**–**	**(1,190)**	**(1,109)**	**–**	**(1,109)**
Total comprehensive income/ (loss)	**–**	**–**	**–**	**–**	**79**	**2**	**–**	**(6,931)**	**(6,850)**	**(25)**	**(6,875)**
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(15)	–	(15)	–	(15)
Share-based payments	–	–	–	–	–	–	18	102	120	–	120
Issue of shares	1	14	–	–	–	–	–	–	15	–	15
Dividends	–	–	–	–	–	–	–	(914)	(914)	–	(914)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	18	18
Total transactions with owners	**1**	**14**	**–**	**–**	**–**	**–**	**3**	**(812)**	**(794)**	**18**	**(776)**
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**–**	**7,071**

The notes on pages 90 to 141 form part of these financial statements.

Group cash flow statement

52 weeks ended 27 February 2016	Notes	52 weeks 2016 £m	53 weeks 2015 £m
Cash flows from operating activities			
Operating profit/ (loss) of continuing operations		**1,046**	**(5,750)**
Operating profit/ (loss) of discontinued operations		128	(52)
Depreciation and amortisation		1,334	1,552
Loss arising on sale of property, plant and equipment and intangible assets		164	49
Loss arising on sale of subsidiaries and other investments		–	41
Profit arising on sale of joint ventures and associates		(1)	–
Impairment of goodwill		18	116
Net reversal of impairment of other investments		(7)	–
Impairment of loans/ investments in joint ventures and associates		1	712
Net impairment charge of property, plant and equipment and intangible assets		182	4,171
Adjustment for non-cash element of pensions charge	26	(395)	68
Additional contribution into pension schemes	26	(223)	(13)
Share-based payments		283	105
Tesco Bank non-cash items included in operating profit		72	58
Decrease in inventories		251	577
Decrease in development stock		99	59
Decrease in trade and other receivables		20	32
Increase/ (decrease) in trade and other payables		260	(449)
(Decrease)/ increase in provisions		(280)	926
Tesco Bank increase in loans and advances to customers		(868)	(846)
Tesco Bank increase in trade and other receivables		(78)	(60)
Tesco Bank increase in customer and bank deposits, trade and other payables		463	186
Tesco Bank decrease in provisions		(35)	(15)
(Increase)/ decrease in working capital		(168)	410
Cash generated from operations		**2,434**	**1,467**
Interest paid		(426)	(613)
Corporation tax received/ (paid)		118	(370)
Net cash generated from operating activities		**2,126**	**484**
Cash flows from investing activities			
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(871)	(1,989)
Purchase of intangible assets		(167)	(329)
Disposal of subsidiaries, net of cash disposed		3,237	(157)
Acquisition of subsidiaries, net of cash acquired	30	(325)	(86)
Proceeds from sale of joint ventures and associates		192	–
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		350	244
Net (increase)/ decrease in loans to joint ventures and associates		(1)	21
Investments in joint ventures and associates		(77)	(382)
Net (investments in)/ proceeds from sale of short-term investments		(2,894)	423
Net (investments in)/ proceeds from sale of other investments		(103)	48
Dividends received from joint ventures and associates		41	88
Interest received		3	104
Net cash used in investing activities		**(615)**	**(2,015)**
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	27	1	15
Increase in borrowings		586	4,889
Repayment of borrowings		(1,328)	(3,185)
Net cash flows from derivative financial instruments		154	(6)
Repayments of obligations under finance leases		(17)	(3)
Rights issue to non-controlling interests		–	18
Dividends paid to equity owners	8	–	(914)
Net cash (used in)/ from financing activities		**(604)**	**814**
Net increase/ (decrease) in cash and cash equivalents		**907**	**(717)**
Cash and cash equivalents at beginning of the year		2,174	2,813
Effect of foreign exchange rate changes		1	78
Cash and cash equivalents including cash held in disposal groups at the end of the year		**3,082**	**2,174**
Cash held in disposal groups	7	–	(9)
Cash and cash equivalents at the end of the year	18	**3,082**	**2,165**

The notes on pages 90 to 141 form part of these financial statements.

Notes to the Group financial statements

Note 1 Accounting policies

General information
Tesco PLC ('the Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 445790). The address of the registered office is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, UK.

The main activities of the Company and its subsidiaries (together, 'the Group') are those of retailing and retail banking.

Basis of preparation
The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union ('EU'), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments, customer loyalty programmes and net pension liabilities that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Director's report on page 73.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The consolidated Group financial statements consist of the financial statements of the ultimate Parent Company ('Tesco PLC'), all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

The financial year represents the 52 weeks ended 27 February 2016 (prior financial year 53 weeks ended 28 February 2015). For the UK and the Republic of Ireland ('UK & ROI'), the results are for the 52 weeks ended 27 February 2016 (prior financial year 53 weeks ended 28 February 2015). For all other operations, the results are for the calendar year ended 29 February 2016 (prior calendar year ended 28 February 2015).

Subsidiaries
Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Joint ventures and associates
The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint arrangements' and determined them to be joint ventures. This assessment required the exercise of judgement as set out in Note 13.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement and Group Statement of Other Comprehensive Income using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

Revenue
Revenue comprises the fair value of consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities.

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts/offers and value added taxes.

Provision of services
Revenue from the provision of services is recognised when the service is provided and the revenue can be measured reliably, based on the terms of the contract.

Where the Group acts as an agent selling goods or services, only the commission income is included within revenue.

Financial services
Revenue consists of interest, fees and income from the provision of insurance.

Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method.

Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

Fees in respect of services (credit card interchange fees, late payment and ATM revenue) are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered.

The Group generates commission from the sale and service of motor and home insurance policies underwritten by Tesco Underwriting Limited, or in a minority of cases by a third-party underwriter. This is based on commission rates, which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third-party providers.

Clubcard, loyalty and other initiatives
The cost of Clubcard and loyalty initiatives is part of the fair value of the consideration received and is deferred and subsequently recognised over the period that the awards are redeemed. The deferral is treated as a deduction from revenue.

The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as redemption via Clubcard deals versus money-off-in-store and redemption rate.

Rental income
Rental income is recognised in the period in which it is earned, in accordance with the terms of the lease.

Commercial income
Consistent with standard industry practice, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning. Whilst there is no standard definition, these amounts receivable from suppliers in connection with the purchase of goods for resale are generally termed commercial income.

Commercial income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

Amounts due relating to commercial income are recognised within other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued commercial income is recognised within accrued income when commercial income earned has not been invoiced at the balance sheet date.

Note 1 Accounting policies continued

Finance income
Finance income, excluding income arising from financial services, is recognised in the period to which it relates using the effective interest rate method.

Finance costs
Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognised in the Group Income Statement in finance costs, excluding those arising from financial services, in the period in which they occur. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Business combinations and goodwill
The Group accounts for all business combinations by applying the acquisition method. All acquisition-related costs are expensed.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair value. Non-controlling interest is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised.

Goodwill arising on consolidation represents the excess of the consideration transferred over the net fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired subsidiary, joint venture or associate and the fair value of the non-controlling interest in the acquiree. If the consideration is less than the fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired entity (i.e. a discount on acquisition), the difference is credited to the Group Income Statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill. Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where the Group obtains control of a joint venture or associate, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the Group Income Statement.

Intangible assets
Intangible assets, such as software and pharmacy licences, are measured initially at acquisition cost or costs incurred to develop the asset. Development expenditure incurred on an individual project is capitalised only if specific criteria are met including that the asset created will probably generate future economic benefits. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives, at 10%–25% of cost per annum.

Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life. The following depreciation rates are applied for the Group:

- freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost;
- leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease; and
- fixtures and fittings, office equipment and motor vehicles – at rates varying from 9% to 50%, with predominantly all assets depreciated at rates between 10% and 33%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, over the term of the relevant lease.

Impairment of non-financial assets
Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit to which the goodwill relates. The recoverable amount is the higher of fair value less costs of disposal, and value in use. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Any impairment is recognised immediately in the Group Income Statement and is not subsequently reversed.

For all other non-financial assets (including intangible assets and property, plant and equipment) the Group performs impairment testing where there are indicators of impairment. If such an indicator exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of value in use and fair value less costs of disposal. If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Group Income Statement.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the Group Income Statement.

Investment property
Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Short-term and other investments
Short-term and other investments in the Group Balance Sheet comprise receivables, loan receivables and available-for-sale financial assets.

Receivables and loan receivables are recognised at amortised cost. Available-for-sale financial assets are recognised at fair value.

Refer to the financial instruments accounting policy for further detail.

Inventories
Inventories comprise goods and development properties held for resale. Inventories are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of inventories.

Cash and cash equivalents
Cash and cash equivalents in the Group Balance Sheet consist of cash at bank, in hand, demand deposits with banks, loans and advances to banks, certificates of deposits and other receivables together with short-term deposits with an original maturity of three months or less.

Non-current assets held for sale and discontinued operations
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operations
In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of the Korean and Chinese operations are presented within discontinued operations in the Group Income Statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. Refer to Note 7 for further details.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Refer to Note 33 for additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

The Group as a lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

The Group as a lessee
Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Group Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Group Income Statement. Rentals payable under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the lease.

Sale and leaseback
A sale and leaseback transaction is one where the Group sells an asset and immediately re-acquires the use of the asset by entering into a lease with the buyer.

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) whether or not the sale was made at the asset's fair value and the relationship with the buyer, which is based on levels of control and influence (the buyer may be an associate, joint venture or an unrelated party).

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group Income Statement.

Post-employment obligations
For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) whilst plan assets are recorded at fair value.

The operating and financing costs of such plans are recognised separately in the Group Income Statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group Statement of Comprehensive Income.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Share-based payments
The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Group Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation
The tax expense included in the Group Income Statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Group Income Statement except to the extent that it relates to items recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, in which case it is recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, respectively.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group Income Statement, except when it relates to items charged or credited directly to the Group Statement of changes in Equity or the Group Statement of Comprehensive Income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Foreign currencies
Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date. All differences are taken to the Group Income Statement.

The non-monetary assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated into Pounds Sterling at exchange rates prevailing at the date of the Group Balance Sheet; profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group Statement of Comprehensive Income and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments
Financial assets and financial liabilities are recognised on the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Investments
Investments are recognised at trade date. Investments are classified as either held for trading or available-for-sale, and are recognised at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the Group Income Statement for the period. Interest calculated using the effective interest rate method is recognised in the Group Income Statement. Dividends on an available-for-sale equity instrument are recognised in the Group Income Statement when the entity's right to receive payment is established.

Loans and advances to customers
Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any impairment losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the Group Income Statement.

Impairment of loans and advances to customers
At each balance sheet date, the Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk

Note 1 Accounting policies continued

characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates.

The portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the Group Income Statement over the period of the borrowings on an effective interest basis.

Trade payables
Trade payables are non interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument.

The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting period to assess whether the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the Group Statement of Comprehensive Income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. The classification of the effective portion when recognised in the Group Income Statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument that does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Group Statement of Changes in Equity until the forecast transaction occurs or the original hedged item affects the Group Income Statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Group Statement of Changes in Equity is reclassified to the Group Income Statement.

Net investment hedging
Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in other comprehensive income are included in the Group Income Statement when the foreign operation is disposed of.

Treatment of agreements to acquire non-controlling interests
The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with non-controlling interests.

The net present value of the expected future payments are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the Group Income Statement within finance income or costs.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Provisions
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease.

Use of assumptions and estimates
The preparation of the consolidated Group financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical estimates and assumptions that are applied in the preparation of the consolidated financial statements include:

Depreciation and amortisation
The Group exercises judgement to determine useful lives and residual values of intangibles; property, plant and equipment; and investment property. The assets are depreciated down to their residual values over their estimated useful lives.

Note 1 Accounting policies continued

Impairment

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of the cash-generating units are based on the higher of value in use and fair value less cost of disposal. These calculations require the use of estimates as set out in Note 10.

b) Impairment of assets

The Group has determined each store as a separate cash-generating unit for impairment testing. Where there are indicators of impairment, the Group performs an impairment test. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Group's latest internal forecasts, and extrapolated beyond five years using estimated long-term growth rates. These calculations require the use of estimates as set out in Note 11. Fair value is determined with the assistance of independent, professional valuers where appropriate.

c) Impairment of loans and advances to customers and banks

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. These calculations require the use of estimates as set out in the accounting policy note for impairment of loans and advances to customers.

Commercial income

Accounting for the amount and timing of recognition of commercial income (as defined on page 90) may require the exercise of judgement. The key estimates and judgements made in the recognition of commercial income are as follows:

- volume-related allowances relate to amounts receivable by the Group for achieving agreed purchase or sales targets within a set period. Where volume-related allowances span different accounting periods, the amount of income recognised in each period is estimated based on the probability that the Group will meet contractual target volumes based on historical and forecast performance; and
- promotional, marketing and other allowances cover amounts receivable by the Group to support the promotion, marketing and advertising of specific items including promotional pricing discounts, in-store displays, margin protection and cost reimbursements. There is limited judgement or estimation involved in recognising income for these allowances. The Group assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements.

Refer to Note 15, Note 16 and Note 19 for additional income statement and balance sheet disclosure.

Provisions

Provisions have been made for property contracts, dilapidations, restructuring, post-employment benefits and customer redress. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, and other onerous contracts related to property. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased property to the Group is based on the same assumptions for discount rates, growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11. The calculations also assume that the Group can sublet properties at market rents. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Provisions relating to Tesco Bank

The Group has provisions for potential customer redress which it handles in accordance with provisions of the regulatory policy statement PS 10/12.

In November 2015, the Financial Conduct Authority (FCA) issued a Consultation Paper (CP15/39 'rules and guidance in payment protection insurance complaints'). This paper proposes:

- a deadline, to be confirmed, in 2018, by which customers would need to make payment protection insurance complaints; and
- new rules and guidance on the handling of PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited ('Plevin').

The final FCA rules, and the implications of the Plevin decision, remain uncertain. Although a significant degree of uncertainty also remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers ahead of any deadline to be confirmed by the FCA, the provision balance represents management's best estimate at the reporting date of that cost.

The Group also holds a provision in respect of customer redress relating to the historic sale of certain cardholder protection products to credit card customers. The level of provision held is based on management's best estimate at the reporting date, relating to the number and value of cases for which compensation may be paid under an industry-wide scheme of arrangement that closed on 18 March 2016. Management's assumption in assessing provision adequacy is that a small number of ex gratia settlements will continue throughout the next financial year.

The Group holds a further provision in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with. In arriving at the provision required, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents management's best estimate at the reporting date of the cost of concluding the redress programme for loan and credit card customers, and in making the estimate management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

Inventories

An inventory provision is booked for cases where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value. The inventory provision is estimated taking into account various factors, including prevailing sales prices of inventory item, the seasonality of the item's sales profile and losses associated with slow-moving inventory items.

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions for post-employment benefit obligations are disclosed in Note 26.

Classification of mall properties

The Group exercises judgement in determining the appropriate classification of shopping malls as investment properties or property, plant and equipment. Factors considered in making this determination include the level of services provided to tenants, who manages the mall and any shared facilities, the proportion of sublet space to own-use space and the variability of earnings from the property.

Operating segments

The Group's reportable segments are in line with its management reporting structure. Retail operations in different countries are deemed to share similar economic characteristics, products, customers and supply chain operations, and have therefore been aggregated to the Retail UK and ROI segment and the Retail International segment. Tesco Bank operates in a different industry and reports separately.

Note 1 Accounting policies continued

Standards issued but not yet effective

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective and have not yet been adopted by the EU. The Group has not applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

- IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018 subject to endorsement by the EU. IFRS 9 is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. The adoption of IFRS 9 is likely to have a significant impact on the Group in future periods, specifically in relation to the impairment charge recognised on financial asset balances. The full impact of this and the other phases of IFRS 9 on the Group is still being assessed.
- IFRS 15, 'Revenues from Contracts with Customers' is effective for periods commencing 1 January 2018 subject to endorsement by the EU. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 may have an impact on recognition and related disclosures. The full impact of future adoption is still being assessed; and
- IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to endorsement by the EU. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The full impact of the future adoption is currently under review.

Use of non-GAAP measures

The Directors have adopted new measures of performance, namely revenue exc. fuel, operating profit before exceptional items and profit before tax before exceptional items adjusted for net pension finance costs. These measures replace the previous measures of sales including VAT (excluding IFRIC 13), trading profit and underlying profit.

The Directors believe that these non-GAAP measures provide additional useful information to shareholders on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The non-GAAP measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-GAAP measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The tax impact on non-GAAP measures is included within the Group Income Statement.

Revenue exc. fuel

This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

Operating profit before exceptional items

This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items.

Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's non-GAAP performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

Profit before tax before exceptional items and net pension finance costs

This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields which can fluctuate significantly.

Free cash flow

Free cash flow is net cash generated from/ (used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

Net debt

Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/ payables, offset by cash and cash equivalents and short-term investments.

Operating margin

Operating margin is based on operating profit before exceptional items and on revenue.

Total indebtedness

Net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

Notes to the Group financial statements continued

Note 2 Segmental reporting

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Group Chief Executive, with support from the Executive Committee, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments.

In line with changes in management reporting and management structure reporting to the CODM, the Group has reassessed its reportable segments and determined:
- that the retailing and associated activities in the Republic of Ireland ('ROI'), previously disclosed as part of the Europe segment, be combined in a UK and Republic of Ireland segment going forward; and
- that the retailing and associated activities in other countries, previously segregated between the Europe and the Asia segments, be combined in an International segment.

The principal activities of the Group are therefore presented in the following segments:
- Retailing and associated activities ('Retail') in:
  - UK & ROI – the UK and Republic of Ireland; and
  - International – Czech Republic, Hungary, Poland, Slovakia, Malaysia, Thailand and Turkey; and
- Retail banking and insurance services through Tesco Bank in the UK ('Tesco Bank').

This presentation reflects how the Group's operating performance is reviewed internally by management. Segmental information for the 53 weeks ended 28 February 2015 has been restated accordingly.

In addition, the retailing and associated activities in the Republic of Korea ('Korea') have been classified as discontinued operations in the current year, their performance in this year and comparative years is therefore part of discontinued operations as presented in Note 7 and excluded from segmental performances below.

The CODM uses operating profit before exceptional items, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it better reflects the segments' underlying performance for the financial period under evaluation. Operating profit before exceptional items is a consistent measure within the Group as defined within Note 1. Refer to Note 4 for exceptional items. Inter-segment revenue between the operating segments is not material.

The segment results and the reconciliation of the segment measures to the respective statutory items included in the Group Income Statement are as follows:

52 weeks ended 27 February 2016 At constant exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Revenue exc. fuel	37,359	10,858	955	49,172	(820)	48,352
Revenue	43,256	11,066	955	55,277	(844)	54,433
Operating profit before exceptional items	**509**	**283**	**162**	**954**	**(10)**	**944**
Exceptional items	96	9	(1)	104	(2)	102
Operating profit/ (loss)	605	292	161	1,058	(12)	1,046
Operating margin**	1.2%	2.6%	17.0%	1.7%	–	1.7%

52 weeks ended 27 February 2016 At actual exchange rates***	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	37,189	10,208	955	48,352
Revenue	43,080	10,398	955	54,433
Operating profit before exceptional items	**505**	**277**	**162**	**944**
Exceptional items	94	9	(1)	102
Operating profit	599	286	161	1,046
Operating margin**	1.2%	2.7%	17.0%	1.7%
Share of post-tax losses of joint ventures and associates				(21)
Finance income				29
Finance costs				(892)
Profit/ (loss) before tax				**162**

* Constant exchange rates are the average actual periodic exchange rates for the previous financial period.
** Operating margin is based on operating profit before exceptional items and on revenue.
*** Actual exchange rates are the average actual periodic exchange rates for that financial period.

Note 2 Segmental reporting continued

53 weeks ended 28 February 2015 At actual exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	38,228	10,678	947	49,853
Revenue**	45,062	10,916	947	56,925
Operating profit before exceptional items	**498**	**254**	**188**	**940**
Exceptional items	(5,832)	(823)	(35)	(6,690)
Operating profit/ (loss)	(5,334)	(569)	153	(5,750)
Operating margin***	1.1%	2.3%	19.9%	1.7%
Share of post-tax losses of joint ventures and associates				(13)
Finance income				80
Finance costs				(651)
Profit/ (loss) before tax				**(6,334)**

* Actual exchange rates are the average actual periodic exchange rates for that financial period.
** Includes a reclassification of £77m from Tesco Bank to the UK & ROI segment, relating to revenue recognition on Clubcard vouchers. There is no impact on segmental operating profit before exceptional items or operating profit.
*** Operating margin is based on operating profit before exceptional items and on revenue.

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal groups). Net debt balances have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated, other than intercompany transactions with Tesco Bank in net debt.

At 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,391	309	1,174	–	2,874
Property, plant and equipment and investment property	12,815	5,085	78	–	17,978
Investments in joint ventures and associates	5	704	76	–	785
Other investments	–	–	984	151	1,135
Loans and advances to customers – non-current	–	–	4,723	–	4,723
Deferred tax asset	–	49	–	–	49
Non-current assets[(a)]	**14,211**	**6,147**	**7,035**	**151**	**27,544**
Inventories and trade and other receivables[(b)]	2,557	1,016	314	–	3,887
Trade and other payables	(6,580)	(1,736)	(252)	–	(8,568)
Loans and advances to customers – current	–	–	3,819	–	3,819
Customer deposits and deposits from banks	–	–	(7,479)	–	(7,479)
Total provisions	(837)	(129)	(58)	–	(1,024)
Deferred tax liability	(64)	(39)	(32)	–	(135)
Net current tax	(403)	(3)	2	–	(404)
Post-employment benefits	(3,153)	(22)	–	–	(3,175)
Assets held for sale and of the disposal groups[(c)]	165	71	–	–	236
Liabilities of the disposal groups[(c)]	–	–	–	–	–
Net debt[(d)]	–	–	(975)	(5,110)	(6,085)
Net assets	**5,896**	**5,305**	**2,374**	**(4,959)**	**8,616**

(a) Excludes derivative financial instrument non-current assets of £1,532m (2015: £1,546m).
(b) Excludes loans to joint ventures of £149m (2015: £207m) and interest and other receivables of £1m (2015:£1m).
(c) Excludes net debt of the disposal groups of £nil (2015: £9m). Refer to Note 7.
(d) Refer to Note 29.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

At 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,648	900	1,223	–	3,771
Property, plant and equipment and investment property	11,604	8,914	86	–	20,604
Investments in joint ventures and associates	89	771	80	–	940
Other investments	–	–	827	148	975
Loans and advances to customers – non-current	–	–	3,906	–	3,906
Deferred tax asset	433	81	–	–	514
Non-current assets[(a)]	**13,774**	**10,666**	**6,122**	**148**	**30,710**
Inventories and trade and other receivables[(b)]	2,814	1,821	235	–	4,870
Trade and other payables	(6,931)	(2,746)	(245)	–	(9,922)
Loans and advances to customers – current	–	–	3,814	–	3,814
Customer deposits and deposits from banks	–	–	(7,020)		(7,020)
Total provisions	(1,071)	(205)	(90)	–	(1,366)
Deferred tax liability	–	(158)	(41)	–	(199)
Net current tax	(89)	5	5	–	(79)
Post-employment benefits	(4,773)	(69)	–	–	(4,842)
Assets held for sale and of the disposal groups[(c)]	61	69	–	–	130
Liabilities of the disposal groups[(c)]	–	–	–	(5)	(5)
Net debt[(d)]	–	–	(539)	(8,481)	(9,020)
Net assets	**3,785**	**9,383**	**2,241**	**(8,338)**	**7,071**

[(a)-(d)] Refer to previous table for footnotes.

Other segment information

52 weeks ended 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operation** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	2,300	236	8	2,544	55	2,599
Investment property	5	–	–	5	–	5
Goodwill, software and other intangible assets	188	18	32	238	3	241
Depreciation:						
Property, plant and equipment	(688)	(293)	(16)	(997)	(80)	(1,077)
Investment property	(2)	–	–	(2)	–	(2)
Amortisation of intangible assets	(145)	(30)	(75)	(250)	(5)	(255)
Impairment of intangible assets	(159)	(10)	–	(169)	–	(169)
Impairment of goodwill	(18)	–	–	(18)	–	(18)
Impairment of property, plant and equipment and investment property	(164)	(100)	–	(264)	(1)	(265)
Reversal of impairment of property, plant and equipment and investment property	133	119	–	252	–	252

53 weeks ended 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operation** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	1,119	364	14	1,497	145	1,642
Investment property	–	–	–	–	–	–
Goodwill, software and other intangible assets	351	28	45	424	11	435
Depreciation:						
Property, plant and equipment	(741)	(358)	(18)	(1,117)	(176)	(1,293)
Investment property	–	–	–	–	(1)	(1)
Amortisation of intangible assets	(154)	(26)	(68)	(248)	(9)	(257)
Impairment of intangible assets	(46)	(3)	(4)	(53)	–	(53)
Impairment of goodwill	(116)	–	–	(116)	–	(116)
Impairment of property, plant and equipment and investment property	(3,504)	(607)	–	(4,111)	(202)	(4,313)
Reversal of impairment of property, plant and equipment and investment property	132	35	–	167	29	196

* Includes £1,742m (2015: £3m) of property, plant and equipment acquired through business combinations.
** Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises those of Korea in the first six months of the year ended 27 February 2016 and the twelve months of the year ended 28 February 2015.

Note 2 Segmental reporting continued

The following tables provide further analysis of the Group Cash Flow Statement, including a split of cash flows between Retail and Tesco Bank as well as continuing operations and discontinued operations.

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss) of continuing operations*	**885**	**(5,903)**	**161**	**153**	**1,046**	**(5,750)**
Operating profit/ (loss) of discontinued operations	128	(52)	–	–	128	(52)
Depreciation and amortisation	1,243	1,466	91	86	1,334	1,552
ATM net income	(38)	(28)	38	28	–	–
Loss/ (profit) arising on sale of property, plant and equipment and intangible assets	165	42	(1)	7	164	49
Loss arising on sale of subsidiaries and other investments	–	41	–	–	–	41
Profit arising on sale of joint ventures and associates	(1)	–	–	–	(1)	–
Impairment of goodwill	18	116	–	–	18	116
Net reversal of impairment of other investments	(7)	–	–	–	(7)	–
Impairment of loans/ investments in joint ventures and associates	1	712	–	–	1	712
Net impairment of property, plant and equipment and intangible assets	182	4,167	–	4	182	4,171
Adjustment for non-cash element of pensions charge	(395)	68	–	–	(395)	68
Additional contribution into pension schemes	(223)	(13)	–	–	(223)	(13)
Share-based payments	273	99	10	6	283	105
Tesco Bank non-cash items included in operating profit	–	–	72	58	72	58
Cash flow from operations excluding working capital	**2,231**	**715**	**371**	**342**	**2,602**	**1,057**
Decrease/ (increase) in working capital	350	1,145	(518)	(735)	(168)	410
Cash generated from operations	**2,581**	**1,860**	**(147)**	**(393)**	**2,434**	**1,467**
Interest paid	(422)	(609)	(4)	(4)	(426)	(613)
Corporation tax received/ (paid)	125	(347)	(7)	(23)	118	(370)
Net cash generated from/ (used in) operating activities	**2,284**	**904**	**(158)**	**(420)**	**2,126**	**484**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(858)	(1,977)	(13)	(12)	(871)	(1,989)
Purchase of intangible assets	(146)	(267)	(21)	(62)	(167)	(329)
Non-GAAP measure: Free cash flow	**1,280**	**(1,340)**	**(192)**	**(494)**	**1,088**	**(1,834)**
Disposal of subsidiaries, net of cash disposed	3,237	(157)	–	–	3,237	(157)
Acquisition of subsidiaries, net of cash acquired	(325)	(86)	–	–	(325)	(86)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	350	244	–	–	350	244
Proceeds from sale of joint ventures and associates	192	–	–	–	192	–
Net (increase)/ decrease in loans to joint ventures and associates	(1)	21	–	–	(1)	21
Net investments in joint ventures and associates	(77)	(382)	–	–	(77)	(382)
Net (investments in)/ proceeds from sale of short-term investments	(2,894)	423	–	–	(2,894)	423
Net proceeds from sale of/ (investments in) other investments	17	5	(120)	43	(103)	48
Dividends received from joint ventures and associates	41	81	–	7	41	88
Interest received	3	104	–	–	3	104
Net cash used in investing activities	**(461)**	**(1,991)**	**(154)**	**(24)**	**(615)**	**(2,015)**
Proceeds from issue of ordinary share capital	1	15	–	–	1	15
Increase in borrowings	286	4,391	300	498	586	4,889
Repayment of borrowings	(1,328)	(3,185)	–	–	(1,328)	(3,185)
Net cash flows from derivative financial instruments	154	(6)	–	–	154	(6)
Repayment of obligations under finance leases	(17)	(3)	–	–	(17)	(3)
Rights issue to non-controlling interests	–	18	–	–	–	18
Dividends paid to equity owners	–	(914)	–	–	–	(914)
Net cash generated from/ (used in) financing activities	**(904)**	**316**	**300**	**498**	**(604)**	**814**
Intra-Group funding and intercompany transactions	**50**	**(77)**	**(50)**	**77**	**–**	**–**
Net increase/ (decrease) in cash and cash equivalents	**969**	**(848)**	**(62)**	**131**	**907**	**(717)**
Cash and cash equivalents at the beginning of the year	1,558	2,328	616	485	2,174	2,813
Effect of foreign exchange rate changes	1	78	–	–	1	78
Cash and cash equivalents including cash held in disposal groups at the end of the year	**2,528**	**1,558**	**554**	**616**	**3,082**	**2,174**
Cash held in disposal groups**	–	(9)	–	–	–	(9)
Cash and cash equivalents at the end of the year	**2,528**	**1,549**	**554**	**616**	**3,082**	**2,165**

* Tesco Bank operating profit as per Bank Income Statement excluding ATM net income segmental adjustment.
** This relates to the cash held within discontinued operations reported within assets of the disposal groups.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	Continuing operations		Discontinued operations		Retail	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss)	**885**	**(5,903)**	**128**	**(52)**	**1,013**	**(5,955)**
Depreciation and amortisation	1,158	1,280	85	186	1,243	1,466
ATM net income	(38)	(28)	–	–	(38)	(28)
Loss arising on sale of property, plant and equipment and intangible assets	165	28	–	14	165	42
Loss arising on sale of subsidiaries & other investments	–	41	–	–	–	41
Profit arising on sale of joint ventures and associates	(1)	–	–	–	(1)	–
Impairment of goodwill	18	116	–	–	18	116
Net reversal of impairment of other investments	(7)	–	–	–	(7)	–
Impairment of loans/ investments in joint ventures and associates	1	712	–	–	1	712
Net impairment of property, plant and equipment and intangible assets	181	3,993	1	174	182	4,167
Adjustment for non-cash element of pensions charge	(400)	68	5	–	(395)	68
Additional contribution into pension schemes	(223)	(2)	–	(11)	(223)	(13)
Share-based payments	271	102	2	(3)	273	99
Cash flow from operations excluding working capital	**2,010**	**407**	**221**	**308**	**2,231**	**715**
Decrease/ (increase) in working capital	70	1,270	280	(125)	350	1,145
Cash generated from operations	**2,080**	**1,677**	**501**	**183**	**2,581**	**1,860**
Interest paid	(394)	(560)	(28)	(49)	(422)	(609)
Corporation tax received/ (paid)	167	(267)	(42)	(80)	125	(347)
Net cash generated from operating activities	**1,853**	**850**	**431**	**54**	**2,284**	**904**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(776)	(1,774)	(82)	(203)	(858)	(1,977)
Purchase of intangible assets	(146)	(266)	–	(1)	(146)	(267)
Non-GAAP measure: Free cash flow	**931**	**(1,190)**	**349**	**(150)**	**1,280**	**(1,340)**

Note 3 Income and expenses

Continuing operations	2016 £m	2015 £m
Profit/ (loss) before tax is stated after charging/ (crediting) the following:		
Property rental income, of which £39m (2015: £40m) relates to investment properties	(331)	(344)
Other rental income	(53)	(53)
Direct operating expenses arising on rental earning investment properties	20	19
Costs of inventories recognised as an expense	39,955	42,515
Inventory losses and provisions*	1,263	1,623
Depreciation and amortisation charged	1,249	1,366
Operating lease expenses, of which £102m (2015: £106m) relates to hire of plant and machinery	1,160	1,289
Net impairment charge on property, plant and equipment and investment property	13	3,944
Impairment of goodwill, software and other intangibles	187	169
Impairment of investments in and loans to joint ventures and associates	1	712

* Includes £nil (2015: £359m) exceptional inventory provision.

During the financial year, the Group carried out a tender for the external audit following which Deloitte LLP ('Deloitte') were appointed as auditor in place of PricewaterhouseCoopers LLP ('PwC'). Accordingly, the figures for auditor's remuneration below relate to Deloitte for 2016 and PwC for 2015.

	2016 £m	2015 £m
Audit services		
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.5	1.0
The audit of the financial statements of the Company's subsidiaries	4.4	3.6
Audit-related assurance services	0.6	0.8
Total audit and audit related services	**6.5**	**5.4**
Non-audit services		
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	0.3	–
Taxation advisory services	0.9	0.9
All other non-audit services	8.8	2.4
Total auditor's remuneration	**16.5**	**8.7**

Other non-audit services of £8.8m represent retail consultancy services (£4.6m), forensic services (£2.3m), international employee services (£0.9m), pension advisory services (£0.6m) and other (£0.4m). The level of non-audit fees in the 52 weeks ended 27 February 2016 reflects the transition to Deloitte as external auditor during the year and the completion of certain activities that were in progress. Steps have been taken to reduce the level of non-audit fees significantly in the 52 weeks ended 25 February 2017.

In addition to the amounts shown above, the auditor received fees of £0.2m (2015: £0.2m) for the audit of the main Group pension scheme.
A description of the work of the Audit Committee is set out in the Corporate Governance Report on page 47 and includes how objectivity and independence is safeguarded when non-audit services are provided by Deloitte.

Note 3 Income and expenses continued

Employment costs, including Directors' remuneration

Continuing operations	2016 £m	2015 £m
Wages and salaries	5,983	6,140
Social security costs	403	436
Post-employment defined benefits (Note 26)*	20	605
Post-employment defined contributions (Note 26)**	175	23
Share-based payments expense (Note 25)	308	141
Termination benefits	79	407
Total	**6,968**	**7,752**

* Includes £538m (2015: £nil) of exceptional past service credit. Refer to Note 4.
** Includes £58m (2015: £nil) of additional exceptional costs. Refer to Note 4.

Post-employment expenses include £168m (2015: £167m) of salaries paid as pension contributions.

The average number of employees by operating segment during the financial year was:

	Average number of employees		Average number of full-time equivalents	
	2016	2015	2016	2015
UK & ROI	335,061	330,130	225,371	225,192
International	143,459	146,606	129,110	133,602
Tesco Bank	3,632	3,871	3,354	3,576
Total	**482,152**	**480,607**	**357,835**	**362,370**

Note 4 Exceptional items

Income Statement

52 weeks ended 27 February 2016
Profit/ (loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Admin-istrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Loss on disposal of Korean operations £m
Net impairment of property, plant and equipment, intangible assets and onerous lease provisions [(a)]	(299)	–	(109)	(408)	–	73	–
Net restructuring and redundancy costs [(b)]	(75)	(34)	(17)	(126)	–	9	–
Property transactions [(c)]	–	–	156	156	–	(20)	–
Past service credit and other associated costs [(d)]	424	56	–	480	–	(86)	–
Foreign exchange losses on GBP balances held in overseas entities [(e)]	–	–	–	–	(220)	–	–
Release of overprovision of tax liabilities in prior years [(f)]	–	–	–	–	–	86	–
Loss on disposal of Korean operations [(g)]	–	–	–	–	–	–	(168)
Total	**50**	**22**	**30**	**102**	**(220)**	**62**	**(168)**

In assessing whether income and expense items met the Group's criteria as exceptional, items totalling £4m reflected in operating profit as non-exceptional cost in the first half of the year have subsequently been reclassified to exceptional. This is as a result of restructuring activities extended beyond the original scope, as well as two further property transactions where the Group regained sole ownership of stores and distribution centres.

(a) Following an evaluation of the cash-generating unit for technology and associated fixed assets principally relating to online general merchandise, impairment charges and write-offs of £275m have been recorded as the Group moves toward a single online platform for customers. In addition, a net property, plant and equipment ('PPE') impairment and onerous lease charge of £133m has arisen, including write downs on construction in progress and non-trading sites of £109m. Refer to Notes 10 and 11 for further details on impairment and Note 24 for further details on onerous lease provisions.

(b) A net charge of £126m has been recognised as restructuring and redundancy costs in the UK & ROI. This includes £89m relating to store colleague structures and working practices and £34m relating to head office restructuring costs, partly offset by a provision release of £74m related to the prior year changes to store colleague working arrangements. In addition, there have been costs of £77m related to business rationalisation including the closure of UK Homeplus stores. These costs include impairment of PPE, goodwill and onerous lease provisions. Refer to Notes 10 and 11 for further details on impairment and Note 24 for further details on onerous lease provisions.

(c) In line with the Group's strategy to strengthen its balance sheet, the Group has taken sole control of 70 stores and two distribution centres previously held in three joint ventures, whilst selling its interests in two property joint ventures, as discussed in Note 13 and Note 30. The Group has also disposed of 12 development sites in London.

(d) As a result of the closure of the UK defined benefit pension scheme (the 'Scheme'), all active members of the Scheme became deferred members. The rate at which previously accrued benefits grow until retirement differs for active and deferred members. The rate of increase for deferred members aligns with the consumer price index and resulted in an actuarial credit of £538m. This credit was offset by one-off payments of £58m relating to auto-enrolment and top-up payments to the new defined contribution scheme for some colleagues previously in the defined benefit scheme. Refer to Note 26.

Notes to the Group financial statements continued

Note 4 Exceptional items continued

(e) The Group holds £2.5bn of proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. The £220m loss represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.

(f) In agreeing tax liabilities for past years up to 2011, the Group has identified provisions of £86m held for uncertain tax positions which are no longer required.

(g) On 22 October 2015, the Group completed its sale of its Korea operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. Refer to Note 7 for further details.

Income Statement
53 weeks ended 28 February 2015

Profit/ (loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Impairment of PPE and onerous lease provisions	(3,586)	–	(925)	(4,511)	–	460	–
Impairment of goodwill and intangible assets	(166)	–	–	(166)	–	17	–
Inventory valuations and provisions	(500)	–	–	(500)	–	87	–
Reversal of commercial income recognised in previous years	(208)	–	–	(208)	–	38	–
Restructuring costs including trading store redundancies	(261)	(145)	–	(406)	–	75	–
Other restructuring and one-off items	(160)	–	–	(160)	–	15	–
Impairment of investments in and loans to joint ventures and associates	–	(712)	–	(712)	–	–	–
Provision for customer redress	–	(27)	–	(27)	–	6	–
Exceptional items related to discontinued operations	–	–	–	–	–	–	(307)
Tax on exceptional items related to discontinued operations	–	–	–	–	–	–	17
Total	**(4,881)**	**(884)**	**(925)**	**(6,690)**	**–**	**698**	**(290)**

Cash Flow Statement

The table below shows the impact of exceptional items on the Cash Flow Statement:

	Cash flows from operating activities		Cash flows from investing activities	
Exceptional items included in:	2016 £m	2015 £m	2016 £m	2015 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies[a]	(251)	(174)	–	–
Current year restructuring costs including trading store redundancy costs[b]	(63)	–	–	–
Utilisation of onerous lease provisions	(90)	–	–	–
Property transactions – sale of development sites[c]	218	–	–	–
Defined benefit pension scheme closure cost[d]	(58)	–	–	–
Provision for customer redress[e]	(34)	(42)	–	–
Property transactions – buy back of property joint ventures, net of £15m cash acquired [f]	–	–	(139)	–
Total	**(278)**	**(216)**	**(139)**	**–**

(a) Cash outflows on settlement of exceptional redundancy provisions booked in the 53 weeks ended 28 February 2015. Refer to Note 24 for further details.
(b) Cash outflows on settlement of restructuring and redundancy costs. Refer to item (b) on page 101.
(c) Cash proceeds received on sale of 12 development sites. Refer to item (c) on page 101.
(d) One-off payment on closure of defined benefit pension scheme. Refer to item (d) on page 101.
(e) Settlement of claims for customer redress in Tesco Bank from prior years. Refer to Note 24 for further details.
(f) During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interest in each of the partnerships. Net cash outflow is due to: acquisition of subsidiaries of £(317)m; proceeds on sale of joint ventures of £172m; and repayment of loans by joint ventures of £6m. Refer to Note 30 for further details.

In addition, the Group received a tax refund of £263m. This relates to a claim raised with HMRC to carry back the loss made in the 53 weeks ended 28 February 2015 to offset against the taxable profits from the 52 weeks ended 22 February 2014.

Note 5 Finance income and costs

Continuing operations	2016 £m	2015 £m
Finance income		
Interest receivable and similar income	29	80
Total finance income	**29**	**80**
Finance costs		
GBP MTNs	(176)	(191)
EUR MTNs	(122)	(155)
USD Bonds	(86)	(85)
Other MTNs	–	(2)
Finance charges payable under finance leases and hire purchase contracts	(9)	(9)
Other interest payable	(111)	(93)
Capitalised interest (Note 11)*	6	44
Financial instruments – fair value remeasurements	(19)	(26)
Total finance costs before exceptional items and net pension finance costs	**(517)**	**(517)**
Net pension finance costs (Note 26)	(155)	(134)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(220)	–
Total finance costs	**(892)**	**(651)**
Net finance cost	**(863)**	**(571)**

* A deferred tax liability is recognised in respect of capitalised interest at the applicable rate in the country in which the interest is capitalised.

GBP MTNs

Interest payable on the 4% RPI GBP MTN 2016 includes £3m (2015: £8m) of Retail Price Index ('RPI') related accretion.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £3m (2015: £7m) of RPI-related accretion.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £3m (2015: £7m) of RPI-related accretion.

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group Income Statement

Continuing operations	2016 £m	2015 £m
Current tax (credit)/ charge		
UK corporation tax	81	(159)
Release of UK provisions for uncertain tax positions – exceptional credit	(86)	–
Foreign tax	73	74
Adjustments in respect of prior years	(191)	(12)
	(123)	**(97)**
Deferred tax (credit)/ charge		
Origination and reversal of temporary differences	(69)	(621)
Adjustments in respect of prior years	169	14
Change in tax rate	(31)	34
	69	**(573)**
Total income tax (credit)/ charge	**(54)**	**(670)**

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these consolidated financial statements. In addition to the changes in the rates of corporation tax disclosed above it was announced in the March 2016 Budget Statement that the main rate of corporation tax will be further reduced by 1% to 17% from 1 April 2020. This further rate reduction had not been substantively enacted at the balance sheet date and has therefore not been reflected in these consolidated financial statements.

Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

Reconciliation of effective tax charge

	2016 £m	2015 £m
Profit before tax	**162**	**(6,334)**
Tax credit/ (charge) at 20.1% (2015: 21.2%)	(33)	1,343
Effect of:		
Non-qualifying depreciation	(49)	(58)
Other non deductible items	(7)	(523)
Unrecognised tax losses	(111)	(135)
Release of provisions for uncertain tax positions	86	34
Property items taxed on a different basis to accounting entries*	114	86
Differences in overseas taxation rates	5	(40)
Adjustments in respect of prior years	22	(2)
Share of losses of joint ventures and associates	(4)	(3)
Change in tax rate	31	(32)
Total income tax credit/ (charge) for the year	**54**	**670**
Effective tax rate	**(33.2%)**	**10.6%**

* This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Reconciliation of effective tax charge on non-GAAP measures

	2016 £m	2015 £m
Profit before tax before exceptional items	**280**	**356**
Tax credit/ (charge) at 20.1% (2015: 21.2%)	(56)	(75)
Effect of:		
Non-qualifying depreciation	(30)	(27)
Other non deductible items	(7)	52
Unrecognised tax losses	(70)	(56)
Release of provisions for uncertain tax positions	–	34
Property items taxed on a different basis to accounting entries*	102	86
Differences in overseas taxation rates	8	(20)
Adjustments in respect of prior years	22	(2)
Share of losses of joint ventures and associates	(4)	(3)
Change in tax rate	27	(17)
Total income tax credit/ (charge) for the year	**(8)**	**(28)**
Effective tax rate before exceptional items	**2.7%**	**7.8%**
Net pension finance costs	155	134
Tax charge at 20.1% (2015: 21.2%)	(31)	(28)
Change in tax rate	3	1
Total income tax credit/ (charge) before exceptional items and net pension finance cost for the year	**(36)**	**(55)**
Effective tax rate before exceptional items and net pension finance cost	**8.2%**	**11.2%**

* This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Note 6 Taxation continued

Tax on items credited directly to the Group Statement of Changes in Equity

	2016 £m	2015 £m
Current tax credit/ (charge) on:		
Share-based payments	–	–
Deferred tax credit/ (charge) on:		
Share-based payments	–	–
Total tax on items credited/ (charged) to the Group Statement of Changes in Equity	**–**	**–**

Tax relating to components of the Group Statement of Comprehensive Income

	2016 £m	2015 £m
Current tax credit/ (charge) on:		
Foreign exchange movements	6	14
Fair value of movement on available-for-sale investments	–	(1)
Fair value movements on cash flow hedges	–	(3)
Deferred tax credit/ (charge) on:		
Pensions	(300)	291
Fair value movements on cash flow hedges	(36)	(17)
Total tax on items credited/ (charged) to Group Statement of Comprehensive Income	**(330)**	**284**

Deferred tax

The following are the major deferred tax (liabilities)/ assets recognised by the Group and movements thereon during the current and prior financial years measured using the tax rates that are expected to apply when the liability is settled or the asset realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date:

	Property-related items* £m	Retirement benefit obligation*** £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial Instruments £m	Other pre/post-tax temporary differences £m	Total £m
At 22 February 2014	**(1,308)**	**634**	**42**	**84**	**24**	**13**	**10**	**(501)**
(Charge)/ credit to the Group Income Statement	363	35	(40)	184	46	(6)	(9)	573
(Charge)/ credit to the Group Statement of Comprehensive Income	–	291	–	–	–	(17)	–	274
Discontinued operations	2	–	–	(19)	(2)	–	–	(19)
Business combinations	–	–	–	–	–	–	–	–
Foreign exchange and other movements**	(10)	(3)	1	(1)	1	–	–	(12)
At 28 February 2015	**(953)**	**957**	**3**	**248**	**69**	**(10)**	**1**	**315**
(Charge)/ credit to the Group Income Statement	46	(86)	5	(36)	3	–	(1)	(69)
(Charge)/ credit to the Group Statement of Comprehensive Income	–	(300)	–	–	–	(36)	–	(336)
Discontinued operations	232	(10)	(2)	(68)	(22)	–	–	130
Business combinations	(136)	–	–	(4)	–	14	–	(126)
Foreign exchange and other movements**	(5)	2	–	3	–	–	–	–
At 27 February 2016	**(816)**	**563**	**6**	**143**	**50**	**(32)**	**–**	**(86)**

* Property-related items include a deferred tax liability on rolled over gains of £321m (2015: £294m) and deferred tax assets on capital losses of £137m (2015: £101m). The remaining balance relates to accelerated tax depreciation. It is not anticipated these will reverse materially in the foreseeable future.

** The deferred tax charge for foreign exchange and other movements is a £nil (2015: £12m debit) relating to the retranslation of deferred tax balances at the balance sheet date is included within the Group Statement of Comprehensive Income under the heading Currency translation differences.

*** The deferred tax asset on retirement benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 26.

Certain deferred tax assets and liabilities have been offset and are analysed as follows:

	2016 £m	2015 £m
Deferred tax assets	49	514
Deferred tax liabilities	(135)	(199)
	(86)	**315**

No deferred tax liability is recognised on temporary differences of £2.9bn (2015: £2.1bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 27 February 2016 is estimated to be £141m (2015: £112m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Notes to the Group financial statements continued

Note 6 Taxation continued

Unrecognised deferred tax assets

Deferred tax assets in relation to continuing operations have not been recognised in respect of the following items (because it is not probable that future taxable profits will be available against which the Group can utilise the benefits):

	2016 £m	2015 £m
Deductible temporary differences	163	97
Tax losses	249	66
	412	**163**

As at 27 February 2016, the Group has unused trading tax losses from continuing operations of £1,343m (2015: £539m) available for offset against future profits. A deferred tax asset has been recognised in respect of £274m (2015: £244m) of such losses. No deferred tax asset has been recognised in respect of the remaining £1,069m (2015: £295m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £126m that will expire in 2020 (2015: £118m in 2019) and £100m that will expire between 2021 and 2036 (2015: £15m between 2020 and 2035). Other losses will be carried forward indefinitely.

Current tax

Within the Group current tax liability of £419m is £271m in respect of capital gains tax liabilities that may arise in respect of the sale of the Korean business. Refer to Note 7.

Changes in tax law or its interpretation

The Group operates in a number of territories which leads to the Group's profits being subject to tax in many jurisdictions. The tax authorities in these jurisdictions may challenge our tax returns which could have an adverse impact on the Group.

Note 7 Discontinued operations and non-current assets classified as held for sale

Assets and liabilities of the disposal groups and non-current assets classified as held for sale

	2016 £m	2015 £m
Assets of the disposal groups	–	9
Non-current assets classified as held for sale	236	130
Total assets of the disposal groups and non-current assets classified as held for sale	**236**	**139**
Total liabilities of the disposal groups	–	(5)
Total net assets of the disposal groups and non-current assets classified as held for sale	**236**	**134**

The non-current assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year.

Discontinued operations

On 22 October 2015, the Group completed the sale of the Korean operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. In accordance with IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', the Korean operations for the period up to 22 October 2015 have been classified as a disposal group.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement

	2016	2015		
	Total* £m	Korea £m	China and US*** £m	Total £m
Revenue	3,526	5,359	281	5,640
Expenses**	(3,404)	(5,139)	(299)	(5,438)
Profit/ (loss) before tax before exceptional items	**122**	**220**	**(18)**	**202**
Taxation	(41)	(13)	(1)	(14)
Profit/ (loss) after tax before exceptional items	**81**	**207**	**(19)**	**188**
Loss after tax on disposal of Chinese operations (net of £53m tax)	–	–	(28)	(28)
Exceptional items pre-tax	–	(332)	–	(332)
Tax on exceptional items	–	70	–	70
Loss after tax on disposal of Korean operations	(168)	–	–	–
Total profit/ (loss) after tax of discontinued operations	**(87)**	**(55)**	**(47)**	**(102)**

* The results of Korea are for the period ended 22 October 2015, at which point the operations were sold.
** Intercompany recharges and intercompany loan interest totalling £48m (2015: £90m) between continuing operations and the Korea discontinued operation have been eliminated. This elimination impacts the performance of continuing and discontinued operations, reducing the profit/ (loss) before tax of continuing operations by £48m (2015: £90m), whilst increasing the profit/ (loss) before tax of Korea discontinued operations by the same amounts.
*** The results of China are for the 13 weeks ended 28 May 2014, at which point the operations were contributed into a new venture with China Resource Enterprise Limited.

Note 7 Discontinued operations and non-current assets classified as held for sale continued

The loss after tax on disposal of the Group's Korean operations is made up as follows:

	£m
Gross proceeds	3,944
Withholding tax and stamp duty	(341)
Net Proceeds	**3,603**
Net book value of assets disposed	
Goodwill and other intangible assets	(548)
Property, plant and equipment	(3,616)
Investment property	(31)
Deferred tax assets	(134)
Inventories	(204)
Trade and other receivables	(510)
Cash and cash equivalents	(362)
Trade and other payables	1,390
Borrowings	97
Current tax	(6)
Provisions	74
Post-employment benefit obligation	52
Deferred tax liabilities	265
Costs to sell and other provisions	(55)
Currency translation reserve recycled to income statement	88
Taxation	(271)
Loss after tax of disposal of Korean operations	**(168)**

There is the potential for the Korean National Tax Service to interpret International Tax Conventions in a manner which gives rise to a tax liability in Korea on the sale of the Korean business. MBK Partners, the purchasers, considering this potential interpretation, withheld and paid capital gains tax of £325m from the sale proceeds to entirely eliminate any possible challenge against the purchasers by the Korean tax authorities. In addition, a further provision of £271m has been made for potential additional capital gains tax on the disposal.

The Group intends to vigorously contest this interpretation through the Korean legal process. To this end, the Group has filed a claim for a refund of the capital gains tax withheld by the purchasers. The Korean National Tax Service have commenced an investigation into this claim. It is anticipated the full Korean legal process could take four to five years.

Loss per share impact from discontinued operations

	2016 Pence/share	2015 Pence/share
Basic	(1.07)	(1.26)
Diluted	(1.07)	(1.26)

Cash flow statement

	Total Korea 2016 £m	Total Korea, China and US 2015 £m
Net cash flows from operating activities	431	54
Net cash flows from investing activities	(34)	(104)
Net cash flows from financing activities	(4)	165
Net cash flows from discontinued operations	**393**	**115**
Intra-Group funding and intercompany transactions	(103)	(339)
Net cash flows from discontinued operations, net of intercompany	**290**	**(224)**
Net cash flows from disposal of subsidiary	(366)	(148)
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**(76)**	**(372)**

Note 8 Dividends

	2016		2015	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	–	–	10.13	819
Current financial year interim dividend	–	–	1.16	95
Dividends paid to equity owners in the financial year	**–**	**–**	**11.29**	**914**

No dividend has been paid or is proposed in respect of the financial year ended 27 February 2016.

Note 9 Earnings (losses) per share and diluted earnings per share

Basic earnings/ (losses) per share amounts are calculated by dividing the profit/ (loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings/ (losses) per share amounts are calculated by dividing the profit/ (loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned. The Group has recognised a profit for the financial year from its continuing operations therefore the diluted earnings/ (losses) per share includes this dilutive/ antidilutive effect.

Given the loss for the 53 weeks ended 28 February 2015, the Group recognised a basic loss per share rather than a basic earnings per share. The dilutive effect of the 12m potentially dilutive share options in that year was not considered in calculating the diluted loss per share as it would have reduced the loss per share. For the 52 weeks ended 27 February 2016 there were 26m potentially dilutive share options. As the Group has recognised a profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent the dilutive effects have been considered in calculating diluted earnings per share from continuing operations before exceptional items and net pension finance costs.

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	225	–	225	(5,639)	–	(5,639)
Discontinued operations	(87)	–	(87)	(102)	–	(102)
Total	**138**	**–**	**138**	**(5,741)**	**–**	**(5,741)**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**–**	**8,107**
Earnings/ (losses) per share (pence)						
Continuing operations	2.77	(0.01)	2.76	(69.56)	–	(69.56)
Discontinued operations	(1.07)	–	(1.07)	(1.26)	–	(1.26)
Total	**1.70**	**(0.01)**	**1.69**	**(70.82)**	**–**	**(70.82)**

* Profit/ (loss) from continuing operations of £225m (2015: £5,639m) excludes losses from non-controlling interests of £9m (2015: £25m).

Non-GAAP measure: earnings and diluted earnings per share from profit before tax from continuing operations before exceptional items

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations	278	–	278	336	–	336
Discontinued operations	81	–	81	188	–	188
Total	**359**	**–**	**359**	**524**	**–**	**524**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**12**	**8,119**
Earnings/ (losses) per share (pence)						
Continuing operations	3.42	(0.01)	3.41	4.14	–	4.14
Discontinued operations	1.00	(0.01)	0.99	2.32	–	2.32
Total	**4.42**	**(0.02)**	**4.40**	**6.46**	**–**	**6.46**

* Profit/ (loss) from continuing operations of £278m (2015: £336m) excludes losses from non-controlling interest of £6m (2015: £8m).

Non-GAAP measure: Diluted earnings per share from continuing operations before exceptional items and net pension finance costs

	2016	2015
Profit before tax from continuing operations before exceptional items	280	356
Add: Net pension finance costs (Note 26)	155	134
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	435	490
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	442	494
Taxation on profit from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(37)	(51)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	**405**	**443**
Diluted weighted average number of shares (millions)	**8,152**	**8,119**
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs (pence)	**4.97**	**5.46**

There have been no transactions involving ordinary shares between the reporting date and the date of approval of these financial statements which would significantly change the earnings per share calculations shown above.

Note 10 Goodwill and other intangible assets

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 28 February 2015	2,949	2,970	422	6,341
Foreign currency translation	(21)	13	(1)	(9)
Additions	64	174	3	241
Reclassification	–	6	–	6
Disposals	–	(224)	(7)	(231)
Transfer to disposal group classified as held for sale	(475)	(78)	(45)	(598)
At 27 February 2016	**2,517**	**2,861**	**372**	**5,750**
Accumulated amortisation and impairment losses				
At 28 February 2015	661	1,596	313	2,570
Foreign currency translation	14	3	1	18
Charge for the year	–	244	11	255
Impairment losses for the year	18	169	–	187
Reclassification	–	45	–	45
Disposals	–	(125)	(6)	(131)
Transfer to disposal group classified as held for sale	(3)	(46)	(19)	(68)
At 27 February 2016	**690**	**1,886**	**300**	**2,876**
Net carrying value				
At 27 February 2016	**1,827**	**975**	**72**	**2,874**
At 28 February 2015	2,288	1,374	109	3,771

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 22 February 2014	2,880	2,827	401	6,108
Foreign currency translation	(10)	(20)	(3)	(33)
Additions	98	306	5	409
Acquired through business combinations	–	–	25	25
Reclassification	–	4	1	5
Disposals	(19)	(147)	(7)	(173)
At 28 February 2015	**2,949**	**2,970**	**422**	**6,341**
Accumulated amortisation and impairment losses				
At 22 February 2014	594	1,420	299	2,313
Foreign currency translation	(54)	(17)	–	(71)
Charge for the year	–	243	14	257
Impairment losses for the year	116	50	2	168
Disposals	5	(100)	(2)	(97)
At 28 February 2015	**661**	**1,596**	**313**	**2,570**

* To aid user understanding, presentation of intangible assets has been changed to show a single asset class of software combining elements that were previously presented in internally generated development costs and pharmacy and software licenses. This more closely reflects the nature of software assets which typically have both purchased and internally developed components. The closing net carrying value of £1,374m at 28 February 2015 was previously disclosed in internally generated development costs of £750m, pharmacy and software licences of £579m and other intangibles assets of £45m.

Impairment of goodwill

The goodwill, discount rates and long-term growth rates for each group of cash generating units are shown below:

	Balance		Pre-tax discount Rates		Post-tax discount rates		Long-term growth rates	
	2016	2015	2016	2015	2016	2015	2016	2015
Malaysia	**70**	74	**12.3%**	12.5%	**9.4%**	9.4%	**2.1%**	3.2%
Korea	**–**	502	**–**	10.8%	**–**	8.2%	**–**	2.8%
Tesco Bank	**802**	802	**11.0%**	10.5%	**8.2%**	8.4%	**4.0%**	4.0%
Thailand	**159**	159	**10.1%**	12.3%	**8.1%**	9.9%	**2.6%**	3.3%
UK	**767**	722	**9.1%**	8.8%	**7.2%**	7.0%	**2.0%**	2.1%
Other	**29**	29	**–**	–	**–**	–	**–**	–
	1,827	**2,288**						

The Group disposed of its Korean operation during the current year, including goodwill. Refer to Note 7.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use

Notes to the Group financial statements continued

Note 10 Goodwill and other intangible assets continued

is calculated from cash flow projections for generally five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

The pre-tax discount rates used to calculate value in use range are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. The forecasts are extrapolated beyond five years based on estimated long-term average growth rates as shown above.

A resulting charge of £18m has been recognised for businesses included in the UK & ROI segment. This charge has been classified as an exceptional item within 'Net restructuring and redundancy costs' within cost of sales.

The Group has carried out a sensitivity analysis on the impairment tests of each group of cash-generating units to which goodwill has been allocated. An increase in the discount rate or reduction in the long-term growth rate by less than one percentage point would cause the carrying value of goodwill in the Malaysia (£70m) and Sociomantic (£43m, included in UK above) groups of cash-generating units to equal their recoverable values.

Impairment of software

An impairment of £154m of software has been recognised in the year, principally as a result of an evaluation of the cash-generating unit for technology relating to online general merchandising as the Group moves toward a single online platform for customers. In addition, assets with a total net carrying value of £98m were written off within disposals. These amounts have been reflected as 'Net impairment of PPE, intangible assets and onerous lease provisions' within exceptional items in cost of sales. The other amounts have not been classified as exceptional items.

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 28 February 2015	25,298	11,493	36,791
Foreign currency translation	76	34	110
Additions[b]	364	493	857
Acquired through business combinations	1,725	17	1,742
Reclassification	(93)	2	(91)
Classified as held for sale	(715)	(23)	(738)
Disposals	(515)	(346)	(861)
Transfer to disposal group classified as held for sale	(3,583)	(1,202)	(4,785)
At 27 February 2016	**22,557**	**10,468**	**33,025**
Accumulated depreciation and impairment losses			
At 28 February 2015	8,021	8,330	16,351
Foreign currency translation	93	49	142
Charge for the year	318	759	1,077
Impairment losses	263	–	263
Reversal of impairment losses	(220)	(25)	(245)
Reclassification	(28)	(77)	(105)
Classified as held for sale	(475)	(20)	(495)
Disposals	(295)	(281)	(576)
Transfer to disposal group classified as held for sale	(479)	(808)	(1,287)
At 27 February 2016	**7,198**	**7,927**	**15,125**
Net carrying value[c][d]			
At 27 February 2016	**15,359**	**2,541**	**17,900**
At 28 February 2015	17,277	3,163	20,440
Construction in progress included above[e]			
At 27 February 2016	**121**	**63**	**184**
At 28 February 2015	271	71	342

[a] Other assets consist of fixtures and fittings with a net carrying value of £2,145m (2015: £2,722m), office equipment with a net carrying value of £144m (2015: £233m) and motor vehicles with a net carrying value of £252m (2015: £208m).

[b] Includes £7m (2015: £44m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.6% (2015: 4.4%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

[c] Net carrying value includes assets held under finance leases which are analysed below.

	2016		2015	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	55	21	76	43

These assets are pledged as security for the finance lease liabilities.

[d] The net carrying value of land and buildings comprises:

Note 11 Property, plant and equipment continued

	2016 £m	2015 £m
Freehold	13,005	15,057
Long leasehold – 50 years or more	491	607
Short leasehold – less than 50 years	1,863	1,613
Net carrying value	**15,359**	**17,277**

[e] Construction in progress does not include land.

In the current year the Group reclassified property, plant and equipment with a net book value of £8m (2015: £81m) to development properties in inventories.

Following a re-evaluation of the allocation of the prior year impairment between the components of cash-generating units, the prior year movement table has been re-presented. There is no impact on the total net carrying value, Income Statement, depreciation or impairment charge.

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 22 February 2014	25,734	10,851	36,585
Foreign currency translation	(314)	(106)	(420)
Additions[b]	799	840	1,639
Acquired through business combinations	–	3	3
Reclassification	(591)	152	(439)
Classified as held for sale	30	(18)	12
Disposals	(360)	(229)	(589)
At 28 February 2015	**25,298**	**11,493**	**36,791**
Accumulated depreciation and impairment losses			
At 22 February 2014	4,985	7,110	12,095
Foreign currency translation	(186)	(96)	(282)
Charge for the year	446	847	1,293
Impairment losses	3,621	671	4,292
Reversal of impairment losses	(169)	(7)	(176)
Reclassification	(358)	–	(358)
Classified as held for sale	(86)	(16)	(102)
Disposals	(232)	(179)	(411)
At 28 February 2015	**8,021**	**8,330**	**16,351**

[a][b] Refer to previous page for footnotes.

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the balance sheet date. Recoverable amounts for cash-generating units are based on the higher of value in use or fair value less costs of disposal. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £17,900m (2015: £20,440m) above comprises £13,731m (2015: £13,642m) of unimpaired assets and £4,169m (2015: £6,798m) of impaired assets . Of the impaired assets, £1,805m (2015: £3,841m) carrying value was supported by value in use and £2,364m (2015: £2,957m) was supported by fair value. Due to the individual nature of each property, these fair values are classified as Level 3 within the fair value hierarchy.

Fair values are determined in regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location , infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. The key inputs to the valuation are the potential market rents and yields, both of which are largely based on rentals and yields for similar properties in that location.

Value in use is generally calculated from cash flow projections for five years using data from the Group's latest internal forecast, the results of which are reviewed by the Board. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of 2% to 6% (2015: 2% to 5%).

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rates used to calculate value in use predominately range from 9% to 12% (2015: 9% to 12%) depending on the specific conditions in which each cash-generating unit operates. On a post-tax basis, the discount rates predominately range from 7% to 9% (2015: 7% to 10%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region.

A net impairment loss of £18m (£263m loss offset by £245m reversal) has been recognised in the year, largely reflecting normal fluctuations expected from store level performance within the continuing challenging economic environment. These losses and reversals have been largely presented net at an operating segment level to reflect the underlying trends in the businesses. The impairment loss of £263m (2015: £4,118m) relates to properties in the UK & ROI of £164m (2015: £3,484m) and International of £99m (2015: £634m), whilst the impairment reversal of £245m (2015: £176m) relates to properties in the UK & ROI of £126m (2015: £133m) and International of £119m (2015: £43m).

Of the £18m net loss, a £93m release within exceptional items related to trading stores and online general merchandising hardware has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within cost of sales. In addition, an £89m loss within exceptional items related to construction in progress and closed stores has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within profits/(losses) arising on property-related items. An additional £34m loss within exceptional items relating to business rationalisation in the UK & ROI has been classified as 'Net restructuring and redundancy costs' included within cost of sales. The remaining £12m reversal has not been included within exceptional items.

Note 11 Property, plant and equipment continued

The prior year net impairment loss of £4,116m included £174m related to Korean operations which were disposed of in the current financial year. Of the remaining £3,942m impairment loss related to continuing operations, £3,094m was classified as an exceptional item within 'Impairment of PPE and onerous lease provisions' within cost of sales. An additional £777m impairment loss related to construction in progress and closed stores was classified as 'Impairment of PPE and onerous lease provisions' included within profits/ (losses) arising on property-related items. The remaining £71m impairment loss was not included within exceptional items.

Note 12 Investment property

	2016 £m	2015 £m
Cost		
At beginning of the year	285	283
Foreign currency translation	5	(4)
Additions	5	–
Reclassification	48	87
Classified as held for sale	(91)	(51)
Disposals	(43)	(30)
Transfer to disposal group classified as held for sale	(39)	–
At end of the year	**170**	**285**
Accumulated depreciation and impairment losses		
At beginning of the year	121	56
Foreign currency translation	6	(5)
Charge for the year	2	1
Impairment losses for the year	2	21
Reversal of impairment losses for the year	(7)	(20)
Reclassification	31	92
Classified as held for sale	(47)	(1)
Disposals	(7)	(23)
Transfer to disposal group classified as held for sale	(9)	–
At end of the year	92	121
Net carrying value at end of the year	**78**	**164**

The estimated fair value of the Group's investment property is £0.3bn (2015: £0.3bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

Note 13 Group entities

The Group consists of the ultimate parent company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 151 to 159 for a complete list of Group entities.

Subsidiaries

The accounting period ends of the subsidiaries consolidated in these financial statements are on or around 27 February 2016.

Consolidated structured entities

The Group has a number of securitisation structured entities established in connection with Tesco Bank's credit card securitisation transactions. Although none of the equity of these entities is owned by the Group, the Group has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over them. As such these entities are effectively controlled by the Group, and are therefore accounted for as subsidiaries of the Group.

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 27 February 2016 within these financial statements.

Note 13 Group entities continued

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
BLT Properties Limited	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Atrato Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Property (No. 2) Limited Partnership	Joint venture	Property investment	50%	Jersey	United Kingdom
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Tesco Underwriting Limited	Joint venture	Financial services	49.9%	England	United Kingdom
Trent Hypermarket Limited	Joint venture	Retail	50%	India	India
Gain Land Limited	Associate	Retail	20%	British Virgin Islands	People's Republic of China/Hong Kong
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Associate	Property investment	25%	Thailand	Thailand

In the current year, the Group sold its interests in three joint ventures: The Tesco British Land Property Partnership; Shopping Centres Limited; and Tesco BL Holdings Limited. Additionally, the Group acquired the remaining interests in three other joint ventures: the Tesco Aqua Limited Partnership; The Tesco Red Limited Partnership; and The Tesco Property Limited Partnership. See Note 30 for further details on these transactions.

The Group holds a 21% investment stake in Lazada Group S.A. This investment is not treated as an associate because the Group does not have the power to participate in key management decisions. Refer to Note 34 for details of the disposal of part of this investment subsequent to the reporting date.

The accounting period end dates of the joint ventures and associates consolidated in these financial statement range from 31 December 2015 to 27 February 2016. The accounting period end dates for joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the parent, other than those imposed by the Companies Act 2006.

Summarised financial information for joint ventures and associates

The summarised financial information for UK Property joint ventures has been aggregated in order to provide useful information to users without excessive detail since these entities have similar characteristics and risk profiles largely based on their nature of activities and geographic market.

The UK property joint ventures involve the Group partnering with third parties in carrying out some property investments in order to enhance returns from property and access funding whilst reducing risks associated with sole ownership. These property investments generally cover shopping centres and standalone stores. The Group enters into operating leases for some or all of the properties held in the joint ventures. These leases provide the Group with some rights over alterations and adjacent land developments. Some leases also provide the Group with options to purchase the other joint venturers' equity stakes at a future point in time. In some cases the Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria. In other cases, the Group carries out property management activities for third party rentals of shopping centre units.

The property investment activities are carried out in separate entities, usually partnerships or limited liability companies. The Group has assessed its ability to direct the relevant activities of these entities and impact Group returns and concluded that the entities qualify as joint ventures since decisions regarding them require the unanimous consent of both equity holders. This assessment included not only rights within the joint venture agreements, but also any rights within the other contractual arrangements between the Group and the entities.

The Group made a number of judgements and assertions in arriving at this determination, the key ones being:

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;
- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures or infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

Notes to the Group financial statements continued

Note 13 Group entities continued

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required.

	UK Property joint ventures		Gain Land Limited	
	2016 £m	2015 £m	12 months to Dec 2015 £m	7 months to Dec 2014 £m
Summarised Balance Sheet				
Non-current assets	4,158	5,768	4,712	4,543
Current assets (excluding cash and cash equivalents)	58	219	2,047	1,979
Cash and cash equivalents	38	115	581	579
Current liabilities[a]	(327)	(401)	(5,550)	(4,728)
Non-current liabilities[a]	(4,731)	(6,628)	(153)	(403)
Net (liabilities)/assets	**(804)**	**(927)**	**1,637**	**1,970**
Summarised Income Statement				
Revenue	296	418	8,408	4,811
Profit/ (loss) after tax	**(36)**	**15**	**(341)**	**(229)**
Reconciliation to carrying amounts:				
Opening balance	49	90	582	–
Additions/ disposals[b]	(10)	–	–	1,261
Foreign currency translation	–	–	(3)	(2)
Share of profit/ (loss)[c]	22	15	(68)	(47)
Share of other comprehensive income	–	–	–	–
Impairment of joint ventures and associates	–	–	–	(630)
Dividends received from joint ventures and associates	(29)	(56)	–	–
Deferred profits offset against carrying amounts[d]	(32)	–	–	–
Closing balance	**–**	**49**	**511**	**582**
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/ (liabilities)	(402)	(464)	327	394
Goodwill	–	–	184	188
Deferred profits offset against carrying amounts[d]	(64)	–	–	–
Cumulative unrecognised losses[e]	143	138	–	–
Cumulative unrecognised hedge reserves[e]	323	375	–	–
Carrying amount	**–**	**49**	**511**	**582**

(a) Included within current and non-current liabilities of UK Property joint ventures are £(646)m (2015: £(750)m) derivative balances related to swaps which hedge the cash flow variability exposures of the joint ventures.
(b) The disposal amount relates to The Tesco Property Limited Partnership. See Note 30.
(c) The profit for the year for UK joint ventures related to £22m dividends received from joint ventures with £nil carrying amounts. £8m of losses and £13m of increases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.
(d) Deferred profits that arose from the transfer of properties into the UK Property joint ventures have been offset against the carrying amounts of the related joint ventures. These deferred profits were previously included under trade and other payables.
(e) Cumulative unrecognised losses of £57m and cumulative unrecognised hedge reserves of £39m were disposed of relating to joint ventures disposed of or acquired in the period.

At 27 February 2016, the Group has £115m (2015: £179m) loans to UK Property joint ventures and £nil (2015: £nil) to Gain Land Limited.

Note 13 Group entities continued

Individually immaterial joint ventures and associates

The Group also has interests in a number of individually immaterial joint ventures and associates excluding UK Property joint ventures and Gain Land Limited.

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	219	252	55	57
Group's share of profit for the year	23	14	2	5

Unconsolidated structured entities

The Group has sponsored a number of structured entities. The Group led the formation of the entities and its name appears in the name of the entities and/or on the debt issued by the entities. The structured entities were set up to finance property purchases by some of the UK Property joint ventures in which the Group typically holds a 50% equity interest. The structured entities obtain debt financing from third party investors and lend the funds to these joint ventures, who use the funds to purchase the properties.

The liabilities of the UK Property joint ventures disclosed above include the loans due to these structured entities. The Group's exposure to the structured entities is limited to the extent of the Group's interests in the joint ventures. The liabilities of the structured entities are non-recourse to the Group.

The Group concluded that it does not control, and therefore should not consolidate, these structured entities, since it does not have power over the relevant activities of the structured entities, or exposure to variable returns from these entities.

Note 14 Other investments

	2016 £m	2015 £m
Loans receivable	30	35
Available-for-sale financial assets	1,105	940
	1,135	**975**

Available-for-sale financial assets mainly comprise investments in bonds with varied maturities of which £57m (2015: £111m) is current.

Note 15 Inventories

	2016 £m	2015 £m
Goods held for resale	2,390	2,825
Development properties	40	132
	2,430	**2,957**

Goods held for resale are net of £75m (2015: £93m) relating to commercial income. These commercial income amounts will be recognised in cost of sales upon sale of those inventories.

In the year, the Group disposed of £102m of development properties together with £5m of PPE, representing 12 development sites in London. The sale generated a profit of £97m which has been classified as an exceptional item within 'Property transactions' in profits/ (losses) arising on property-related items. Refer to Note 4.

Notes to the Group financial statements continued

Note 16 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	496	533
Prepayments	319	352
Accrued income	121	183
Other receivables	491	803
Amounts owed by joint ventures and associates (Note 28)	180	250
	1,607	**2,121**

Trade and other receivables includes £201m (2015: £97m) within other receivables of amounts due from suppliers for commercial income which have been invoiced but for which there is no legal right or intention to offset against payables, and £100m (2015: £158m) within accrued income of amounts due from suppliers in relation to commercial income which have been earned but not yet invoiced.

Included within trade and other receivables are the following amounts receivable after more than one year:

	2016 £m	2015 £m
Trade receivables	3	7
Prepayments and accrued income	11	19
Other receivables	35	461
Amounts owed by joint ventures and associates	152	149
	201	**636**

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from seven to 60 days.

At 27 February 2016, trade and other receivables of £37m (2015: £31m) were past due and impaired. The amount of the provision was £30m (2015: £42m). The ageing analysis of these receivables is as follows:

	2016 £m	2015 £m
Up to three months past due	14	2
Three to six months past due	4	2
Over six months past due	19	27
	37	**31**

At 27 February 2016, trade and other receivables of £149m (2015: £146m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2016 £m	2015 £m
Up to three months past due	129	117
Three to six months past due	15	14
Over six months past due	5	15
	149	**146**

No receivables have been renegotiated in the current or prior financial years.

Note 17 Loans and advances to customers

Tesco Bank has loans and advances to customers, as follows:

	2016 £m	2015 £m
Non-current	4,723	3,906
Current	3,819	3,814
	8,542	**7,720**

The maturity of these loans and advances is as follows:

	2016 £m	2015 £m
Repayable on demand or at short notice	3	3
Within three months	3,758	3,744
Greater than three months but less than one year	146	158
Greater than one year but less than five years	2,181	2,033
After five years	2,608	1,922
	8,696	**7,860**
Provision for impairment of loans and advances	(154)	(140)
	8,542	**7,720**

At 29 February 2016, £2.6bn (2015: £3.0bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions.

At 29 February 2016, Delamare Cards MTN Issuer plc had £1.8bn (2015: £2.0bn) notes in issue in relation to securitisation transactions, of which £0.8bn (2015: £0.5bn) was externally issued.

At 29 February 2016, unsecured lending balances (including related asset backed notes) of £2.0bn had been prepositioned with the Bank of England (2015: £2.6bn). A further £0.6bn (2015: £1.3bn) had been pledged as collateral to enable drawings of £0.4bn (2015: £0.8bn) to be made from the Bank of England's Funding for Lending Scheme.

Provision for impairment of loans and advances

	£m
At 22 February 2014	**(157)**
Increase in allowance, net of recoveries, charged to the Group Income Statement	(48)
Amounts written off	62
Unwinding of discount	3
At 28 February 2015	**(140)**
Increase in allowance, net of recoveries, charged to the Group Income Statement	(64)
Amounts written off	47
Unwinding of discount	3
At 27 February 2016	**(154)**

Note 18 Cash and cash equivalents and short-term investments

	2016 £m	2015 £m
Cash at bank and in hand	2,334	2,134
Short-term deposits	748	31
	3,082	**2,165**

In addition to the above, £3,463m (2015: £593m) is held on money market funds and is classed as short-term investments.

Note 19 Trade and other payables

	2016 £m	2015 £m
Trade payables	4,545	5,076
Other taxation and social security	388	366
Other payables	2,091	2,698
Amounts payable to joint ventures and associates (Note 28)	14	23
Accruals and deferred income	1,530	1,759
	8,568	**9,922**

Included in other payables are amounts of £275m (2015: £147m) which are non-current.

Netted against trade and other payables is £305m (2015: £347m) amounts receivable from suppliers in relation to commercial income that has been invoiced, for which there is a current legal right and intention to offset against amounts payable at the balance sheet date.

Amounts received in advance of income being earned of £131m (2015: £53m) are included in accruals and deferred income.

Notes to the Group financial statements continued

Note 20 Borrowings

Current

	Par value	Maturity	2016 £m	2015 £m
Commercial paper, bank loans and overdrafts	–	–	845	1,982
Loans from joint ventures (Note 28)	–	–	6	16
4% RPI MTN[(a)]	£310m	Sep 2016	316	–
5.875% MTN	€1,039m	Sep 2016	877	–
2.7% USD Bond	$500m	Jan 2017	361	–
5.4478% Term Loan	£382m	Jan 2017	396	–
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	14	–
Finance leases (Note 33)	–	–	11	10
			2,826	**2,008**

Non-current

	Par value	Maturity	2016 £m	2015 £m
4% RPI MTN[(a)]	£310m	Sep 2016	–	313
5.875% MTN	€1,039m	Sep 2016	–	872
2.7% USD Bond	$500m	Jan 2017	–	325
LIBOR + 0.5% Term Loan	£488m	Oct 2017	478	–
1.250% MTN	€500m	Nov 2017	394	362
5.5% USD Bond	$850m	Nov 2017	666	625
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	132	135
3.375% MTN	€750m	Nov 2018	595	548
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	149
1.375% MTN	€1,250m	Jul 2019	990	911
5.5% MTN	£350m	Dec 2019	353	353
1% RPI Tesco Bank Retail Bond	£66m	Dec 2019	66	60
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	–
2.125% MTN	€500m	Nov 2020	394	362
5% Tesco Bank Retail Bond	£200m	Nov 2020	211	205
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349
6.125% MTN	£900m	Feb 2022	896	895
5% MTN	£389m	Mar 2023	411	407
2.5% MTN	€750m	Jul 2024	595	547
3.322% LPI MTN[(b)]	£317m	Nov 2025	320	318
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	353	–
6.067% Secured Bond[(d)]	£200m	Feb 2029	189	–
LIBOR + 1.2% Secured Bond[(d)]	£50m	Feb 2029	30	–
6% MTN	£200m	Dec 2029	257	261
5.5% MTN	£200m	Jan 2033	259	262
1.982% RPI MTN[(c)]	£263m	Mar 2036	265	263
6.15% USD Bond	$1,150m	Nov 2037	1,035	917
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN[(f)]	€600m	Apr 2047	486	631
5.2% MTN	£279m	Mar 2057	275	275
Finance leases (Note 33)	–	–	88	131
			10,711	**10,651**

(a) The 4% RPI MTN is redeemable at par, including indexation for increases in the Retail Price Index (RPI) over the life of the MTN.
(b) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
(c) The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.
(d) The bonds are secured by a charge over the Property, Plant and Equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £838m.
(e) This is an amortising bond which matures in February 2029. £14m is the principal repayment due within the next 12 months, and is payable quarterly during 2016/17. The remainder is payable in quarterly instalments until maturity in February 2029.
(f) The decrease in carrying value of the bond includes £186m of reduction due to a change of the hedge relationship from a fair value to a cash flow hedge. This has been recognised in the Statement of Comprehensive Income in the current year.

Note 20 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed facilities available at 27 February 2016, in respect of which all conditions precedent had been met as at that date:

	2016 £m	2015 £m
Expiring in less than one year	100	132
Expiring between one and two years	2,200	200
Expiring in more than two years	2,700	4,800
	5,000	**5,132**

The current year undrawn committed facilities include £2.4bn of bilateral facilities and a £2.6bn revolving credit facility.

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 21 Financial instruments

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IAS 39 'Financial Instruments: Recognition and Measurement'. Derivatives may qualify as hedges for accounting purposes and the Group's hedging policies are further described below.

Net finance cost of £53m (2015: £46m) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group Income Statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group Income Statement on an effective interest rate basis.

A gain of £45m on hedging instruments was recognised during the year, offset by a loss of £48m on hedged items (2015: a gain of £27m on hedging instruments was offset by a loss of £73m on hedged items).

Cash flow hedges

The Group uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur and will affect the Group Income Statement within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies.

The Group also uses forward contracts to hedge the future purchase of diesel for own use.

Cash flow hedging ineffectiveness resulted in a loss of £50m during the year (2015: £nil).

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations (with non-Sterling functional currency) against changes in value due to changes in foreign exchange rates. There was £nil (2015: £nil) that was recorded as resulting from net investment ineffectiveness.

Gains and losses accumulated in equity are recycled to the Group Income Statement on disposal of overseas operations.

Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group Income Statement.

These instruments include index-linked swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group Income Statement within finance income or costs.

The fair values of derivative financial instruments have been disclosed in the Group Balance Sheet as follows:

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	176	(62)	153	(89)
Non-current	1,532	(889)	1,546	(946)
	1,708	**(951)**	**1,699**	**(1,035)**

Notes to the Group financial statements continued

Note 21 Financial instruments continued

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	30	320	(129)	3,241	23	721	(80)	2,303
Cross-currency swaps	280	1,377	–	–	561	1,201	(11)	817
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(263)	998	–	86	(199)	462
Cross-currency swaps	651	1,713	(63)	1,379	241	311	(170)	1,754
Index-linked swaps	108	950	–	–	119	942	–	–
Forward contracts	76	1,173	(15)	292	84	974	(35)	1,271
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	5	70	(14)	2,234	6	640	(6)	2,982
Cross-currency swaps	4	25	(4)	40	10	44	(1)	36
Index-linked swaps	529	3,589	(421)	3,589	580	3,589	(474)	3,589
Forward contracts	25	1,107	(42)	958	75	1,292	(59)	965
Total	**1,708**	**10,324**	**(951)**	**12,731**	**1,699**	**9,800**	**(1,035)**	**14,179**

The carrying value and fair value of financial assets and liabilities are as follows:

	2016		2015	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	3,082	3,082	2,165	2,165
Loans and advances to customers – Tesco Bank	8,542	8,822	7,720	7,772
Short-term investments	3,463	3,463	593	593
Other investments	1,135	1,135	975	975
Joint venture and associates loan receivables (Note 28)*	149	163	207	208
Other receivables	1	1	1	1
Derivative financial assets:				
Interest rate swaps and similar instruments	35	35	29	29
Cross-currency swaps	935	935	812	812
Index-linked swaps	637	637	699	699
Forward contracts	101	101	159	159
Total financial assets	**18,080**	**18,374**	**13,360**	**13,413**
Liabilities				
Short-term borrowings:				
Amortised cost	(1,938)	(1,936)	(1,998)	(1,998)
Bonds in fair value hedge relationships	(877)	(865)	–	–
Long-term borrowings:				
Amortised cost	(9,512)	(9,136)	(7,193)	(7,299)
Bonds in fair value hedge relationships	(1,111)	(800)	(3,327)	(3,033)
Finance leases (Note 33)	(99)	(101)	(141)	(141)
Customer deposits – Tesco Bank	(7,397)	(7,405)	(6,914)	(6,873)
Deposits by banks – Tesco Bank	(82)	(82)	(106)	(106)
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	(406)	(406)	(285)	(285)
Cross-currency swaps	(67)	(67)	(182)	(182)
Index-linked swaps	(421)	(421)	(474)	(474)
Forward contracts	(57)	(57)	(94)	(94)
Total financial liabilities	**(21,967)**	**(21,276)**	**(20,714)**	**(20,485)**
Total	**(3,887)**	**(2,902)**	**(7,354)**	**(7,072)**

* Joint venture and associates loan receivables carrying amounts of £149m (2015: £207m) are presented on the Balance Sheet net of deferred profits of £57m (2015: £67m) historically arising from the sale of property assets to joint ventures.

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes trade and other receivables/payables which have fair values equal to their carrying values.

Note 21 Financial instruments continued

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 27 February 2016 and 28 February 2015 are as follows:

At 27 February 2016	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	3,082	–	3,082
Loans and advances to customers – Tesco Bank	–	8,542	–	8,542
Short-term investments	–	3,463	–	3,463
Other investments	1,105	30	–	1,135
Joint venture and associates loan receivables (Note 28)	–	149	–	149
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(7,397)	–	(7,397)
Deposits by banks – Tesco Bank	–	(82)	–	(82)
Short-term borrowings	–	(2,815)	–	(2,815)
Long-term borrowings	–	(10,623)	–	(10,623)
Finance leases (Note 33)	–	(99)	–	(99)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(371)	(371)
Cross-currency swaps	–	–	868	868
Index-linked swaps	–	–	216	216
Forward contracts	–	–	44	44
	1,105	**(5,749)**	**757**	**(3,887)**

At 28 February 2015	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,165	–	2,165
Loans and advances to customers – Tesco Bank	–	7,720	–	7,720
Short-term investments	–	593	–	593
Other investments	940	35	–	975
Joint venture and associates loan receivables (Note 28)	–	207	–	207
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(6,914)	–	(6,914)
Deposits by banks – Tesco Bank	–	(106)	–	(106)
Short-term borrowings	–	(1,998)	–	(1,998)
Long-term borrowings	–	(10,520)	–	(10,520)
Finance leases (Note 33)	–	(141)	–	(141)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(256)	(256)
Cross-currency swaps	–	–	630	630
Index-linked swaps	–	–	225	225
Forward contracts	–	–	65	65
	940	**(8,958)**	**664**	**(7,354)**

The above tables exclude trade and other receivables/ payables that are classified under loans and receivables/ other financial liabilities.

Notes to the Group financial statements continued

Note 21 Financial instruments continued

Fair value measurement
The following table presents the Group's financial assets and liabilities that are measured at fair value at 27 February 2016 and 28 February 2015, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 27 February 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	980	–	125	1,105
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	35	–	35
Cross-currency swaps	–	935	–	935
Index-linked swaps	–	637	–	637
Forward foreign currency contracts	–	101	–	101
Total assets	**980**	**1,708**	**125**	**2,813**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(406)	–	(406)
Cross-currency swaps	–	(67)	–	(67)
Index-linked swaps	–	(421)	–	(421)
Forward contracts	–	(57)	–	(57)
Total liabilities	**–**	**(951)**	**–**	**(951)**
Total	**980**	**757**	**125**	**1,862**

At 28 February 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	828	–	112	940
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	29	–	29
Cross-currency swaps	–	812	–	812
Index-linked swaps	–	699	–	699
Forward foreign currency contracts	–	159	–	159
Total assets	**828**	**1,699**	**112**	**2,639**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(285)	–	(285)
Cross-currency swaps	–	(182)	–	(182)
Index-linked swaps	–	(474)	–	(474)
Forward contracts	–	(94)	–	(94)
Total liabilities	**–**	**(1,035)**	**–**	**(1,035)**
Total	**828**	**664**	**112**	**1,604**

The following table presents the changes in Level 3 instruments for 52 weeks ended 27 February 2016 and 53 weeks ended 28 February 2015:

	2016 £m	2015 £m
At beginning of the year	112	96
Gains/ (losses) recognised in finance costs in the Group Income Statement	–	–
Gains/ (losses) recognised in the Group Statement of Comprehensive Income	9	(16)
Purchase of non-controlling interests	4	32
At end of the year	**125**	**112**

During the financial year, there were no transfers (2015: £nil) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. £121m of Level 3 assets relate to an investment in an unlisted entity measured at cost (2015: £112m).

Note 21 Financial instruments continued

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 27 February 2016	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet: Financial instruments £m	Related amounts not offset in the Group Balance Sheet: Collateral £m	Net amount £m
Financial assets offset						
Cash and cash equivalents	3,413	(331)	3,082	–	–	3,082
Derivative financial instruments	1,708	–	1,708	(365)	(4)	1,339
Trade and other receivables	1,916	(309)	1,607	–	–	1,607
Total	**7,037**	**(640)**	**6,397**	**(365)**	**(4)**	**6,028**
Financial liabilities offset						
Bank loans and overdrafts	(1,176)	331	(845)	–	–	(845)
Repurchases, securities lending and similar agreements*	(82)	–	(82)	83	(1)	–
Derivative financial instruments	(951)	–	(951)	365	121	(465)
Trade and other payables	(8,877)	309	(8,568)	–	–	(8,568)
Total	**(11,086)**	**640**	**(10,446)**	**448**	**120**	**(9,878)**

* Repurchases, securities lending and similar agreements are included within the Deposits by banks balance of £82m in the Group Balance Sheet (Note 23).

At 28 February 2015	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet: Financial instruments £m	Related amounts not offset in the Group Balance Sheet: Collateral £m	Net amount £m
Financial assets offset						
Cash and cash equivalents	2,405	(240)	2,165	–	–	2,165
Derivative financial instruments	1,699	–	1,699	(331)	(2)	1,366
Trade and other receivables	2,490	(369)	2,121	–	–	2,121
Total	**6,594**	**(609)**	**5,985**	**(331)**	**(2)**	**5,652**
Financial liabilities offset						
Bank loans and overdrafts	(2,222)	240	(1,982)	–	–	(1,982)
Repurchases, securities lending and similar agreements*	(97)	–	(97)	103	–	6
Derivative financial instruments	(1,035)	–	(1,035)	331	61	(643)
Trade and other payables	(10,291)	369	(9,922)	–	–	(9,922)
Total	**(13,645)**	**609**	**(13,036)**	**434**	**61**	**(12,541)**

* Repurchases, securities lending and similar agreements are included within the Deposits by banks balance of £106m in the Group Balance Sheet (Note 23).

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Note 22 Financial risk factors

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below.

Financial risk management is carried out by a central treasury department under policies approved and delegated by the Board of Directors. The Board provides written principles for risk management.

Interest rate risk

Debt issued at variable rates as well as cash deposits and short-term investments exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk.

The Group's policy is to fix interest rates for the year on a minimum of 50% and maximum of 70% 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 88% (2015: 79%). The remaining balance of debt is in floating rate form. The average rate of interest paid on an historical cost basis this year, excluding joint ventures and associates, was 3.94% (2015: 4.09%). A progression towards revised policy levels will proceed with due consideration to optimal execution, costs and interest cover.

Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

The Group has Retail Price Index ('RPI') linked debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has Limited Price Inflation ('LPI') linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt. RPI linked debt and LPI linked debt are hedged for the effects of inflation until maturity.

Notes to the Group financial statements continued

Note 22 Financial risk factors continued

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

During 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk.

	2016			2015		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	3,082	3,082	–	2,165	2,165
Loans and advances to customers – Tesco Bank	4,725	3,817	8,542	4,041	3,679	7,720
Short-term investments	–	3,463	3,463	–	593	593
Other investments	1,059	76	1,135	904	71	975
Joint venture and associate loan receivables (Note 28)	83	66	149	141	66	207
Other receivables	1	–	1	1	–	1
Finance leases (Note 33)	(99)	–	(99)	(141)	–	(141)
Bank and other borrowings	(10,729)	(2,709)	(13,438)	(10,571)	(1,947)	(12,518)
Customer deposits – Tesco Bank	(3,165)	(4,232)	(7,397)	(2,868)	(4,046)	(6,914)
Deposits from banks – Tesco Bank	(82)	–	(82)	(106)	–	(106)
Derivative effect:						
Interest rate swaps	(6,732)	6,732	–	(6,523)	6,523	–
Cross-currency swaps	1,898	(1,898)	–	1,973	(1,973)	–
Index-linked swaps	(633)	633	–	(567)	567	–
Total	**(13,674)**	**9,030**	**(4,644)**	**(13,716)**	**5,698**	**(8,018)**

Credit risk
Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits with banks and financial institutions.

The Group holds positions with an approved list of investment grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. The net counterparty exposure under derivative contracts is £1.3bn (2015: £1.4bn). The Group considers its maximum credit risk to be £18.7bn (2015: £14.7bn) being the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

Liquidity risk
The Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities and to maintain access to capital markets so that maturing debt may be refinanced as it falls due.

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £5.0bn (2015: £5.1bn), consisting of a revolving credit facility and bilateral lines as alternate sources of liquidity, which mature between 2016 and 2019.

The Group has a European Medium Term Note programme of £15.0bn, of which £7.4bn was in issue at 27 February 2016 (2015: £7.4bn), plus a Euro Commercial Paper programme of £2.0bn, £nil of which was in issue at 27 February 2016 (2015: £0.5bn), and a US Commercial Paper programme of $4.0bn, £nil of which was in issue at 27 February 2016 (2015: £0.7bn).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow of £17.1bn is considered acceptable as it is offset by financial assets of £18.7bn (2015: £17.8bn offset by financial assets of £14.7bn).

The undiscounted cash flows will differ from both the carrying values and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 3% for the life of the liability (2015: 3%).

At 27 February 2016	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(2,436)	(1,659)	(1,034)	(1,777)	(617)	(5,370)
Interest payments on borrowings	(482)	(388)	(339)	(311)	(276)	(3,008)
Customer deposits – Tesco Bank	(5,891)	(946)	(329)	(201)	(135)	(1)
Deposits from banks – Tesco Bank	(82)	–	–	–	–	–
Finance leases	(18)	(14)	(11)	(12)	(9)	(123)
Trade and other payables*	(8,293)	(78)	(34)	(5)	(16)	(142)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	63	26	22	13	9	944
Net settled derivative contracts – payments	(145)	(264)	(109)	(202)	(293)	(126)
Gross settled derivative contracts – receipts	4,694	1,228	98	98	492	3,470
Gross settled derivative contracts – payments	(4,551)	(1,121)	(74)	(75)	(496)	(2,670)
Total	**(17,141)**	**(3,216)**	**(1,810)**	**(2,472)**	**(1,341)**	**(7,026)**

* Trade and other payables includes £435m (2015: £505m) of deferred income.

Note 22 Financial risk factors continued

At 28 February 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,975)	(1,400)	(915)	(670)	(1,468)	(5,758)
Interest payments on borrowings	(403)	(406)	(343)	(306)	(283)	(2,968)
Customer deposits – Tesco Bank	(5,914)	(561)	(124)	(142)	(173)	–
Deposits from banks – Tesco Bank	(106)	–	–	–	–	–
Finance leases	(20)	(19)	(19)	(19)	(12)	(168)
Trade and other payables*	(9,775)	(62)	(25)	(2)	(2)	(56)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	41	68	25	20	14	1,068
Net settled derivative contracts – payments	(97)	(77)	(173)	(77)	(195)	(375)
Gross settled derivative contracts – receipts	4,397	1,260	1,260	76	76	3,152
Gross settled derivative contracts – payments	(3,979)	(1,314)	(1,203)	(69)	(70)	(2,782)
Total	**(17,831)**	**(2,511)**	**(1,517)**	**(1,189)**	**(2,113)**	**(7,887)**

* Refer to previous table for footnotes.

The above table has been re-presented to provide more clarity on the cash flows from derivatives taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group.

Foreign exchange risk
The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Group Income Statement are hedged. These exposures are hedged via forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges. At the year-end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £1.4bn were outstanding (2015: £2.2bn). The notional and fair value of these contracts is shown in Note 21;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group hedges a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. During the year, currency movements increased the net value, after the effects of hedging, of the Group's overseas assets by £168m (last year increase by £5m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries. These are hedged via foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

The impact on the Group financial statements from foreign currency volatility is shown in the sensitivity analysis on the next page.

Sensitivity analysis
The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 27 February 2016. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt which has been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group Income Statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group Statement of Comprehensive Income;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group Income Statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group Income Statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Note 22 Financial risk factors continued

Using the above assumptions, the following table shows the illustrative effect on the Group Income Statement and equity that would result, at the balance sheet date, from changes in interest rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	2016		2015	
	Income gain/ (loss) £m	Equity gain/ (loss) £m	Income gain/ (loss) £m	Equity gain/ (loss) £m
1% increase in interest rates (2015: 1%)	88	(44)	57	–
5% appreciation of the Czech Koruna (2015: 10%)	(1)	–	(4)	7
10% appreciation of the Euro (2015: 10%)	(285)	(94)	(31)	(39)
5% appreciation of the Hungarian Forint (2015: 5%)	(1)	(1)	(1)	2
5% appreciation of the South Korean Won (2015: 5%)	–	–	–	2
10% appreciation of the US Dollar (2015: 10%)	(1)	95	(3)	96
5% appreciation of the Polish Zloty (2015: 5%)	(2)	–	–	1

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

The impact on the Group Statement of Comprehensive Income from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group Statement of Comprehensive Income will largely be offset by the revaluation in equity of the hedged assets. The sensitivity movements in equity excludes £39m (2015: £100m) in relation to loans to Group entities that form part of their net investment.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares.

The Group finances its operations by a combination of retained profit, debt capital market issues, commercial paper, bank borrowings , disposals of property assets and leases. The policy for debt is to smooth debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year, with bonds redeemed of £nil (2015: £1,493m) and new bonds issued of £nil (2015: £2,095m). The Group borrows centrally and locally, using a variety of capital market instruments and borrowing facilities to meet the Group's business requirements of each local business.

Refer to Note 29 for the value of the Group's net debt of £5.1bn (2015: £8.5bn), and the Group Statement of Changes in Equity for the value of the Group's equity of £8.6bn (2015: £7.1bn).

Insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events. The Group purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only.

The risk not transferred to the insurance market is retained within the Group with some cover being provided by the Group's captive insurance companies, ELH Insurance Limited in Guernsey and Valiant Insurance Company DAC (formerly Valiant Insurance Company Limited) in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company DAC covers Combined Liability only.

Tesco Bank

Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates. Tesco Bank policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long-term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a +1%; -0.5% parallel movement in interest rates. Tesco Bank also use the Capital at Risk ('CaR') approach which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to ensure that impacts are assessed across a suitable range of severe but plausible movements in interest rates. This approach has replaced Economic Value of Equity ('EVE') measurement and reporting in the period. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

Liquidity and funding risk

Liquidity risk is the risk that Tesco Bank has insufficient liquidity resources to meet its obligations as they fall due or can access these only at excessive cost. Funding risk is the risk that Tesco Bank does not have sufficiently stable and diverse sources of funding.

Tesco Bank operates within a Liquidity Risk Management Policy Framework ('LRMP') to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's risk appetite is met. Liquidity and funding risk is assessed through the Individual Liquidity Adequacy Assessment Process ('ILAAP') on at least an annual basis. Formal limits are set within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board and key liquidity measures are monitored on a daily basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

Note 22 Financial risk factors continued

Credit risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time.

Retail credit policy is managed through the credit risk policy framework with standards and limits defined at all stages of the customer lifecycle, including new account sanctioning, customer management and collections and recovery activity. Customer lending decisions are managed principally through the deployment of bespoke credit scorecard models and credit policy rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay an outstanding credit amount. Wholesale credit risk is managed using a limit-based framework, with limits determined by counterparty credit worthiness, instrument type and remaining tenor. A limits framework is also in place for the management of third-party credit exposures.

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt. The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business.

Credit quality of loans and advances

As at 27 February 2016	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	30	–	–	30
90–179 days past due	41	–	–	41
180 days plus past due	82	–	–	82
Past due but not defaulted				
Less than 29 days past due	39	1	1	41
30–59 days past due	12	–	–	12
60–119 days past due	9	–	–	9
Neither past due nor defaulted				
Low risk*	6,566	1,673	146	8,385
High risk**	86	10	–	96
Total	**6,865**	**1,684**	**147**	**8,696**

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

As at 28 February 2015	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	39	–	–	39
90–179 days past due	35	–	–	35
180 days plus past due	70	–	–	70
Past due but not defaulted				
Less than 29 days past due	34	2	–	36
30–59 days past due	9	–	–	9
60–119 days past due	6	–	–	6
Neither past due nor defaulted				
Low risk*	6,234	1,195	154	7,583
High risk**	76	6	–	82
Total	**6,503**	**1,203**	**154**	**7,860**

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off balance sheet items, mainly undrawn credit card facilities and mortgage offers, was £11.9bn (2015: £11.5bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited ('TU'), an authorised insurance company. Since late 2010, the majority of new business policies for home and motor insurance products sold by Tesco Bank have been underwritten by TU. The key insurance risks within TU relate to underwriting risk and specifically the potential for a major weather event to generate significant claims on home insurance, or on motor insurance the cost of settling bodily injury claims. Exposure to this risk is actively managed within TU with close monitoring of performance metrics and the use of reinsurance to limit TU's exposure above predetermined limits.

Notes to the Group financial statements continued

Note 23 Customer deposits and deposits by banks

	2016 £m	2015 £m
Customer deposits	7,397	6,914
Deposits by banks	82	106
	7,479	**7,020**

Included above is £1,573m (2015: £1,000m) non-current customer deposits and £nil (2015: £nil) non-current deposits by banks.

Deposits by banks include liabilities of £82m (2015: £97m) that have been sold under sale and repurchase agreements.

Note 24 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 22 February 2014	**328**	**–**	**105**	**433**
Foreign currency translation	(1)	–	–	(1)
Amount released in the year	(104)	–	–	(104)
Amount provided in the year	773	325	37	1,135
Amount utilised in the year	(61)	–	(42)	(103)
Unwinding of discount	6	–	–	6
At 28 February 2015	**941**	**325**	**100**	**1,366**
Foreign currency translation	(1)	4	–	3
Amount released in the year	(4)	(77)	–	(81)
Amount provided in the year	154	166	–	320
Amount utilised in the year	(188)	(335)	(34)	(557)
Transfer to disposal group classified as held for sale	(74)	–	–	(74)
Unwinding of discount	47	–	–	47
At 27 February 2016	**875**	**83**	**66**	**1,024**

The balances are analysed as follows:

	2016 £m	2015 £m
Current	360	671
Non-current	664	695
	1,024	**1,366**

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased properties to the Group is based on the same assumptions for growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11, discounted at the appropriate risk free rate. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the appropriate risk adjusted rate. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Based on the factors set out above, the Group has recognised a net onerous property provision exceptional charge in the year of £150m (2015: £612m charge), largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties. The onerous property provision charge relates to contracts in the UK & ROI of £134m (2015: £574m) and International of £16m (2015: £38m), with £130m (2015: £492m) included within cost of sales and £20m (2015: £120m) included within profits/ (losses) arising on property-related items. Onerous lease provisions will be utilised over the lease terms.

Restructuring provisions

Of the £89m net charge (£166m charge, £77m release) recognised in the year, £22m relating to changes to store colleague structures and working practices in the UK & ROI has been classified as an exceptional item within 'Net restructuring and redundancy costs' within cost of sales. An additional £34m relating to UK head office restructuring costs has been classified as an exceptional item within 'Net restructuring and redundancy costs' within administrative expenses. The exceptional charges are expected to be utilised in the next financial year. The remaining £33m has not been included within exceptional items.

The prior year charge of £325m related to cost saving initiatives including in the UK a restructuring of central overheads, simplification of store management structures and increased flexibility in working arrangements and was classified as an exceptional item.

Other provisions

The other provisions relate mainly to provisions for Tesco Bank customer redress in respect of potential complaints arising from the historical sales of Payment Protection Insurance ('PPI'), in respect of customer redress relating to the historical sale of certain Cardholder Protection Products ('CPP') to credit card customers and in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act ('CCA') for post contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable.

Note 25 Share-based payments

For continuing operations, the Group Income Statement charge for the year recognised in respect of share-based payments is £308m (2015: £141m), which is made up of share option schemes and share bonus payments. Of this amount, £283m (2015: £120m) will be settled in equity and £25m (2015: £21m) in cash.

Share option schemes

The Company had eight share option schemes in operation during the financial year, all of which are equity-settled schemes:

i) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/ bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

ii) The Irish Savings-related Share Option Scheme (2000) permits the grant to Irish colleagues of options in respect of ordinary shares linked to a building society/ bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

iii) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of options in respect of ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

iv) The Executive Incentive Plan (2014) was adopted on 10 February 2014. This scheme permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' Remuneration Report.

v) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/ or continuous employment.

vi) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and 10 years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

vii) The Group Bonus Plan was adopted on 3 July 2009. This scheme was amended on 20 April 2015 to permit the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.

viii) The Long-Term Incentive Plan (2015) was adopted on 14 May 2015. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

The following tables reconcile the number of share options outstanding and the weighted average exercise price ('WAEP'):

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	**284,304,292**	**191.11**	**8,122,650**	**218.19**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**11,724,776**	**–**
Granted	71,185,926	151.00	2,153,891	151.00	–	–	–	–	–	–	13,560,088	–
Forfeited	(76,535,735)	218.82	(2,008,433)	264.53	(1,019,414)	354.25	(12,852,627)	364.62	(4,562,179)	355.53	(3,625,191)	–
Exercised	(586,618)	150.00	(4,997)	150.00	–	–	–	–	–	–	(856,867)	–
Outstanding at 27 February 2016	**278,367,865**	**173.32**	**8,263,111**	**189.46**	**6,514,959**	**407.19**	**32,459,966**	**387.09**	**24,534,811**	**386.76**	**20,802,806**	**–**
Exercisable at 27 February 2016	**13,188,829**	**329.78**	**750,453**	**308.64**	**6,514,959**	**407.19**	**32,459,966**	**387.09**	**24,534,811**	**386.76**	**2,302,052**	**–**
Exercise price range (pence)		282.00 to 386.00		282.00 to 386.00		318.60 to 473.75		318.60 to 473.75		318.60 to 473.75		–
Weighted average remaining contractual life (years)		0.42		0.42		1.84		2.18		2.15		8.28

Notes to the Group financial statements continued

Note 25 Share-based payments continued

For the year ended 28 February 2015

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 22 February 2014	**122,602,128**	**331.31**	**4,899,521**	**331.89**	**8,152,965**	**397.59**	**52,804,433**	**376.63**	**32,586,360**	**379.15**	**21,099,083**	**–**
Granted	220,096,960	150.00	4,961,170	150.00	–	–	–	–	–	–	5,105,144	–
Forfeited	(57,445,888)	330.84	(1,731,520)	344.18	(482,116)	400.30	(4,616,552)	394.86	(2,667,321)	388.13	(13,018,757)	–
Exercised	(948,908)	311.00	(6,521)	311.00	(136,476)	253.25	(2,875,288)	283.00	(822,049)	253.84	(1,460,694)	–
Outstanding at 28 February 2015	**284,304,292**	**191.11**	**8,122,650**	**218.19**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**11,724,776**	**–**
Exercisable at 28 February 2015	**18,832,155**	**343.07**	**807,176**	**351.71**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**714,455**	**–**
Exercise price range (pence)		311.00 to 386.00		328.00 to 364.00		312.75 to 473.75		310.00 to 473.75		310.00 to 473.75		–
Weighted average remaining contractual life (years)		0.42		0.42		2.65		2.89		2.95		8.46

* Nil cost share options granted include buyout awards made to Dave Lewis and Alan Stewart in respect of awards forfeited on leaving previous employers.

Share options were exercised on a regular basis throughout the financial year. The average share price during the financial year ended 27 February 2016 was 196.55p (2015: 245.50p).

The fair value of share options is estimated at the date of grant using the Black-Scholes or Monte Carlo option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2016		2015	
	SAYE	Nil cost*	SAYE	Nil Cost
Expected dividend yield (%)	1.3%	–	2.4%	–
Expected volatility (%)	25-26%	23-25%	22-24%	24%
Risk-free interest rate (%)	0.9-1.3%	0.6-1.6%	0.9-1.3%	1.8%
Expected life of option (years)	3 or 5	3-6	3 or 5	6
Weighted average fair value of options granted (pence)	52.58	129.90 to 221.06	43.72	219.67
Probability of forfeiture (%)	9-11%	–	14-16%	–
Share price (pence)	188.50	218.60 to 221.06	187.00	219.67
Weighted average exercise price (pence)	151.00	–	150.00	–

* Nil cost options granted during the financial year ended 27 February 2016 are calculated using the Black-Scholes or Monte Carlo option pricing model.

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus schemes

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year, shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,600 per annum in 2015/16. Eligible Republic of Ireland colleagues are able to participate in a Share Bonus Scheme, an all-employee profit-sharing scheme. Each year, colleagues may receive an award of either cash or shares based on a percentage of their earnings.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long-Term Incentive Plan (2015). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' Remuneration Report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

The number and weighted average fair value ('WAFV') of share bonuses awarded during the financial year were:

	2016		2015	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Shares In Success	15,979,321	221.79	18,949,708	307.15
Irish Share Bonus Scheme	–	–	84,454	292.00
Group Bonus Plan	8,762,915	215.65	2,808,053	285.43
Performance Share Plan	33,338,199	215.01	27,211,291	283.51
Long Term Incentive Plan	529,292	216.35	–	–

Note 26 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK (now closed to future accrual) and the Republic of Ireland, and the funded defined contribution pension scheme for employees in the UK. Of these schemes, the UK defined benefit deficit represents 94% of the Group deficit (2015: 95%).

Defined contribution plans

A new defined contribution scheme, Tesco Retirement Savings Plan, was opened on 22 November 2015 and is open to all Tesco employees in the UK.

A defined contribution pension scheme is one under which members pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the members' contributions. The Group has no legal or constructive obligation to pay further contributions to this fund once its initial contributions have been paid. Members' benefits upon retirement are then determined by the amount of contributions paid into the fund, together with the performance of the investments into which those contributions have been invested. Members are able to choose the investments into which their contributions are invested, as well as how they wish to receive benefits upon retirement. As a result, any risks associated with either the future value of benefits or the performance of the assets invested lie with the member.

The contributions payable for defined contribution schemes of £175m (2015: £23m) have been recognised in the Group Income Statement. This includes £43m (2015: £nil) of salaries paid as pension contributions.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the 'Scheme'), which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2014 and all the relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

i) representatives of the Group; and
ii) representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Willis Towers Watson Limited (formerly Towers Watson Limited), an independent actuary, carried out the latest triennial actuarial assessment of the Scheme as at 31 March 2014, using the projected unit credit method. At 31 March 2014, the actuarial deficit was £2,751m. The market value of the scheme's assets was £8,020m and these assets represented 75% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The Scheme has a duration of 24 years.

Closure to future accrual and new members

The Career Average section of the Scheme ('Pension Builder') was closed to new members and future accrual on 21 November 2015. The Final Salary section of the Scheme, which was closed to new entrants in 2001, was also closed to future accrual on 21 November 2015. As a result of this closure a one off past service credit of £538m and other associated costs of £(58)m have been recognised as exceptional items as set out in Note 4.

Scheme liabilities as at 31 March 2014

The table below shows a breakdown of the liabilities held by the Scheme as at 31 March 2014, the date of the last triennial valuation. As at 27 February 2016, none of the liabilities related to active members, as the Scheme had closed to future accrual.

	%
Active	55
Deferred	21
Pensioner	24

The table below shows a breakdown of the liabilities for active members held by the Scheme as at 31 March 2014:

	%
Pension Builder	57
Final Salary	43

Notes to the Group financial statements continued

Note 26 Post-employment benefits continued

UK principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 27 February 2016 were as follows:

	2016 %	2015 %
Discount rate	3.8	3.7
Price inflation	2.9	3.1
Rate of increase in deferred pensions*	1.9	2.1
Rate of increase in salaries	N/A	3.2
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.7	2.9
Benefits accrued after 1 June 2012	1.9	2.1
Rate of increase in career average benefits		
Benefits accrued before 1 June 2012	N/A	3.1
Benefits accrued after 1 June 2012	N/A	2.1

* In excess of any Guaranteed Minimum Pension ('GMP') element.

The rate of increase in salaries and career average benefits are no longer applicable, as the Scheme has closed to future accrual.

UK mortality assumptions

The Group conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2014, the following assumptions were adopted for funding purposes:

Base tables:
95% of the SAPS S2 normal male pensioners for male staff and 80% of SAPS S2 normal light male pensioners for male senior managers.
100% of the SAPS S2 all female pensioners for female staff and 80% of SAPS S2 all female pensioners for female senior managers.

These assumptions were used for the calculation of the pension liability as at 27 February 2016 for the Scheme.

The mortality assumptions used are based on tables that have been projected to 2014 with CMI 2013 improvements. In addition, the allowance for future mortality improvements from 2014 is in line with CMI 2013 with a long-term improvement rate of 1.25% per annum.

The following table illustrates the expectation of life of an average member retiring at age 65 at the reporting date and a member reaching age 65 at reporting date +25 years.

		2016 Years	2015 Years
Retiring at reporting date at age 65:	Male	23.1	23.0
	Female	24.5	24.4
Retiring at reporting date +25 years at age 65:	Male	25.4	25.3
	Female	26.8	26.7

Overseas

The most significant overseas scheme is the funded defined benefit scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the Republic of Ireland scheme as at 27 February 2016. At the year end, the deficit relating to the Republic of Ireland was £145m (2015: £168m).

The accounting valuation has been based on the most recent actuarial valuation and updated by Willis Towers Watson Limited to take account of the requirements of the applicable accounting standard in order to assess the liabilities of the scheme as at 27 February 2016. The scheme's assets are stated at their market values as at 27 February 2016. The liabilities relating to retirement healthcare benefits have also been determined in accordance with the applicable accounting standard.

Risks

The Group bears a numbers of risks in relation to the Scheme, which are described below:

Investment risk – The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.

Inflation risk – The Scheme's benefit obligations are linked to inflation, therefore higher inflation will lead to higher liabilities. This will be partially offset by an increase in any Scheme assets that are linked to, or correlate with, inflation. Changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).

Changes in bond yields – A decrease in corporate bond yields will increase the Scheme's liabilities. However, this may be partially offset by an increase in the capital value of the Scheme's assets that have similar characteristics.

Life expectancy risk – The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities. To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years.

The Operations and Audit Pensions Committee (formally the Audit & Risk Pensions Committee) was established to further strengthen our Trustee Governance and provide greater oversight and stronger internal control over our risks. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance, and impacts of any regulatory changes.

A different approach is used to calculate the triennial actuarial liabilities and the accounting liabilities. The key difference is that the accounting valuation requires the discount rate to be set using corporate bonds whilst the actuarial liabilities discount rate is based on expected returns of Scheme assets.

Note 26 Post-employment benefits continued

Sensitivity analysis of significant actuarial assumptions

	2016 £m	2015 £m
Change in UK defined benefit obligation from a 0.1% increase in discount rate	312	340
Increase in UK defined benefit obligation from a 1% increase in pensions in payment	1,797	1,920
Increase in UK defined benefit obligation from a 1% increase in salary growth	N/A	310
Increase in UK defined benefit obligation from each additional year of longevity assumed	439	490

The UK defined benefit obligation is no longer sensitive to salary growth as the Scheme has closed to future accrual.

The method and assumptions used to determine sensitivity and their limitation is the effect of varying the assumption whilst holding all other assumptions constant.

Plan assets

The table below shows a breakdown of the combined investments held by the Group's schemes:

	2016 £m	2015 £m
Equities		
UK	475	510
Europe	892	1,127
Rest of the world	3,861	3,866
	5,228	**5,503**
Bonds		
Government	1,935	1,122
Corporates – investment grade	338	316
Corporates – non-investment grade	6	43
	2,279	**1,481**
Property		
UK	707	704
Rest of the world	317	261
	1,024	**965**
Alternative assets		
Hedge funds	650	738
Private equity	640	491
Other	204	168
	1,494	**1,397**
Cash	277	331
Total market value of assets	**10,302**	**9,677**

The Scheme uses financial instruments to balance the asset allocation and to manage inflation risk, interest rate risk, liquidity risk and foreign currency risk. The analysis of investments above are shown net of such instruments.

At the year end, 74% (2015: 73%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The plan assets include £171m (2015: £166m) relating to property used by the Group. In addition, Group property with net carrying value of £412m (2015: £434m) has been held as security in favour of the Scheme.

Movement in Group pension deficit during the financial year

Changes in the fair value of defined benefit pension assets, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Opening fair value of defined benefit pension assets	**9,677**	**8,124**
Interest income	360	386
Return on plan assets greater than discount rate	59	874
Contributions by employer*	433	563
Additional contribution by employer	223	13
Actual member contributions	11	11
Foreign currency translation	6	(15)
Benefits paid	(346)	(279)
Transfer to disposal group classified as held for sale	(121)	–
Closing fair value of defined benefit pension assets	**10,302**	**9,677**

* Contributions by employer include £125m (2015: £167m) of salaries paid as pension contributions.

Note 26 Post-employment benefits continued

Changes in the present value of defined benefit pension obligations, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Opening defined benefit pension obligation	**(14,519)**	**(11,317)**
Current service cost	(570)	(631)
Past service credit	535	–
Interest cost	(515)	(522)
Gains/ (losses) on change of financial assumptions	1,007	(2,553)
Losses on change of demographic assumptions	–	(66)
Experience gains	98	272
Foreign currency translation	(14)	30
Benefits paid	346	279
Actual member contributions	(11)	(11)
Transfer to disposal group classified as held for sale	166	–
Closing defined benefit pension obligation	**(13,477)**	**(14,519)**

The amounts that have been charged to the Group Income Statement and Group Statement of Comprehensive Income, excluding all movements relating to Korean operations, for the year ended 27 February 2016 are set out below:

	2016 £m	2015 £m
Analysis of the amount charged to operating profit:		
Current service cost	(555)	(605)
Past service credit	535	–
Total charge to operating profit	**(20)**	**(605)**
Analysis of the amount credited/(charged) to finance income/ (cost):		
Interest on defined benefit pension assets	358	383
Interest on defined benefit pension obligation	(513)	(517)
Net pension finance cost (Note 5)	**(155)**	**(134)**
Total charge to the Group Income Statement	**(175)**	**(739)**
Analysis of the amount recognised in the Group Statement of Comprehensive Income:		
Return on plan assets greater than discount rate	59	874
Experience gains on defined benefit pension obligation	95	274
Demographic assumption losses on defined benefit pension obligation	–	(66)
Financial assumption gains/ (losses) on defined benefit pension obligation	1,006	(2,536)
Foreign currency translation	(12)	18
Total gains/ (losses) recognised in the Group Statement of Comprehensive Income	**1,148**	**(1,436)**

Summary of movements in Group deficit during the financial year

Changes in the Group deficit, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Deficit in schemes at beginning of the year	**(4,842)**	**(3,193)**
Current service cost	(570)	(631)
Past service credit	535	–
Net pension finance cost*	(155)	(136)
Contributions by employer**	433	563
Additional contribution by employer	223	13
Foreign currency translation	(8)	15
Remeasurements	1,164	(1,473)
Transfer to disposal group classified as held for sale	45	–
Deficit in schemes at the end of the year	**(3,175)**	**(4,842)**
Deferred tax asset (Note 6)	563	957
Deficit in schemes at the end of the year, net of deferred tax	**(2,612)**	**(3,885)**

* Includes £nil (2015: £2m) in Korea.

** Contributions by employer include £125m (2015: £167m) of salaries paid as pension contributions.

Note 26 Post-employment benefits continued

History of movements

The historical movement in defined benefit pension schemes' assets and liabilities and history of experience gains and losses are as follows:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Total market value of assets	10,302	9,677	8,124	7,206	6,169
Present value of liabilities relating to unfunded pension schemes	(117)	(134)	(111)	(91)	(60)
Present value of liabilities relating to partially funded pension schemes	(13,360)	(14,385)	(11,206)	(9,493)	(7,981)
Pension deficit	**(3,175)**	**(4,842)**	**(3,193)**	**(2,378)**	**(1,872)**
Remeasurements on defined benefit pension assets	59	874	253	94	(168)
Experience gains/ (losses) on defined benefit pension obligation	95	272	(22)	1	43

Post-employment benefits other than pensions

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 27 February 2016 of £11m (2015: £11m) was determined in accordance with the advice of independent actuaries. During the year, £nil (2015: £1m) has been charged to the Group Income Statement and £1m (2015: £1m) of benefits were paid.

Expected contributions

A plan to pay £270m a year has been agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the scheme.

Note 27 Called up share capital

	2016 Ordinary shares of 5p each		2015 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,122,991,499**	**406**	**8,095,821,091**	**405**
Share options exercised	591,615	–	5,080,408	–
Share bonus awards issued	17,500,000	1	22,090,000	1
At end of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**

During the financial year, 1 million (2015: 5 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2015: £14m).

During the financial year, 18 million (2015: 22 million) ordinary shares of 5p each were issued in relation to share bonus awards for an aggregate consideration of £1m (2015: £1m).

Between 28 February 2016 and 6 April 2016 options over 17,969 ordinary shares were exercised under the terms of the Savings-related Share Options Scheme (1981). Between 28 February 2016 and 6 April 2016, no options have been exercised under the Discretionary Share Option Plan (2004) and the Irish Savings-related Share Option Scheme (2000).

As at 27 February 2016, the Directors were authorised to purchase up to a maximum in aggregate of 812.3 million (2015: 810.1 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Notes to the Group financial statements continued

Note 28 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Transactions

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Sales to related parties	408	430	–	–
Purchases from related parties	496	549	14	14
Injection of equity funding	–	14	–	10
Dividends received	32	79	9	9

Sales to related parties consists of services/management fees and loan interest.

Purchases from related parties include £379m (2015: £430m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Transactions between the Group and the Group's pension plans are disclosed in Note 26.

Balances

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts owed to related parties	13	22	1	1
Amounts owed by related parties	28	17	3	26
Loans to related parties (net of deferred profits)*	149	207	–	–
Loans from related parties	6	16	–	–

* Loans to related parties of £149m (2015: £207m) are presented net of deferred profits of £57m (2015: £67m) historically arising from the sale of property assets to joint ventures.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 ('Regulations') apply. The financial statements for those partnerships have been consolidated into these financial accounts pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Key management personnel compensation for the financial year was as follows:

	2016 £m	2015 £m
Salaries and short-term benefits	20	14
Pensions and cash in lieu of pensions	3	3
Share-based payments	9	4
Joining costs and loss of office costs	5	8
	37	**29**

Of the total remuneration to key management personnel, £26m (2015: £16m) relates to Executive Committee members who are not on the PLC Board.

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the year end:

	Credit card and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 27 February 2016	**11**	**1**	**8**	**–**
At 28 February 2015	19	1	16	1

Note 29 Analysis of changes in net debt

	At 28 February 2015 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Debt acquired on business combinations £m	Debt disposed – Korean operations £m	Reclassi-fications of movements in net debt disposal group £m	At 27 February 2016 £m
Total Group									
Cash and cash equivalents	2,165	907	1	–	–	–	–	9	3,082
Short-term investments	593	2,894	(24)	–	–	–	–	–	3,463
Joint venture loans	207	1	–	–	(30)	(29)	–	–	149
Interest and other receivables	1	(26)	–	26	–	–	–	–	1
Bank and other borrowings	(12,358)	742	(253)	(23)	–	(1,455)	94	–	(13,253)
Interest payables	(160)	426	–	(444)	–	(10)	3	–	(185)
Finance lease payables	(141)	17	1	–	(5)	29	–	–	(99)
Net derivative financial instruments	610	(154)	314	8	–	(80)	–	–	698
Net derivative interest	54	23	–	(18)	–	–	–	–	59
Net debt of the disposal groups	9	–	–	–	–	–	–	(9)	–
Total Group	**(9,020)**	**4,830**	**39**	**(451)**	**(35)**	**(1,545)**	**97**	**–**	**(6,085)**
Tesco Bank									
Cash and cash equivalents	616	(62)	–	–	–	–	–	–	554
Joint venture loans	34	–	–	–	–	–	–	–	34
Bank and other borrowings	(1,133)	(300)	(8)	–	–	–	–	–	(1,441)
Interest payables	(1)	4	–	(4)	–	–	–	–	(1)
Net derivative financial instruments	(55)	–	(66)	–	–	–	–	–	(121)
Tesco Bank	**(539)**	**(358)**	**(74)**	**(4)**	**–**	**–**	**–**	**–**	**(975)**
Retail									
Cash and cash equivalents	1,549	969	1	–	–	–	–	9	2,528
Short-term investments	593	2,894	(24)	–	–	–	–	–	3,463
Joint venture loans	173	1	–	–	(30)	(29)	–	–	115
Interest and other receivables	1	(26)	–	26	–	–	–	–	1
Bank and other borrowings	(11,225)	1,042	(245)	(23)	–	(1,455)	94	–	(11,812)
Interest payables	(159)	422	–	(440)	–	(10)	3	–	(184)
Finance lease payables	(141)	17	1	–	(5)	29	–	–	(99)
Net derivative financial instruments	665	(154)	380	8	–	(80)	–	–	819
Net derivative interest	54	23	–	(18)	–	–	–	–	59
Net debt of the disposal groups	9	–	–	–	–	–	–	(9)	–
Net debt	**(8,481)**	**5,188**	**113**	**(447)**	**(35)**	**(1,545)**	**97**	**–**	**(5,110)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group Balance Sheet and the Group Cash Flow Statement.

Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net increase/ (decrease) in cash and cash equivalents	907	(717)
Elimination of Tesco Bank movement in cash and cash equivalents	62	(131)
Retail cash movement in other net debt items		
Net increase/ (decrease) in short-term investments	2,894	(423)
Net increase/ (decrease) in joint ventures loans	1	(40)
Net decrease/ (increase) in borrowings and lease financing	1,059	(1,058)
Net cash flows from derivative financial instruments	(154)	6
Net interest paid on components of net debt	419	505
Change in net debt resulting from cash flow	**5,188**	**(1,858)**
Retail net interest charge on components of net debt	(447)	(443)
Retail fair value and foreign exchange movements	113	241
Debt disposed on disposal of Chinese operations	–	255
Debt disposed on disposal of Korean operations	97	–
Debt acquired on business combinations	(1,545)	–
Retail other non-cash movements	(35)	(79)
Decrease/ (increase) in net debt for the year	**3,371**	**(1,884)**
Opening net debt	**(8,481)**	**(6,597)**
Closing net debt	**(5,110)**	**(8,481)**

Notes to the Group financial statements continued

Note 30 Business combinations

During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interests in each of the partnerships. The acquisitions increased the Group's owned property portfolio by £1,714m, comprising 70 stores and 2 distribution centres, reduced the Group's undiscounted lease commitments by £852m (discounted £563m) and increased borrowings and derivative liabilities by £1,545m.

On 20 March 2015 the Group received British Land Co PLC's ('British Land') share of the Tesco Aqua Limited partnership ('Aqua') and cash of £96m in exchange for British Land taking sole ownership of three shopping centres, three retail parks and three standalone stores which were previously held in two joint ventures between the two companies. Further information received after the interim results August 2015 and within the measurement period resulted in the recognition of a deferred tax liability of £18m and associated goodwill of £22m, together with re-allocation of cash flows within investment activities to better reflect the facts and circumstances that existed at the acquisition date. The net profit of £28m on these transactions comprises a loss on acquisition of Aqua of £175m offset by a profit of £203m. The profit arises largely on the sale of the Group's shares in the two joint ventures together with releases of related deferred income balances.

On 25 February 2016, the Group obtained sole control of the Tesco Red Limited Partnership ('Red') and Tesco Property Limited Partnership ('TPLP') from British Airways Pension Fund and Phoenix Life Assurance Limited respectively, realising a net loss of £53m on acquisition. The Group additionally released previously recognised impairments, onerous leases and deferred income balances relating to these entities totalling £84m, resulting in a net profit of £31m from the two transactions.

The overall profit of £59m from these transactions has been classified as an exceptional item in 'Property transactions' included within 'Profits/ (losses) arising on property-related items'. The profit includes a £14m gain on remeasuring the Group's 50% interest in the three joint ventures immediately prior to the acquisition to a fair value asset of £24m. Across the three transactions, goodwill balances totalling £41m have been recognised on recognition of deferred tax liability balances on land, due to the Group controlling the reversal of a portion of these tax liabilities, and not expecting them to be realised. This goodwill is not deductible for tax purposes.

The table below sets out the provisional values to the Group in respect of these acquisitions.

	Aqua £m	Red £m	TPLP £m	Total £m
Plant, Property & Equipment	466	410	838	**1,714**
Cash	4	9	2	**15**
Other receivables	–	–	97	**97**
Borrowings	(474)	(400)	(591)	**(1,465)**
Derivative financial instruments	(57)	–	(23)	**(80)**
Deferred tax	(18)	(25)	(80)	**(123)**
Other liabilities	(70)	(77)	(4)	**(151)**
Total	**(149)**	**(83)**	**239**	**7**
Goodwill	22	19	–	**41**
Carrying value of investment in joint ventures immediately prior to acquisition	–	–	10	**10**
Purchase consideration*	48	69	149	**266**
Profit on related disposals and other items	203	50	34	**287**

* Additional cash payments of £67m were made to novate loans previously held by the other joint venture partners.

The acquisitions above have increased profit for the period by £12m; there has been no impact on revenues in the period.

In addition, the Group obtained sole control of Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland) for total consideration of £7m.

The overall cash outflow of £325m on acquisition of subsidiaries comprises the £273m purchase consideration for Aqua, Red, TPLP, Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland), together with the £67m novated loans, net of £15m cash acquired.

Note 31 Commitments and contingencies

Capital commitments

At 27 February 2016, there were commitments for capital expenditure contracted for, but not provided for, of £215m (2015: £182m), principally relating to £151m store buy-back commitments of seven stores.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

On 22 September 2014, the Group announced that it had identified an overstatement of its expected profit for the first half of the year, as contained in guidance it had issued in August 2014, relating to the recognition of commercial income and the deferral of costs. The Serious Fraud Office ('SFO') commenced an investigation into accounting practices at the Group on 29 October 2014. It is not possible to predict the timescale or outcome of the SFO investigation, but the SFO could decide to prosecute individuals and the Group, and there is the possibility of fines and/or other consequences. The Group is cooperating with the SFO.

In November 2015 the Group reached agreement in principle to settle a class action by US investors who dealt through the American Depository Receipts ('ADRs') programme which represented approximately 2.3% of issued share capital. This consisted of a settlement of US$12 million with no admission of liability. The Group is also facing a claim in Ohio by the remaining holders of ADRs, which is equivalent to 0.16% of the total issued ordinary shares of the Group. The Group is defending this claim. In addition, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement, and purport to have secured third party funding for such litigation. No such litigation has yet been formally threatened or commenced and the Group is consequently unable to make any assessment of the likely outcome or quantum.

Note 31 Commitments and contingencies continued

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, see Note 11.

Tesco PLC has irrevocably guaranteed the liabilities of the following Irish subsidiary undertakings, which undertakings have been exempted pursuant to Section 357 of the Companies Act, 2014 of Ireland from the provisions of Section 347 & 348 of that Act:

Monread Developments Limited; Edson Properties Limited; Edson Investments Limited; Cirrus Finance (2009) Limited; Commercial Investments Limited; Chirac Limited; Clondalkin Properties Limited; Tesco Ireland Pension Trustees Limited; Orpingford; Tesco Trustee Company of Ireland Limited; WSC Properties Limited; Thundridge; Pharaway Properties Limited; R.J.D. Holdings; Nabola Development Limited; PEJ Property Investments Limited; Cirrus Finance Limited; Tesco Ireland Limited; Wanze Properties (Dundalk) Limited; Tesco Ireland Holdings Limited; Golden Island Management Services Limited.

Prior to the disposal of its Korean operations ('Homeplus'), Tesco PLC provided guarantees in respect of thirteen Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus's default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. The maximum potential liability as at 27 February 2016 under these guarantees is approximately KRW627bn (£357m). This liability decreases over time with all relevant leases expiring in the period between 2026 and 2033. Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made under such guarantees.

Tesco Bank

At 27 February 2016, Tesco Bank had commitments of formal standby facilities, credit lines and other commitments to lend, totalling £11.9bn (2015: £11.5bn). The amount is intended to provide an indication of the potential volume of business and not of the underlying credit or other risks.

Note 32 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC ('TPF'), being the regulated entity at the balance sheet date:

	2016 £m	2015 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,218	1,041
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	44	36
Total tier 2 regulatory adjustments	(27)	(24)
Total regulatory capital	**1,470**	**1,288**

On 27 June 2013 the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules will be phased in. The following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the year end and also the "end point" position, once all of the rules contained within CRD IV have come into force.

The movement of tier 1 capital during the financial year is analysed as follows:

	2016 £m	2015 £m
At beginning of the year	**1,041**	**913**
Share capital and share premium	–	–
Profit attributable to shareholders	190	131
Other reserves	8	14
Ordinary dividends	(50)	(50)
Movement in material holdings	3	3
Increase in intangible assets	39	25
Other – Tier 1	(2)	(1)
At end of the year, excluding CRD IV adjustments	**1,229**	**1,035**
CRD IV adjustment – deferred tax liabilities related to intangible assets	(11)	6
At end of the year, including CRD IV adjustments	**1,218**	**1,041**

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Notes to the Group financial statements continued

Note 33 Lease commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings that are held under finance leases. The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments	
	2016 £m	2015 £m
Within one year	18	20
Greater than one year but less than five years	46	70
After five years	123	167
Total minimum lease payments	**187**	**257**
Less future finance charges	(88)	(116)
Present value of minimum lease payments	**99**	**141**

	Present value of net minimum lease payments	
	2016 £m	2015 £m
Within one year	11	10
Greater than one year but less than five years	20	35
After five years	68	96
Total minimum lease payments	**99**	**141**
Analysed as:		
Current finance lease payables	11	10
Non-current finance lease payables	88	131
	99	**141**

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within one year	1,296	1,324
Greater than one year but less than five years	3,918	4,686
After five years	7,831	9,697
Total minimum lease payments	**13,045**	**15,707**

Future minimum rentals payable under non-cancellable operating leases after five years are analysed further as follows:

	2016 £m	2015 £m
Greater than five years but less than ten years	3,272	4,243
Greater than ten years but less than fifteen years	2,303	2,853
After fifteen years	2,256	2,601
Total minimum lease payments – after five years	**7,831**	**9,697**

Total operating lease commitments in Korea of £1,242m were included in 2015.

The Group has used operating lease commitments discounted at 7% (2015: 7%) of £7,814m (2015: £9,353m) in its calculation of total indebtedness.

Operating lease payments represent rentals payable by the Group for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation linked, fixed rates, resets to market rents and hybrids of these.

The Group has lease-break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date. The current market value of these properties is £3.2bn (2015: £4.7bn) and the total lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (2015: £3.9bn) using current rent values. The lease break options are exercisable between 2016 and 2023.

Note 33 Lease commitments continued

The additional lease rentals if incurred following the option exercise date would be as follows:

	2016 £m	2015 £m
Within one year	45	10
Greater than one year but less than five years	72	372
Greater than five years but less than 10 years	686	1,095
Greater than ten years but less than 15 years	718	1,084
After 15 years	1,115	1,349
Total contingent additional lease rentals	**2,636**	**3,910**

Operating lease commitments with joint ventures and associates

Since 1988, the Group has entered into several joint ventures and associates, and sold and leased back properties to and from these joint ventures and associates. The terms of these sale and leasebacks vary. However, common factors include: the sale of the properties to the joint venture or associate at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor

The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease payments are contractually receivable from tenants:

	2016 £m	2015 £m
Within one year	198	211
Greater than one year but less than five years	293	314
After five years	230	297
Total minimum lease receivables	**721**	**822**

Note 34 Events after the reporting period

On 12 April 2016 the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. ('Lazada') to Alibaba Group Holding Limited ('Alibaba') for gross cash consideration of US$129m (£90m). The Group's investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following 12 to 18 months.

Tesco PLC – Parent Company balance sheet

	Notes	27 February 2016 £m	28 February 2015 £m
Non-current assets			
Investments	6	13,338	13,219
Derivative financial instruments	11	1,502	1,439
		14,840	**14,658**
Current assets			
Derivative financial instruments	11	83	19
Receivables	7	11,861	12,533
Short-term investments	8	622	593
Cash and cash equivalents		13	22
		12,579	**13,167**
Current liabilities			
Borrowings	10	(1,778)	(632)
Derivative financial instruments	11	(2)	(61)
Payables	9	(6,350)	(6,607)
		(8,130)	**(7,300)**
Net current assets		**4,449**	**5,867**
Non-current liabilities			
Borrowings	10	(5,993)	(7,440)
Derivative financial instruments	11	(614)	(635)
		(6,607)	**(8,075)**
Net assets		**12,682**	**12,450**
Equity			
Share capital	14	407	406
Share premium		5,095	5,094
All other reserves		187	10
Retained earnings		6,993	6,940
Total equity		**12,682**	**12,450**

The notes on pages 144 to 150 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The Parent Company financial statements on pages 142 to 150 were authorised for issue by the Directors on 12 April 2016 and are subject to the approval of the shareholders at the Annual General Meeting on 23 June 2016.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

	Share capital £m	Share premium £m	All other reserves: Capital redemption reserves £m	All other reserves: Hedging reserves £m	All other reserves: Treasury Shares £m	Retained earnings £m	Total equity £m
At 28 February 2015	**406**	**5,094**	**16**	**11**	**(17)**	**6,940**	**12,450**
Loss for the year	–	–	–	–	–	(222)	(222)
Other comprehensive income/ (loss)							
Change in hedge relationship	–	–	–	186	–	–	186
Net fair value gain on cash flow hedges	–	–	–	132	–	–	132
Reclassified and reported in Income Statement	–	–	–	(113)	–	–	(113)
Tax relating to components of other comprehensive income	–	–	–	(38)	–	–	(38)
Total other comprehensive income	–	–	–	167	–	–	167
Total comprehensive income/(loss)	**–**	**–**	**–**	**167**	**–**	**(222)**	**(55)**
Transactions with owners							
Purchase of treasury shares	–	–	–	–	(5)	–	(5)
Share-based payments	–	–	–	–	15	275	290
Issue of shares	1	1	–	–	–	–	2
Dividends	–	–	–	–	–	–	–
Total transactions with owners	**1**	**1**	**–**	**–**	**10**	**275**	**287**
At 27 February 2016	**407**	**5,095**	**16**	**178**	**(7)**	**6,993**	**12,682**

	Share capital £m	Share premium £m	All other reserves: Capital redemption reserves £m	All other reserves: Hedging reserves £m	All other reserves: Treasury Shares £m	Retained earnings £m	Total equity £m
At 22 February 2014	**405**	**5,080**	**16**	**(4)**	**(20)**	**3,922**	**9,399**
Profit for the period	–	–	–	–	–	3,819	3,819
Other comprehensive income/ (loss)							
Net fair value gain on cash flow hedges	–	–	–	83	–	–	83
Reclassified and reported in Income Statement	–	–	–	(63)	–	–	(63)
Tax relating to components of other comprehensive income	–	–	–	(5)	–	–	(5)
Total other comprehensive income	–	–	–	15	–	–	15
Total comprehensive income	**–**	**–**	**–**	**15**	**–**	**3,819**	**3,834**
Transactions with owners							
Purchase of treasury shares	–	–	–	–	(15)	–	(15)
Share-based payments	–	–	–	–	18	113	131
Issue of shares	1	14	–	–	–	–	15
Dividends	–	–	–	–	–	(914)	(914)
Total transactions with owners	**1**	**14**	**–**	**–**	**3**	**(801)**	**(783)**
At 28 February 2015	**406**	**5,094**	**16**	**11**	**(17)**	**6,940**	**12,450**

The notes on pages 144 to 150 form part of these financial statements.

Notes to the Parent Company financial statements

Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the year ended 27 February 2016 were approved by the Board of Directors on 12 April 2016 and the balance sheet was signed on the Board's behalf by Alan Stewart and Dave Lewis.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' ('FRS 101'). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements
The Parent Company financial statements have been prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101) and the Companies Act 2006 (the 'Act'). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

These are the first financial statements of the Company prepared in accordance with FRS 101. The Company's date of transition to FRS 101 is 22 February 2014. The Company has notified its shareholders in writing about, and they do not object to, the use of the disclosure exemptions used by the Company in these financial statements.

FRS 101 sets out amendments to EU-adopted IFRS that are necessary to achieve compliance with the Act and related Regulations. The prior year financial statements were re-stated for material adjustments on adoption of FRS 101 in the current year. For more information see Note 16.

The financial year represents the 52 weeks to 27 February 2016 (prior financial year 53 weeks to 28 February 2015).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an Income Statement or a Statement of Comprehensive Income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Short-term investments
Short-term investments are recognised initially at fair value, and subsequently at amortised cost. All income from these investments is included in the Income Statement as interest receivable and similar income.

Investments in subsidiaries and joint ventures
Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Impairment of investments
The Company has determined its investment in each entity as a separate cash-generating unit for impairment testing. Where there are indicators of impairment, the Company performs an impairment test. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Company's latest internal forecasts, and extrapolated beyond five years using estimated long-term growth rates. These calculations require the use of estimates as set out in Note 11 of the consolidated financial statements of Tesco PLC. Fair value is determined by independent, professional valuer where appropriate.

Foreign currencies
Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

Share-based payments
The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables
Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recognised at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the Company Income Statement over the period of the borrowings on an effective interest basis.

Payables
Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purpose; however if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on re-measurement are immediately recognised in the Company Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the items being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Note 2 Accounting policies continued

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Company Income Statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from re-measuring the derivative instrument is recognised directly in Other Comprehensive Income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company Income Statement in the same period or periods during which the hedged transaction affects the Company Income Statement. The classification of the effective portion when recognised in the Company Income Statement is the same as the classification of the hedged transaction. Any element of the re-measurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company Income Statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company Statement of Changes in Equity until the forecasted transaction occurs or the original hedged item affects the Company Income Statement. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company Statement of Changes in Equity is reclassified to the Company Income Statement.

Pensions
The Company participates in defined benefit pension schemes and cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the period is based upon the cash contributions payable.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

Taxation
The tax expense included in the Company Income Statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Company Income Statement except to the extent that it relates to items recognised in the Company Statement of Comprehensive Income or directly in the Company Statement of Changes in Equity, in which case it is recognised in the Company Statement of Comprehensive Income or directly in the Company Statement of Changes in Equity, respectively.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Company Income Statement, except when it relates to items charged or credited directly to equity or Other Comprehensive Income, in which case the deferred tax is also recognised in equity, or Other Comprehensive Income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Notes to the Parent Company financial statements
continued

Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 of the Group financial statements.

Note 4 Employment costs, including Directors' remuneration

	2016 £m	2015 £m
Wages and salaries	21	22
Social security costs	2	3
Pension costs (Note 13)	2	2
Share-based payment expense (Note 12)	7	4
	32	**31**

The average number of employees (all Directors of the Company) during the financial year was 10 (2015: 10).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 48 to 70.

Note 5 Dividends

For details of dividends see Note 8 in the Group financial statements.

Note 6 Investments

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 28 February 2015	**16,145**	**26**	**16,171**
Additions	278	–	278
Disposals	(20)	(17)	(37)
At 27 February 2016	**16,403**	**9**	**16,412**
Impairment			
At 28 February 2015	**(2,952)**	**–**	**(2,952)**
Impairment	(122)	–	(122)
At 27 February 2016	**(3,074)**	**–**	**(3,074)**
Net carrying value			
At 27 February 2016	**13,329**	**9**	**13,338**
At 28 February 2015	13,193	26	13,219

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 151 to 159.

Note 7 Receivables

	2016 £m	2015 £m
Amounts owed by Group undertakings*	11,770	12,346
Amounts owed by joint ventures and associates**	46	120
Other receivables	45	12
Deferred tax asset	–	55
	11,861	**12,533**

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of receivable relationship.
** Of amounts owed by joint ventures and associates, £46m (2015: £112m) is due after more than one year.

Note 8 Short-term investments

	2016 £m	2015 £m
Short-term investments	622	593

Note 9 Payables

	2016 £m	2015 £m
Amounts owed to Group undertakings*	6,289	6,558
Other payables	45	39
Taxation and social security	2	4
Accruals and deferred income	6	6
Deferred tax liability**	8	–
	6,350	**6,607**

* Amounts owed to Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of creditor relationship.

** The deferred tax asset/ (liability) recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 28 February 2015	15	40	55
Charge to the Income Statement for the year	(1)	(24)	(25)
Movement in reserves for the year	(38)	–	(38)
At 27 February 2016	**(24)**	**16**	**(8)**

Note 10 Borrowings

Current

	Par value	Maturity	2016 £m	2015 £m
Bank loans and overdrafts			224	622
Loans from joint ventures			–	10
4% RPI MTN [(a)]	£310m	Sept 2016	316	–
5.875% MTN	€1,039m	Sept 2016	877	–
2.7% USD Bond	$500m	Jan 2017	361	–
			1,778	**632**

Non-current

	Par value	Maturity	2016 £m	2015 £m
4% RPI MTN [(a)]	£310m	Sept 2016	–	313
5.875% MTN	€1,039m	Sept 2016	–	872
2.7% USD Bond	$500m	Jan 2017	–	325
5.5% USD Bond	$850m	Nov 2017	666	625
3.375% MTN	€750m	Nov 2018	595	548
5.5% MTN	£350m	Dec 2019	353	353
6.125% MTN	£900m	Feb 2022	896	895
5% MTN	£389m	Mar 2023	411	407
3.322% LPI MTN [(b)]	£317m	Nov 2025	320	318
6% MTN	£200m	Dec 2029	257	261
5.5% MTN	£200m	Jan 2033	259	262
1.982% RPI MTN [(c)]	£263m	Mar 2036	265	263
6.15% USD Bond	$1,150m	Nov 2037	1,035	917
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN [(d)]	€600m	Apr 2047	486	631
5.2% MTN	£279m	Mar 2057	275	275
			5,993	**7,440**

(a) The 4% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

(b) The 3.322% LPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

(c) The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

(d) The decrease in carrying value of the bond includes £186m of reduction due to a change of the hedge relationship from a fair value to a cash flow hedge – with an equivalent movement in the cash flow hedge reserve.

Notes to the Parent Company financial statements
continued

Note 11 Derivative financial instruments

The fair value of derivative financial instruments has been disclosed in the Company's Balance Sheet as:

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	83	(2)	19	(61)
Non current	1,502	(614)	1,439	(635)
Total	**1,585**	**(616)**	**1,458**	**(696)**

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	17	65	–	–	15	65	–	–
Cross currency swaps	280	1,377	–	–	561	1,201	(11)	817
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(195)	400	–	–	(199)	400
Cross currency swaps	650	1,713	–	–	242	311	(8)	483
Index-linked swaps	117	890	–	–	113	882	–	–
Forward contracts	–	–	–	–	2	99	(1)	474
Derivatives in cash flow hedge and not in a formal relationship*								
Cross currency swaps	–	–	–	–	–	–	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	513	3,339	(419)	3,339	508	3,339	(417)	3,339
Forward contracts	8	232	(2)	65	17	1,361	(60)	1,285
Total	**1,585**	**7,616**	**(616)**	**3,804**	**1,458**	**7,258**	**(696)**	**6,798**

* These are designated as cash flow hedges and net investment hedges at Group level, but for Parent Company financial statements are classified as cash flow hedges and 'not in a formal hedge relationship'.

Note 12 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors.
For further information on these schemes, including the valuation models and assumptions used, see Note 25 in the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
For the year ended 27 February 2016	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	**–**	**–**	**19,008**	**315.65**	**6,152,817**	**378.20**	**2,821,238**	**–**
Granted	23,840	151.00	–	–	–	–	2,478,657	–
Forfeited	–	–	(19,008)	315.65	(6,152,817)	378.20	–	–
Exercised	–	–	–	–	–	–	(220,807)	–
Outstanding at 27 February 2016	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**5,079,088**	**–**
Exercisable at 27 February 2016	**–**	**–**	**–**	**–**	**–**	**–**	**1,354,714**	**–**
Exercise price range (pence)	–	–	–	–	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	–	–	–	–	8.61

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
For the year ended 28 February 2015	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 22 February 2014	**9,108**	**332.59**	**19,008**	**315.65**	**9,475,594**	**374.24**	**10,714,937**	**–**
Granted	–	–	–	–	–	–	2,771,506	–
Forfeited	(9,108)	332.59	–	–	(1,954,751)	402.69	(9,229,019)	–
Exercised	–	–	–	–	(1,368,026)	315.78	(1,436,186)	–
Outstanding at 28 February 2015	**–**	**–**	**19,008**	**315.65**	**6,152,817**	**378.20**	**2,821,238**	**–**
Exercisable at 28 February 2015	**–**	**–**	**19,008**	**315.65**	**6,152,817**	**378.20**	**631,436**	**–**
Exercise price range (pence)	–	–	–	312.75 to 318.60	–	312.75 to 473.75	–	–
Weighted average remaining contractual life (years)	–	–	–	0.66	–	2.71	–	8.71

Note 12 Share-based payments continued

Share bonus schemes

The number and WAFV of share bonuses awarded during the financial year relating to the Company employees are:

	2016		2015	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares In Success	–	–	1,302	307.15

Note 13 Pensions

The total cost of participation in defined benefit pension schemes (now closed to future accrual and new members) to the Company was £2.0m (2015 £2.5m). The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £0.1m (2015: £nil). Further disclosure relating to all schemes can be found in Note 26 of the Group financial statements.

Note 14 Called up share capital

	2016 Ordinary shares of 5p each		2015 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,122,991,499**	**406**	**8,095,821,091**	**405**
Share options exercised	591,615	–	5,080,408	–
Share bonus awards issued	17,500,000	1	22,090,000	1
At end of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**

During the financial year, 1 million (2015: 5 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2015: £14m).

During the financial year, 18 million (2015: 22 million) ordinary shares of 5p each were issued in relation to share bonus awards for an aggregate consideration of £1m (2015: £1m).

Between 28 February 2016 and 6 April 2016 options over 17,969 ordinary shares were exercised under the terms of the Savings-related Share Options Scheme (1981). Between 28 February 2016 and 6 April 2016 , no options have been exercised under the Discretionary Share Option Plan (2004) and the Irish Savings-related Share Option Scheme (2000).

As at 27 February 2016, the Directors were authorised to purchase up to a maximum in aggregate of 812.3 million (2015: 810.1 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Note 15 Contingent liabilities

In addition to the contingent liabilities shown in Note 31 of the Group financial statements the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,364m (2015: £2,364m). These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed use retail developments.

The likelihood of the above items being called upon is considered remote.

Notes to the Parent Company financial statements
continued

Note 16 Explanation of transition to FRS 101

As stated in Note 2, these are the Company's first financial statements prepared in accordance with FRS 101.

The accounting policies set out in Note 2 have been applied in preparing the financial statements for the year ended 27 February 2016, the comparative information presented in these financial statements for the year ended 28 February 2015 and in the preparation of an opening FRS 101 balance sheet at 22 February 2014 (the Company's date of transition).

In preparing its opening FRS 101 balance sheet, the Company has adjusted amounts reported previously in financial statements prepared in accordance with its old basis of accounting (UK GAAP). An explanation of how the transition from previously adopted UK GAAP to FRS 101 has affected the Company's financial position and financial performance is set out in the following tables and the notes that accompany the tables.

		22 February 2014 (date of transition to FRS 101)				28 February 2015 (date of last UK GAAP financial statements)			
Reconciliation of equity	Notes	UK GAAP £m	IAS 32 £m	All other reserves £m	FRS 101 £m	UK GAAP £m	IAS 32 £m	All other reserves £m	FRS 101 £m
Non-current assets									
Investments	(a)	13,691	(250)	–	13,441	13,504	(285)	–	13,219
Derivative financial instruments		1,430	–	–	1,430	1,439	–	–	1,439
		15,121	**(250)**	**–**	**14,871**	**14,943**	**(285)**	**–**	**14,658**
Current assets									
Derivative financial instruments		64	–	–	64	19	–	–	19
Receivables	(a)	12,536	250	–	12,786	12,248	285	–	12,533
Short-term investments		1,016	–	–	1,016	593	–	–	593
Cash and cash equivalents		106	–	–	106	22	–	–	22
		13,722	**250**	**–**	**13,972**	**12,882**	**285**	**–**	**13,167**
Current liabilities									
Borrowings		(1,705)	–	–	(1,705)	(632)	–	–	(632)
Derivative financial instruments		(130)	–	–	(130)	(61)	–	–	(61)
Other payables		(8,953)	–	–	(8,953)	(6,607)	–	–	(6,607)
		(10,788)	**–**	**–**	**(10,788)**	**(7,300)**	**–**	**–**	**(7,300)**
Net current assets		2,934	250	–	3,184	5,582	285	–	5,867
Non-current liabilities									
Borrowings		(7,953)	–	–	(7,953)	(7,440)	–	–	(7,440)
Derivative financial instruments		(703)	–	–	(703)	(635)	–	–	(635)
		(8,656)	**–**	**–**	**(8,656)**	**(8,075)**	**–**	**–**	**(8,075)**
Net assets		**9,399**	**–**	**–**	**9,399**	**12,450**	**–**	**–**	**12,450**
Equity									
Share capital		405	–	–	405	406	–	–	406
Share premium		5,080	–	–	5,080	5,094	–	–	5,094
All other reserves	(b)	–	–	(8)	(8)	–	–	10	10
Retained earnings	(b)	3,914	–	8	3,922	6,950	–	(10)	6,940
Total equity		**9,399**	**–**	**–**	**9,399**	**12,450**	**–**	**–**	**12,450**

(a) Reclassification of investment in subsidiaries via redeemable preference shares to receivables.
(b) Reallocation of reserves previously allocated to Retained earnings to All other reserves as split out in the Statement of changes in equity.

Note 17 Events after the reporting period

No material events occurred after the year end date of 27 February 2016 and before the signing of the Company's financial statements.

Related undertakings of the Tesco Group

In accordance with Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, the country of incorporation and the percentage of share class owned as at 27 February 2016 are disclosed below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated. Footnotes are included on page 159.

Subsidiary undertakings

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Acklam Management Company Limited[b]	United Kingdom	–	–
Adminstore Limited	United Kingdom	£0.01 A Ordinary shares	100.000
		£0.01 B Ordinary shares	100.000
		£0.01 C Ordinary shares	100.000
Adsega Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Alfred Preedy & Sons (Trustees) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Alfred Preedy & Sons Limited	United Kingdom	£1.00 Deferred shares	100.000
		£1.00 Ordinary shares	100.000
Anthony Heagney Limited	United Kingdom	£1.00 10% Preference (Class B) shares	100.000
		£1.00 Ordinary shares	100.000
		£1.00 Variable Preference (Class C) shares	100.000
Arena (Jersey) Management Limited[a]	Jersey	£1.00 Ordinary shares	100.000
Armitage Finance Unlimited	United Kingdom	£0.90 Ordinary shares	100.000
Armitage Luxembourg s.à r.l.	Luxembourg	No par value Ordinary shares	100.000
Bath Upper Bristol Road Management Company Limited[b]	United Kingdom	–	–
Bedminster Estates Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Beehythe Estates limited	United Kingdom	£1.00 Ordinary shares	100.000
Berry Lane Management Company Limited[b]	United Kingdom	–	–
Blinkbox Books Limited (in liquidation)	United Kingdom	£0.001 Ordinary shares	100.000
Brian Ford's Discount Store Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Broughton Retail Park Nominee 1 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Broughton Retail Park Nominee 2 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Broughton Retail Park Nominee 3 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Broughton Retail Park Nominee 4 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Buckingham Road (Bletchley) Management Company Limited[b]	United Kingdom	–	–
Bugden Ltd[a]	United Kingdom	£1.00 Ordinary shares	100.000
Buttoncable Limited	United Kingdom	£1.00 Ordinary shares	100.000
Buttoncase Limited[a]	United Kingdom	£1.00 Cumulative Redeemable Preference shares	100.000
		£1.00 Ordinary shares	100.000
Canterbury Road Management Limited[b]	United Kingdom	–	–
Cardiff Cathays Terrace Management Company Limited[b]	United Kingdom	–	–
Careneed News Limited	United Kingdom	£0.001 Non Cumulative Preference shares	100.000
		£0.001 Ordinary shares	100.000
		£0.001 Ordinary A shares	100.000
Cheshunt Finance Unlimited	United Kingdom	£1.00 Ordinary shares	100.000
Cheshunt Holdings Guernsey Limited[a]	Guernsey	£1.00 Ordinary shares	99.994
Cheshunt Hungary Servicing Limited Liability Company	Hungary	HUF 3,000,000.00 Business Share shares	100.000
Cheshunt Luxembourg S.à r.l.	Luxembourg	£25.00 Ordinary shares	100.000
Cheshunt Overseas LLP (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
China Property Holdings (HK) Limited	Hong Kong	HKD 1.00 Ordinary shares	100.000
Chirac Limited	Ireland	€1.25 Ordinary shares	100.000
Cirrus Finance (2009) Limited	Ireland	€1.00 Ordinary shares	100.000
		£1,000.00 A Ordinary shares	100.000
Cirrus Finance Limited	Ireland	£1,000.00 Ordinary shares	100.000
Cirrus Luxembourg s.à r.l.	Luxembourg	£1.00 Ordinary shares	100.000
Clondalkin Properties Limited	Ireland	€1.25 Ordinary shares	100.000
Comar Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Commercial Investments Limited	Ireland	€1.25 Ordinary shares	100.000
Country Market Limited (The)	United Kingdom	£1.00 Ordinary shares	100.000

Related undertakings of the Tesco Group continued

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Crazy Prices[(a)]	United Kingdom	£1.00 Ordinary shares	100.000
Crest Ostrava a.s	Czech Republic	CZK 100,000.00 Ordinary shares	100.000
Cullen's Holdings Limited	United Kingdom	£0.10 Ordinary shares	100.000
Cullen's Stores Limited	United Kingdom	£1.00 Ordinary shares	100.000
Daily Wrap Produce Limited[(a)]	United Kingdom	£1.00 Ordinary shares	100.000
Day And Nite Stores Limited	United Kingdom	£1.00 Cumulative Convertible Participating Preferred Ordinary shares	100.000
		£1.00 Cumulative Redeemable Preference shares	100.000
		£1.00 Ordinary shares	100.000
Delamare Holdings BV	Netherlands	€1.00 Ordinary shares	100.000
Delamare Luxembourg s.à r.l.	Luxembourg	Ordinary shares	100.000
Delamare One Limited[(a)]	United Kingdom	£0.001 A Ordinary shares	100.000
		£0.001 B Ordinary shares	100.000
		£0.001 C Ordinary shares	100.000
		£0.001 Convertible shares	100.000
Dillons Newsagents Limited	United Kingdom	£0.25 Non Voting Ordinary shares	100.000
Dobbies Garden Centres Limited	United Kingdom	£0.10 Ordinary shares	100.000
dunnhumby Brazil Consultora Ltda	Brazil	R $1.00 Ordinary shares	100.000
dunnhumby Colombia S.A.S.	Colombia	COP$2000.00 Type A shares	100.000
		COP$41.00 Type B shares	100.000
		COP$1.00 Type C shares	100.000
Dunnhumby Computer Information Technology and Consultancy Services LLC	Turkey	TL25 Ordinary shares	100.000
dunnhumby Consulting Canada Limited	Canada	CAD$0.01 Ordinary shares	100.000
dunnhumby Czech s.r.o.	Czech Republic	CZK 200,000 Basic business shares	100.000
dunnhumby France SAS	France	€2.00 Ordinary shares	100.000
dunnhumby Information Technology Consulting (Shanghai) Company Limited	China	Registered capital US $140,000	100.000
dunnhumby International Limited	United Kingdom	£1.00 Ordinary shares	100.000
dunnhumby IT Services India Private Limited	India	INR 10.00 Ordinary shares	100.000
dunnhumby Italia Srl.	Italy	€1.00 common shares	100.000
dunnhumby Japan K.K	Japan	JPY 10,000 Ordinary shares	100.000
dunnhumby (Korea) Limited	Korea, Republic of	KRW 5,000.00 Ordinary shares	100.000
dunnhumby Employment Company Limited	United Kingdom	£1.00 Ordinary shares	100.000
dunnhumby Holding Limited	United Kingdom	£1.00 Ordinary shares	100.000
dunnhumby Hungary Kft	Hungary	Registered capital HUF 500,000	100.000
dunnhumby Ireland Limited	Ireland	€1.00 Ordinary shares	100.000
dunnhumby Limited	United Kingdom	£3.59 Ordinary shares	100.000
dunnhumby (Malaysia) Sdn Bhd	Malaysia	RM 1.00 Ordinary shares	100.000
dunnhumby Mexico S. de R.L. de C.V.	Mexico	MXN 1.00 Common shares	100.000
dunnhumby Netherlands B.V.	Netherlands	€1.00 Ordinary shares	100.000
dunnhumby Overseas Limited	United Kingdom	£1.00 Ordinary shares	100.000
dunnhumby Poland Sp z.o.o	Poland	PLN 50.00 Ordinary shares	100.000
dunnhumby Slovakia s.r.o.	Slovakia	No shares in issue	–
dunnhumby South Africa (Pty) Ltd	South Africa	No par value Ordinary shares	100.000
dunnhumby (Thailand) Limited	Thailand	THB 100.00 Ordinary shares	100.000
dunnhumby Trustees Limited	United Kingdom	£1.00 Ordinary shares	100.000
dunnhumby Inc	USA	No par value Common stock	100.000
Dunnhumby Ventures LLC	USA	–	100.000
Edinburgh Butterfly Farm Limited	United Kingdom	£1.00 Ordinary shares	100.000
Edson Investments Limited	Ireland	€2.00 Ordinary shares	100.000
Edson Properties Limited	Ireland	€1.00 Ordinary shares	100.000
Ek-Chai Distribution System Co., Ltd.	Thailand	THB 10.00 Ordinary shares	99.999
ELH Insurance Limited	Guernsey	£1.00 Ordinary shares	100.000
Euphorium (London) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Euphorium (North London) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Euphorium Group Limited	United Kingdom	£0.01 B Preference shares	100.000
		£0.01 Ordinary shares	100.000
		£0.01 Preferred Ordinary shares	100.000
Euphorium IP Limited	United Kingdom	£1.00 Ordinary shares	100.000
Europa Foods Limited	United Kingdom	£1.00 Ordinary shares	100.000

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Faraday Properties Limited	United Kingdom	£1.00 Ordinary shares	100.000
Flitwick Pharmacies Limited	United Kingdom	£1.00 Ordinary shares	100.000
Food & Wine Lovers Limited	United Kingdom	£1.00 Ordinary shares	100.000
Forum Liberec, s.r.o	Czech Republic	CZK 1.00 Quota shares	100.000
Genesis sp. z o.o.	Poland	PLN 500.00 Ordinary shares	100.000
Gibbs News Limited	United Kingdom	£1.00 Ordinary shares	100.000
Gibbs Newsagents Limited	United Kingdom	£1.00 A Cumulative Redeemable Preference shares	100.000
		£1.00 A Ordinary shares	100.000
		£1.00 B Cumulative Redeemable Preference shares	100.000
		£1.00 B Ordinary shares	100.000
		£1.00 D Ordinary shares	100.000
		£1.00 Deferred shares	100.000
Giraffe Cafe Limited	United Kingdom	£1.00 Ordinary shares	100.000
Giraffe Concepts Limited	United Kingdom	£0.01 A Ordinary shares	100.000
		£0.50 B Ordinary shares	100.000
		£0.50 Deferred shares	100.000
		£1.00 Incentive shares	100.000
		£0.50 Ordinary shares	100.000
Golden Island Management Services Limited	Ireland	€1.269738 A Ordinary shares	100.000
		€1.269738 Ordinary shares	100.000
Halesworth SPV Limited	United Kingdom	£1.00 Ordinary shares	100.000
Harris and Hoole Holdings Limited	Ireland	€1.00 Ordinary shares	100.000
Harris and Hoole Limited	United Kingdom	£1.00 Ordinary Shares	100.000
Harris and Hoole Nominees Limited	Ireland	€1.00 Ordinary shares	100.000
Harts The Grocers (Russell Square) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Harts The Grocers (TCR) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Highams Green Management Company Limited[b]	United Kingdom	–	–
Honiton Wholesale Supplies Ltd (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
J E Properties Holdings Limited	United Kingdom	£1.00 Ordinary shares	100.000
J.E.Cohen & Company Limited	United Kingdom	£1.00 Ordinary shares	100.000
Jasper Sp. z o. o.	Poland	PLN 100.00 Ordinary shares	100.000
Kabaty Investments Tesco (Polska) Sp. z o. o. Sp.k	Poland	PLN Partnership Interest	100.000
Kingsway Fresh Foods Ltd[a]	United Kingdom	£1.00 Ordinary shares	100.000
KSS Retail Limited	United Kingdom	£0.001 Ordinary shares	100.000
Launchgrain Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Launchtable Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Laws Stores Limited	United Kingdom	£1.00 3.5% Cumulative Preference shares	100.000
		£1.00 5.25% Cumulative Preference shares	100.000
		£1.00 Ordinary shares	100.000
Lee (Southern) Limited	United Kingdom	£1.00 Ordinary shares	99.975
Lekáreň Tesco Dunajská Streda, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Petržalka, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Piešt'any, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Prešov Vukov, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Senec, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Trenčín, s.r.o.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Banská Bystrica, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Košice, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Lama, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Nitra, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Spišská Nová Ves, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Zlaté Piesky, k.s.	Slovakia	Limited Partnership	100.000
Lekáreň Tesco Zvolen, k.s.	Slovakia	Limited Partnership	100.000
Linebush III Holdings Limited	United Kingdom	£1.00 Ordinary shares	100.000
Linebush III Limited	United Kingdom	£1.00 Ordinary A shares	100.000
		£1.00 Ordinary B shares	100.000

Related undertakings of the Tesco Group continued

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Linebush IV Limited	United Kingdom	£0.01 Ordinary A shares	100.000
		£1.20 Ordinary B shares	100.000
		£0.01 Ordinary C shares	100.000
Linebush Limited	United Kingdom	£0.01 A Ordinary shares	100.000
		£1.00 B Ordinary shares	100.000
		£0.01 C Ordinary shares	100.000
Linebush V Limited	United Kingdom	£1.20 Ordinary A shares	100.000
		£1.20 Ordinary B shares	100.000
London and Home Counties Superstores Limited	United Kingdom	£1.00 Ordinary A shares	100.000
		£1.00 Ordinary B shares	100.000
		£1.00 Redeemable Cumulative Preference shares	100.000
Lowfoods Limited	United Kingdom	£1.00 2% Non Cumulative Preference shares	100.000
		£1.00 Ordinary shares	100.000
M & W Limited	United Kingdom	£0.10 Ordinary shares	100.000
Mills (East Midlands) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Mills (West Midlands) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Mills Group Holdings Limited	United Kingdom	£1.00 Ordinary shares	100.000
Mills Group Limited	United Kingdom	£1.00 Ordinary shares	100.000
Monread Developments Limited	Ireland	€0.001 Ordinary shares	100.000
Morgam Holdings Limited	United Kingdom	£1.00 Non Cumulative Preference shares	100.000
		£1.00 Ordinary shares	100.000
Morgam News Limited	United Kingdom	£1.00 Ordinary shares	100.000
Motorcause Limited	United Kingdom	£1.00 Ordinary shares	100.000
Nabola Development Limited	Ireland	€1.25 'A' Ordinary shares	100.000
		€1.25 'B' Ordinary shares	100.000
NPL (Hardgate) Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
NutriCentre Limited	United Kingdom	£0.10 Ordinary shares	100.000
Oakwood Distribution Limited	United Kingdom	£1.00 Ordinary shares	100.000
Obchodný dom Bratislava, s.ro	Slovakia	€1.00 Registered capital	100.000
Obchodný dom Košice, s.ro.	Slovakia	€1.00 Registered capital	100.000
Obchodný dom Nitra, s.ro.	Slovakia	€1.00 Registered capital	100.000
Obchodný dom Prešov, s.ro.	Slovakia	€1.00 Registered capital	100.000
Old FEHC Inc.	United States	US$0.01 Common Stock shares	100.000
Old FENM Inc.[a]	United States	US$0.01 Ordinary shares	100.000
Old FEPC LLC[a]	United States	US$0.01 Equity shares	100.000
One Stop Community Stores Ltd	United Kingdom	£1.00 Ordinary shares	100.000
One Stop Convenience Stores Limited	United Kingdom	£1.00 Ordinary shares	100.000
One Stop Stores Limited[c]	United Kingdom	£1.00 Ordinary shares	100.000
One Stop Stores Trustee Services Limited	United Kingdom	£1.00 Ordinary shares	100.000
Orpingford	Ireland	€1.00 Ordinary shares	100.000
Orpington (Station Road) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Oxford Fox and Hounds Management Company Limited[b]	United Kingdom	–	–
Paper Chain (East Anglia) Limited	United Kingdom	£1.00 Deferred shares	100.000
		US$0.001 Ordinary shares	100.000
PEJ Property Developments Limited	Ireland	€1.00 Ordinary shares	100.000
Pharaway Properties Limited	Ireland	€1.00 Ordinary shares	100.000
Power Supermarkets Limited	United Kingdom	£1.00 Ordinary shares	100.000
Premier Garage (Worthing) Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Pulford Foods Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
R.J.D. Holdings	Ireland	€1.269738 Ordinary shares	100.000
Shuke Advertising (Shanghai) Co., Ltd	China	€1.00 Ordinary shares	100.000
Sociomantic Labs B.V	Netherlands	€100.00 Ordinary shares	100.000
Sociomantic labs GmbH	Germany	€1.00 Ordinary shares	100.000
Sociomantic Labs Inc	United States	US$50.00 Common stock	100.000
Sociomantic Labs Internet Hizmetleri Limited Şireketi	Turkey	TRY 25.00 Ordinary shares	100.000
Sociomantic Labs Limited	United Kingdom	£1.00 Ordinary shares	100.000
Sociomantic Labs LLC	Russia	RUR 1.00 Ordinary shares	100.000
Sociomantic Labs Private Limited	India	RS 10.00 Ordinary shares	100.000

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Sociomantic Labs Pte Ltd	Singapore	S$1.00 Ordinary shares	100.000
Sociomantic Labs S.r.l	Italy	Quota shares	100.000
Sociomantic Labs s.r.o.	Czech Republic	Kc 1.00 Ordinary shares	100.000
Sociomantic Labs SARL	France	€100.00 Ordinary shares	100.000
Sociomantic Labs Servicos Web Ltda	Brazil	R$1.00 Ordinary shares	100.000
Sociomantic Labs Sp.z.o.o.	Poland	PLN 50.00 Ordinary shares	100.000
Sociomantic S.L.U.	Spain	€1.00 Ordinary shares	100.000
Sociomantic AB	Sweden	SEK 1 Ordinary shares	100.000
S Bottomley & Bros Limited	United Kingdom	£10.00 Deferred shares	100.000
		£1.00 Ordinary shares	100.000
Sanders Supermarkets Limited	United Kingdom	£1.00 Non-voting Ordinary shares	100.000
		£0.50 Ordinary shares	100.000
		£1.00 Preference shares	100.000
Sarcon (No. 239) Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Seacroft Green Nominee 1 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Seacroft Green Nominee 2 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Snowman Retail 1 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Snowman Retail 2 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Developments (Holdings) Ltd	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Developments (Portishead) Ltd	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Developments (Tonbridge) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Developments Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Management Limited[d]	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Properties (Holdings) plc[a]	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Properties (Southend) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Regeneration Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Residential No 1 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Spen Hill Residential No 2 Limited	United Kingdom	£1.00 Ordinary shares	100.000
Station House Welling Management Limited[b]	United Kingdom	–	–
Statusfloat Limited	United Kingdom	£1.00 Ordinary shares	100.000
Stewarts Supermarkets Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Streatham Management Company Limited[b]	United Kingdom	–	–
T & S Management Services Limited	United Kingdom	£1.00 Ordinary shares	100.000
T & S Properties Limited	United Kingdom	£1.00 Ordinary shares	100.000
T & S Stores Limited[a]	United Kingdom	£0.05 Ordinary shares	100.000
Tapesilver Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Teesport (GP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Teesport (Nominee) Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Teesport Limited Partnership	United Kingdom	Limited Partnership	100.000
Telegraph Properties (Kirkby) Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Tesco (Foxtrot 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco (Foxtrot 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco (Jersey) Limited[a]	Jersey	£1.00 Ordinary shares	100.000
Tesco (Overseas) Ltd[a]	United Kingdom	£1.00 Ordinary shares	100.000
TESCO (POLSKA) sp. z o.o.	Poland	PLN 0.00 Additions To Capital shares	100.000
		PLN 500.00 Ordinary shares	100.000
Tesco (Yorkshire) Limited	United Kingdom	£1.00 Ordinary shares	100.000
TESCO Akadémia Képzési és Fejlesztési Korátolt Felelsség Társaság	Hungary	HUF 1.00 Business Share shares	100.000
Tesco Aqua (1LP) Limited	Cayman Islands	£1.00 Ordinary shares	100.000
Tesco Aqua (3LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Aqua (FinCo1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Aqua (FinCo2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Aqua (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
		£1.00 B Ordinary shares	100.000
Tesco Aqua (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Aqua (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Aqua (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Aqua Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Atrato (1LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Barbers Wood Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000

Related undertakings of the Tesco Group continued

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Tesco Bengaluru Private Limited	India	INR 10.00 Ordinary shares	100.000
Tesco Blue (1LP) Limited	Cayman Islands	£1.00 Ordinary shares	100.000
Tesco Blue (FinCo2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Blue (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
		£1.00 B Ordinary shares	100.000
Tesco Blue (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Blue (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Blue (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Blue Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Capital No. 1 Limited[a]	Jersey	£0.50 A Ordinary shares	100.000
		£0.50 B Ordinary shares	100.000
		£0.01 Preference – Guaranteed Fixed Rate Cumulative Preference shares	100.000
		£0.01 Preferred Ordinary shares	100.000
Tesco Capital No. 2 Limited[e]	Jersey	£0.01 Floating Rate Redeemable Preference shares	100.000
		£1.00 Ordinary shares	100.000
Tesco Card Services Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Chile Sourcing Limitada	Chile	CLP1.00 Ordinary shares	100.000
		US$1.00 Ordinary shares	100.000
Tesco Corporate Treasury Services PLC[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Depot Propco Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Distribution Holdings Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Distribution Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Dorney (1LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Dystrybucja Sp. z.o.o.	Poland	PLN 50.00 Ordinary shares	100.000
Tesco Employees' Share Scheme Trustees Limited[f]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Estates Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Europe B.V.	Netherlands	€1.00 Ordinary shares	100.000
Tesco EU IT Services s.r.o.	Czech Republic	CZK 1.00 Ordinary shares	100.000
Tesco Family Dining Limited	United Kingdom	£1.00 Ordinary Shares	100.000
Tesco Food Sourcing Brazil Representação De Serviços Ltda.	Brazil	BRL 1.00 Ordinary shares	100.000
Tesco Food Sourcing Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Foundation (Nadacia Tesco)	Slovakia	No par value basic capital shares	100.000
Tesco Property A.S.	Czech Republic	CZK 10,000.00 Ordinary shares	100.000
Tesco Freetime Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Fuchsia (1LP) Limited	Cayman Islands	£1.00 Ordinary shares	100.000
Tesco Fuel Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Gateshead Property Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Global Employment Company Limited	Thailand	THB 100.00 Ordinary shares	99.999
Tesco Guangdong (HK) Co. Limited	Hong Kong	US$1.00 Ordinary shares	100.000
Tesco High Beech Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Holdings BV	Netherlands	€1.00 Ordinary shares	100.000
Tesco Holdings Limited[a]	United Kingdom	£0.10 Ordinary shares	100.000
		£1.00 Preference shares	100.000
Tesco Home Shopping Limited[a]	United Kingdom	£1.00 'A' shares	100.000
		£1.00 'B' shares	100.000
Tesco Hungary (Holdings) Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco International Clothing Brand s.r.o.	Slovakia	€1.00 Ordinary shares	100.000
Tesco International Franchising s.r.o.	Slovakia	€1.00 Ordinary shares	100.000
Tesco International Internet Retailing Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco International Services Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco International Sourcing Limited	Hong Kong	HKD 10.00 Ordinary shares	100.000
Tesco Ireland Holdings Limited[g]	Ireland	€1.25 Ordinary shares	100.000
Tesco Ireland Limited	Ireland	€1.25 Ordinary shares	100.000
Tesco Ireland Pension Trustees Limited	Ireland	€1.25 Ordinary shares	100.000
Tesco Joint Buying Service (Shanghai) Co Limited	China	US$1.00 Ordinary shares	100.000
Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gida Sanayi A.S.	Turkey	TRL 1.00 A shares TRL 1.00 B shares	98.670 95.495
Tesco Kirkby (General Partner) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Kirkby (LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Tesco Kirkby (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Kirkby (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Kirkby (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Kirkby (Unitholder 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Kirkby (Unitholder2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Kirkby Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Lagoon GP Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Licences Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Maintenance Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Mauritius Holdings Limited	Mauritius	£1.00 Ordinary shares	100.000
Tesco Mobile (Thailand) Co., Ltd.	Thailand	THB 25.00 Ordinary shares	99.998
Tesco Mobile Communications Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
TESCO MOBILE POLSKA SP. Z O.O.	Poland	PLN 50.00 Ordinary Shares	100.000
Tesco Mobile Services Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Navona (1LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Navona (GP) Limited	United Kingdom	£1.00 Ordinary A shares	100.000
		£1.00 Ordinary B Shares	100.000
Tesco Navona (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Navona (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Navona (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Navona PL Propco Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Navona Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Opticians Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Overseas (Holdings) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Overseas Investments Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Overseas ULC	United Kingdom	£0.00000025 A Ordinary shares	100.000
		£0.00000025 B Ordinary shares	100.000
		£0.00000025 C Ordinary shares	100.000
		£0.00000025 D Ordinary shares	100.000
		£0.00000025 E Ordinary shares	100.000
		£0.00000025 F Ordinary shares	100.000
		£0.00000025 G Ordinary shares	100.000
		£0.00000025 H Ordinary shares	100.000
		£0.00000025 J Ordinary shares	100.000
		£0.00000025 K Ordinary shares	100.000
		£0.00000025 L Ordinary shares	100.000
		£0.00000025 M Ordinary shares	100.000
		£0.00000025 N Ordinary shares	100.000
		£0.00000025 O Ordinary shares	100.000
Tesco Passaic (1LP) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Passaic (GP) Limited	United Kingdom	£1.00 Ordinary A shares	100.000
		£1.00 Ordinary B shares	100.000
Tesco Passaic (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Passaic (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Passaic (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Passaic PL Propco Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Passaic Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Pension (Jade) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Pension Investment Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Pension Trustees Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Personal Finance Compare Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Personal Finance Group Limited[a]	United Kingdom	£0.10 A Ordinary shares	100.000
		£0.10 B Ordinary shares	100.000
		£0.10 C Ordinary shares	100.000
Tesco Personal Finance PLC	United Kingdom	£0.10 Ordinary shares	100.000
Tesco Property Limited	China	US$1.00 Registered Capital shares	100.000
Tesco Property (No.1) Limited	Jersey	£1.00 Ordinary shares	100.000
Tesco Property (Nominees) (No.1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property (Nominees) (No.2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property (Nominees) Limited	United Kingdom	£1.00 Ordinary shares	100.000

Related undertakings of the Tesco Group continued

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Tesco Property Finance 1 Holdco Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Finance 1 PLC	United Kingdom	£1.00 Ordinary shares	100.000
		£1.00 Ordinary shares	100.000
Tesco Property Holdings (No. 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Holdings Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Nominees (No.5) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Nominees (No.6) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Partner (GP) Limited[a]	United Kingdom	£1.00 'A' shares	100.000
		£1.00 'B' shares	100.000
Tesco Property Partner (No.1) Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Property Partner (No.2) Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Property Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Red (1LP) Limited	Cayman Islands	£1.00 Ordinary shares	100.000
Tesco Red (GP) Limited	United Kingdom	£1.00 'A' shares	100.000
		£1.00 'B' shares	100.000
Tesco Red (Nominee 1) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Red (Nominee 2) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Red (Nominee Holdco) Limited	United Kingdom	£1.00 Ordinary shares	100.000
The Tesco Red Limited Partnership	United Kingdom	Limited Partnership	100.000
Tesco Sarum (1LP) Limited	United Kingdom	£1.00 Ordinary Shares	100.000
Tesco Seacroft Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Secretaries Limited	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Services Limited	United Kingdom	£1.00 Ordinary Shares	100.000
Tesco Sourcing India Private Limited	India	INR 10.00 Ordinary shares	100.000
Tesco Stores (Malaysia) Sdn Bhd	Malaysia	RM 1.00 A Ordinary shares	100.000
Tesco Stores (Thailand) Ltd	Thailand	THB 10.00 A Ordinary shares	100.000
		THB 10.00 B Preference shares	<0.001
		THB 10.00 C Preference shares	100.000
Tesco Stores Limited	United Kingdom	£1.00 A Preference shares	100.000
		£1.00 B Preference shares	100.000
		£1.00 Ordinary shares	100.000
Tesco Stores CR a.s.	Czech Republic	CZK 20,000 Ordinary no.1 shares	100.000
		CZK 1,000,000,000 Ordinary no.3 shares	100.000
		CZK 6,098,742,000 Ordinary no.4 shares	100.000
		CZK 5,808,040,000 Ordinary no.5 shares	100.000
		CZK 160,429,100 Ordinary no.6 shares	100.000
		CZK 1965,079,000 Ordinary no.7 shares	100.000
TESCO STORES SR, a.s.	Slovakia	€33,193.918875 Ordinary shares	100.000
Tesco Technology Services HK Limited	Hong Kong	$1.00 Ordinary Shares	100.000
Tesco Treasury Services PLC[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco Trustee Company of Ireland Limited[a]	Ireland	€1.25 Ordinary shares	100.000
Tesco Vin Plus SA (in liquidation)	France	€1.60 Ordinary shares	100.000
Tesco Worldwide Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco.Com Limited[a]	United Kingdom	£1.00 Ordinary shares	100.000
Tesco-Global Stores Privately Held Co. Ltd	Hungary	HUF 10.00 Common shares	100.000
Thundridge	Ireland	£1.00 Ordinary shares	100.000
Trigger Retail Ltd	United Kingdom	£1.00 Ordinary shares	100.000
Valiant Insurance Company DAC	Ireland	£1.00 Ordinary shares	100.000
Value House Properties Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Ventnor High Street Management Company Limited[b]	United Kingdom	–	–
Verulam Properties (2001) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Verulam Properties Limited	United Kingdom	£1.00 Ordinary shares	100.000
Victoria BB Sp z.o.o.	Poland	PLN 800.00 Ordinary shares	100.000
Wanze Properties (Dundalk) Limited	Ireland	€1.00 Ordinary shares	100.000
Weymouth Avenue (Dorchester) Limited	United Kingdom	£1.00 Ordinary shares	100.000
Whitecastle Properties Limited (in liquidation)	United Kingdom	£1.00 Ordinary shares	100.000
Wm. Low Supermarkets Limited	United Kingdom	£1.00 Ordinary shares	100.000

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
Woolwich Central Residents Management Company Limited[(b)]	United Kingdom	–	–
Worple Road Plc	United Kingdom	£1.00 Ordinary shares	100.000
WSC Properties Limited	Ireland	€1.00 Ordinary shares	100.000

Consolidated Structured Entities

Name of Undertaking	Place of incorporation	Nature of business
Delamare Cards Holdco Limited	UK	Securitisation entity
Delamare Cards MTN Issuer plc	UK	Securitisation entity
Delamare Cards Receivables Trustee Limited	UK	Securitisation entity
Delamare Cards Funding 1 Limited	UK	Securitisation entity
Delamare Cards Funding 2 Limited	UK	Securitisation entity

Associated Undertakings

Name of Undertaking	Country of Incorporation	Share class	% held by Group companies
BLT Holdings 2010 Limited[(a)]	United Kingdom	£1.00 Ordinary A shares	100.000
Broadfields Management Limited	United Kingdom	£0.10 Ordinary shares	35.333
Brookmaker (GP) Limited	United Kingdom	£1.00 Ordinary A shares	100.000
Clarepharm Limited	United Kingdom	£0.10 Ordinary shares	22.700
dunnhumby Canada Limited	Canada	CAD$1.00 Ordinary shares	50.000
dunnhumby Norge A.S.	Norway	NOK 1000 Ordinary shares	50.000
dunnhumby Consulting Services India Private Limited	India	INR 10 Ordinary shares	50.000
Fred's Food Construction Limited	United Kingdom	£0.01 Ordinary shares	33.333
Gain Land Limited	British Virgin Islands	$1.00 Ordinary shares	20.000
Koxka Hungary Refrigeration LLC	Hungary	HUF 1.00 Quota shares	40.000
Lazada Group S.A.	Luxembourg	€1.00 Ordinary shares	21.340
Merrion Shopping Centre Ltd	Ireland	€1.00 Ordinary shares	51.900
Retail Property Co., Ltd	Thailand	THB 100.00 Ordinary A shares	100.000
Sandtable Limited	United Kingdom	£0.50 A Ordinary shares	100.000
Shire Park Limited	United Kingdom	£1.00 Ordinary shares	49.194
Tesco (Fujian) Industry Limited	China	US$1.00 Registered Capital shares	50.000
Tesco Atrato (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
Tesco Card Services Ltd.	Thailand	THB 100.00 Ordinary A shares	100.000
Tesco Coral (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
Tesco Dorney (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
Tesco for Thais Foundation	Thailand	Foundation	–
Tesco Jade (GP) Limited	United Kingdom	£1.00 A Ordinary shares	30.000
		£1.00 B Ordinary shares	30.000
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Thailand	THB 10.40 Ordinary shares	25.000
Tesco Mobile CR s.r.o.	Czech Republic	CZK 100,000.00 Ordinary shares	50.000
Tesco Mobile Ireland Limited	Ireland	€1.00 Ordinary shares	50.000
Tesco Mobile Limited	United Kingdom	£0.10 A Ordinary shares	100.000
		£0.90 B Ordinary shares	100.000
Tesco Mobile Slovakia s.r.o	Slovakia	€1.00 Ordinary shares	50.000
Tesco Nanjing Zhongshan (HK) Co. Limited	Hong Kong	US$1.00 Ordinary shares	50.000
Tesco Property Partner (GP No.2) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
Tesco Sarum (GP) Limited	United Kingdom	£1.00 A Ordinary shares	100.000
Tesco Underwriting Limited	United Kingdom	£1.00 Ordinary shares	49.900
The Tesco Atrato Limited Partnership	United Kingdom	Limited Partnership	50.000
The Tesco Coral Limited Partnership	United Kingdom	Limited Partnership	50.000
The Tesco Dorney Limited Partnership	United Kingdom	Limited Partnership	50.000
The Tesco Property (No.2) Limited Partnership	Jersey	Limited Partnership	50.000
The Tesco Sarum Limited Partnership	United Kingdom	Limited Partnership	50.000
The Brookmaker Limited Partnership	United Kingdom	Limited Partnership	50.000
Trent Hypermarket Private Limited	India	INR 10.00 Equity shares	50.000
Xiamen Firste Property Limited	China	US$1.00 Registered Capital shares	50.000

(a) Interest held directly by Tesco PLC.
(b) Company limited by guarantee.
(c) 95.000% held directly by Tesco PLC and 5.000% held indirectly.
(d) 66.667% held directly by Tesco PLC and 33.333% held indirectly.
(e) £0.01 Floating Rate Redeemable Preference Shares 100.000% held directly by Tesco PLC.
(f) 50.000% held directly by Tesco PLC and 50.000% held indirectly.
(g) 12.705% held directly by Tesco PLC and 87.295% held indirectly.

Other information

Supplementary information (unaudited)

Total sales performance at actual rates (exc. VAT, exc. fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/16
UK & ROI	**(1.0)%**	**(1.4)%**	**(1.9)%**	**0.4%**	**(1.2)%**	**(0.6)%**	**(0.9)%**
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	(0.6)%	(0.3)%	(0.4)%
ROI	(14.7)%	(12.2)%	(9.3)%	(1.1)%	(13.5)%	(5.1)%	(9.3)%
International	**(3.9)%**	**(5.2)%**	**(6.6)%**	**(1.5)%**	**(4.6)%**	**(4.0)%**	**(4.3)%**
Europe	(9.4)%	(8.3)%	(8.2)%	(2.1)%	(8.8)%	(5.1)%	(7.0)%
Asia	3.5%	(0.7)%	(4.5)%	(0.6)%	1.5%	(2.5)%	(0.5)%
Tesco Bank	**0.9%**	**(2.5)%**	**(1.7)%**	**6.9%**	**(0.8)%**	**2.4%**	**0.8%**
Group	**(1.7)%**	**(2.3)%**	**(2.9)%**	**0.1%**	**(1.9)%**	**(1.3)%**	**(1.6)%**

Total sales performance at constant rates (exc. VAT, exc. fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/ 16
UK & ROI	**(0.4)%**	**(0.9)%**	**(1.5)%**	**0.5%**	**(0.6)%**	**(0.3)%**	**(0.5)%**
UK	(0.3)%	(0.9)%	(1.5)%	0.5%	(0.6)%	(0.3)%	(0.4)%
ROI	(2.7)%	(1.7)%	(0.9)%	1.1%	(2.2)%	0.3%	(1.0)%
International	**(0.5)%**	**2.1%**	**2.4%**	**3.4%**	**0.8%**	**2.9%**	**1.8%**
Europe	1.8%	3.3%	1.5%	2.2%	2.5%	1.9%	2.2%
Asia	(3.5)%	0.3%	3.7%	5.0%	(1.7)%	4.3%	1.3%
Tesco Bank	**0.9%**	**(2.5)%**	**(1.7)%**	**6.9%**	**(0.8)%**	**2.4%**	**0.8%**
Group	**(0.4)%**	**(0.3)%**	**(0.7)%**	**1.3%**	**(0.3)%**	**0.4%**	**0.1%**

Like-for-like sales performance (exc. VAT, exc. fuel)

	1Q 2015/16	2Q 2015/16	3Q 2015/16	4Q 2015/16	1H 2015/16	2H 2015/16	FY 2015/16
UK & ROI	**(1.5)%**	**(1.0)%**	**(1.5)%**	**0.9%**	**(1.3)%**	**(0.1)%**	**(0.7)%**
UK	(1.3)%	(1.0)%	(1.5)%	0.9%	(1.1)%	(0.1)%	(0.6)%
ROI	(4.4)%	(2.9)%	(1.2)%	1.0%	(3.7)%	0.0%	(1.9)%
International	**(0.2)%**	**2.3%**	**2.9%**	**3.8%**	**1.0%**	**3.4%**	**2.3%**
Europe	2.2%	4.0%	3.3%	4.1%	3.2%	3.7%	3.5%
Asia	(3.4)%	0.1%	2.4%	3.5%	(1.7)%	2.9%	0.6%
Group	**(1.2)%**	**(0.3)%**	**(0.5)%**	**1.6%**	**(0.8)%**	**0.6%**	**0.0%**

Notes

These results have been reported on a continuing operations basis and exclude the results from our operations in Korea. Like-for-like sales growth is reported at constant exchange rates. Growth rates are all based on comparable days. For example, for the UK and ROI, these results are for the 52 weeks ending 28 February 2015 and 27 February 2016 respectively.

Country detail

	Revenue (exc. VAT, inc. fuel)			
	Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	41,259	41,259	1.000	1.000
ROI	2,503	1,821	1.375	1.269
Czech Republic	42,483	1,137	37.36	34.34
Hungary	576,799	1,353	426.3	395.3
Poland	11,188	1,933	5.787	5.534
Slovakia	1,370	996	1.375	1.269
Turkey	2,135	501	4.264	4.099
Malaysia	4,511	742	6.075	5.855
Thailand	195,081	3,705	52.66	49.61

UK sales area by size of store

Store size	February 2016			February 2015		
sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0–3,000	**2,498**	**5.2**	**12.5%**	2,481	5.2	12.3%
3,001–20,000	**289**	**3.5**	**8.4%**	321	4.0	9.6%
20,001–40,000	**283**	**8.3**	**20.0%**	306	9.1	21.6%
40,001–60,000	**204**	**10.4**	**25.0%**	195	10.4	24.5%
60,001–80,000	**132**	**8.9**	**21.5%**	123	7.9	18.7%
80,001–100,000	**45**	**4.2**	**10.2%**	45	4.1	9.6%
Over 100,000	**9**	**1.0**	**2.4%**	14	1.6	3.7%
Total*	**3,460**	**41.5**	**100%**	**3,485**	**42.3**	**100.0%**

* Excludes franchise stores.

Group space summary

Actual Group space – store numbers*

	2014/15 year-end	2015/16 year-end	Net gain/ Reduction**	Openings	Closures/ disposals	*Repurposing/ extensions*
Extra	250	252	2	2	–	*5*
Homeplus	11	–	(11)	–	(11)	–
Superstore	487	478	(9)	1	(10)	–
Metro	191	177	(14)	1	(15)	–
Express	1,735	1,732	(3)	29	(32)	–
Dotcom only	6	6	–	–	–	–
Total Tesco	**2,680**	**2,645**	**(35)**	**33**	**(68)**	***5***
One Stop***	770	779	9	24	(15)	–
Dobbies	35	36	1	1	–	–
UK* **	**3,485**	**3,460**	**(25)**	**58**	**(83)**	***5***
ROI	**149**	**149**	**–**	**–**	**–**	**–**
UK & ROI* **	**3,634**	**3,609**	**(25)**	**58**	**(83)**	***5***
Czech Republic***	209	201	(8)	–	(8)	–
Hungary	209	208	(1)	–	(1)	*5*
Poland	449	440	(9)	–	(9)	–
Slovakia	155	161	6	6	–	–
Turkey	173	169	(4)	1	(5)	–
Europe* **	**1,195**	**1,179**	**(16)**	**7**	**(23)**	***5***
Malaysia	54	62	8	8	–	*4*
Thailand	1,759	1,815	56	65	(9)	*20*
Asia	**1,813**	**1,877**	**64**	**73**	**(9)**	***24***
International* **	**3,008**	**3,056**	**48**	**80**	**(32)**	***29***
Group* **	**6,642**	**6,665**	**23**	**138**	**(115)**	***34***
UK (One Stop)	*76*	*134*	*58*	*61*	*(3)*	–
Czech Republic	*131*	*103*	*(28)*	–	*(28)*	–
Franchise stores	*207*	*237*	*30*	*61*	*(31)*	–

* Continuing operations.
** The net gain/reduction reflects the number of store openings less the number of store closures/disposals.
*** Excludes franchise stores.

Supplementary information (unaudited) continued

Group space summary continued

Actual Group space – '000 sq. ft.*

	2014/15 year-end	2015/16 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,763	17,846	83	127	–	(44)
Homeplus	488	–	(488)	–	(488)	–
Superstore	14,254	14,002	(252)	16	(268)	–
Metro	2,150	2,005	(145)	15	(160)	–
Express	4,030	4,031	1	70	(69)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	**39,401**	**38,600**	**(801)**	**228**	**(985)**	**(44)**
One Stop**	1,235	1,256	21	44	(23)	–
Dobbies	1,648	1,652	4	4	–	–
UK**	**42,284**	**41,508**	**(776)**	**276**	**(1,008)**	**(44)**
ROI	**3,560**	**3,560**	**–**	**–**	**–**	**–**
UK & ROI**	**45,844**	**45,068**	**(776)**	**276**	**(1,008)**	**(44)**
Czech Republic**	5,653	5,558	(95)	–	(95)	–
Hungary	7,026	6,931	(95)	–	(2)	(93)
Poland	9,736	9,688	(48)	–	(48)	–
Slovakia	3,928	3,969	41	41	–	–
Turkey	3,663	3,492	(171)	4	(175)	–
Europe**	**30,006**	**29,638**	**(368)**	**45**	**(320)**	**(93)**
Malaysia	4,025	4,164	139	136	–	3
Thailand	15,712	15,536	(176)	255	(13)	(418)
Asia	**19,737**	**19,700**	**(37)**	**391**	**(13)**	**(415)**
International**	**49,743**	**49,338**	**(405)**	**436**	**(333)**	**(508)**
Group**	**95,587**	**94,406**	**(1,181)**	**712**	**(1,341)**	**(552)**
UK (One Stop)	*102*	*185*	*83*	*86*	*(3)*	–
Czech Republic	*122*	*96*	*(26)*	–	*(26)*	–
Franchise stores	*224*	*281*	*57*	*86*	*(29)*	–

* Continuing operations.
** Excludes franchise stores.

Group space summary continued

Group space forecast to 25 February 2017 – '000 sq. ft.*

	2015/16 year-end	2016/17 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,846	17,905	59	59	–	–
Homeplus	–	–	–	–	–	–
Superstore	14,002	14,017	15	38	(23)	–
Metro	2,005	1,994	(11)	–	(11)	–
Express	4,031	4,074	43	47	(4)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	**38,600**	**38,706**	**106**	**144**	**(38)**	**–**
One Stop**	1,256	1,260	4	49	(45)	–
Dobbies	1,652	1,652	–	–	–	–
UK**	**41,508**	**41,618**	**110**	**193**	**(83)**	**–**
ROI	**3,560**	**3,543**	**(17)**	**–**	**(17)**	**–**
UK & ROI**	**45,068**	**45,161**	**93**	**193**	**(100)**	**–**
Czech Republic**	5,558	5,530	(28)	–	(28)	–
Hungary	6,931	6,931	–	–	–	–
Poland	9,688	9,604	(84)	–	(84)	–
Slovakia	3,969	3,886	(83)	–	(83)	–
Turkey	3,492	3,449	(43)	–	(3)	(40)
Europe**	**29,638**	**29,400**	**(238)**	**–**	**(198)**	**(40)**
Malaysia	4,164	4,059	(105)	101	–	(206)
Thailand	15,536	15,345	(191)	220	–	(411)
Asia	**19,700**	**19,404**	**(296)**	**321**	**–**	**(617)**
International**	**49,338**	**48,804**	**(534)**	**321**	**(198)**	**(657)**
Group**	**94,406**	**93,965**	**(441)**	**514**	**(298)**	**(657)**
UK (One Stop)	*185*	*333*	*148*	*148*	–	–
Czech Republic	*96*	*92*	*(4)*	–	*(4)*	–
Franchise stores	*281*	*425*	*144*	*148*	*(4)*	–

* Continuing operations.
** Excludes franchise stores.

Supplementary information (unaudited) continued

Tesco Bank income statement

Income Statement	2015/16* £m	2014/15*,** £m
Revenue		
Interest receivable and similar income	576	537
Fees and commissions receivable	379	410
	955	**947**
Direct costs		
Interest payable	(166)	(153)
Fees and commissions payable	(3)	(19)
	(169)	**(172)**
Gross profit	**786**	**775**
Other expenses:		
Staff costs	(172)	(152)
Premises and equipment	(81)	(90)
Other administrative expenses	(212)	(211)
Depreciation and amortisation	(91)	(81)
Provisions for bad and doubtful debts	(68)	(53)
Operating profit before exceptional items	**162**	**188**
Restructuring and other exceptional items***	(1)	(35)
Operating profit	**161**	**153**
Net finance costs: movements on derivatives and hedge accounting	(8)	(19)
Net finance costs: interest	(4)	(4)
Share of (loss)/ profit of joint ventures and associates	(3)	5
Deduct: management charges	(1)	(1)
Profit before tax	**145**	**134**

* These results are for the 12 months ended 29 February 2016 and the previous period comparison is made with the 12 months ended 28 February 2015.

** Issuance of Clubcard vouchers previously presented as an expense has been reclassified to revenue. There is no impact on operating profit before exceptional items or operating profit.

*** Restructuring and other exceptional items in 2015/16 consists of £1m restructuring costs; 2014/15 consists of an increase in PPI provision of £27m and restructuring costs of £8m.

Financial calendar

Financial year end 2015/16	27 February 2016
Annual General Meeting/1Q interim management statement	23 June 2016
Half-year end 2016/17	27 August 2016
Interim Results	5 October 2016
Financial year-end 2016/17	25 February 2017

Please note that these dates are provisional and subject to change, with the exception of the financial year-end and half-year-end.

Glossary

Capital expenditure (‘Capex’)
The additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

Capital employed
Net assets plus net debt plus dividend creditor less net assets of the disposal groups and non-current assets classified as held for sale.

Diluted earnings per share from continuing operations before exceptional items
Profit after tax before exceptional items attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

Diluted earnings per share from continuing operations before exceptional items and net pension finance costs
Profit after tax before exceptional items and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

Enterprise Value
This is calculated as Market capitalisation plus Net debt.

Exceptional items
Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group’s non-GAAP performance measures by virtue of their size and nature in order to better reflect management’s view of the performance of the Group.

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

FTE
FTE refers to full-time equivalents.

Free cash flow
Free cash flow is net cash generated from/ (used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

Growth in sales
The YoY% (year-on-year) movement in revenue exc. fuel for continuing operations excluding fuel for 52 weeks at constant foreign exchange rate.

Like-for-like
Like-for-like is the growth in sales from stores that have been open for at least a year at a constant foreign exchange rate and includes online sales.

LPI
LPI refers to Limited Price Inflation.

Market capitalisation
The total value of all Tesco shares calculated as total number of shares multiplied by closing share price at year-end.

MTN
MTN refers to Medium Term Note.

Net debt
Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents, and short-term investments.

Net Promoter Score (‘NPS’)
This is a loyalty measure based on a single question requiring a score between 0-10. The NPS is calculated by subtracting the percentage of detractors (scoring 0-6) from the percentage of promoters (scoring 9-10). This generates a figure between -100 and 100 which is the NPS.

Operating margin
Operating margin is based on operating profit before exceptional items and on revenue.

Operating profit before exceptional items
This is the headline measure of the Group’s performance, and is based on operating profit before the impact of exceptional items.

Pension deficit, IAS 19 basis (post tax)
This is post-employment benefit obligations net of the related deferred tax.

Profit before tax before exceptional items and net pension finance costs
This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields, which can fluctuate significantly.

Retail cash flow
Cash generated from/ (used in) operations for retail activities.

Return on capital employed (‘ROCE’)
Return divided by the average of opening and closing capital employed.

Return
Profit before exceptional items and interest, after tax (applied at effective rate of tax).

Revenue exc. fuel
This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

RPI
RPI refers to Retail Price Index.

Total indebtedness
Net debt plus IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

Five-year record

Figures below reflect the latest published information. For years prior to 2015/16, these figures represent the comparatives from the following years' financial statements. Korea was first classified as a discontinued operation in 2015/16. China was first classified as a discontinued operation in 2013/14. US was first classified as a discontinued operation in 2012/13.

The Group has determined new segments and defined new non-GAAP measures for 2015/16 onwards. Refer to Note 1 and Note 2. 2014/15 data for these new measures and segments has been presented, but prior historic data has not.

	2012	2013	2014	2015[a]	2016
Financial statistics (£m)					
Revenue (exc. fuel)[c]					
UK & ROI				38,228	**37,189**
International				10,678	**10,208**
Tesco Bank	1,044	1,021	1,003	947	**955**
Group revenue (exc. fuel)[c]				**49,853**	**48,352**
Revenue					
UK & ROI				45,062	**43,080**
International				10,916	**10,398**
Tesco Bank	1,044	1,021	1,003	947	**955**
Group revenue	**63,916**	**63,406**	**63,557**	**56,925**	**54,433**
Operating profit before exceptional items[c]					
UK & ROI				498	**505**
International				254	**277**
Tesco Bank				188	**162**
Group operating profit before exceptional items[c]				**940**	**944**
Operating profit margin before exceptional items				**1.7%**	**1.7%**
Operating profit/ (loss)					
UK & ROI				(5,334)	**599**
International				(569)	**286**
Tesco Bank				153	**161**
Group operating profit	**4,182**	**2,382**	**2,631**	**(5,750)**	**1,046**
Share of post-tax profits/ (losses) of joint ventures and associates	91	72	60	(13)	**(21)**
Net finance costs	(235)	(397)	(432)	(571)	**(863)**
Profit/ (loss) before tax	**4,038**	**2,057**	**2,259**	**(6,334)**	**162**
Taxation	(874)	(529)	(347)	670	**54**
Profit/ (loss) for the year from continuing operations	**3,164**	**1,528**	**1,912**	**(5,664)**	**216**
Discontinued operations	(350)	(1,504)	(942)	(102)	**(87)**
Profit/ (loss) for the year	**2,814**	**24**	**970**	**(5,766)**	**129**
Attributable to:					
Owners of the parent	2,806	28	974	(5,741)	**138**
Non-controlling interests	8	(4)	(4)	(25)	**(9)**
Profit before tax before exceptional items and net pension finance costs[c]				**490**	**435**
Other financial statistics					
Diluted earnings/ (losses) per share – continuing operations				(69.56)p	**2.76p**
Diluted earnings per share – continuing operations before exceptional items[c]				4.14p	**3.41p**
Diluted earnings per share – continuing operations before exceptional items and net pension finance costs[c]				5.46p	**4.97p**
Dividend per share[b]	14.76p	14.76p	14.76p	1.16p	**–**
Cash generated from retail operating activities	5,058	3,888	4,607	1,860	**2,581**
Return on capital employed ('ROCE')[c]	14.7%	14.5%	13.6%	4.0%	**5.8%**
Total shareholder return[c]	(3.0%)	2.1%	3.7%	(9.5%)	**(11.8%)**
Net debt (excludes Tesco Bank)[c]	6,838	6,597	6,597	8,481	**5,110**
Discounted operating lease commitments	9,988	10,182	9,419	9,353	**7,814**
Pension deficit, IAS 19 basis (post tax)[c]	1,407	1,839	2,559	3,885	**2,612**
Total indebtedness (including lease commitments and pension deficit)[c]	**18,233**	**18,618**	**18,575**	**21,719**	**15,536**
Enterprise value (£m)[c]	32,324	36,578	33,597	28,415	**20,101**
Group retail statistics					
Number of stores[d]	6,049	6,653	7,305	6,849	**6,902**
Total sales area – '000 sq. ft.[d]	110,563	106,040	109,572	95,811	**94,687**
Average employees	514,615	506,856	510,444	480,607	**482,152**
Average full-time equivalent employees	401,791	388,375	391,868	362,370	**357,835**
UK & ROI retail statistics					
Number of stores[d]	3,116	3,288	3,524	3,710	**3,743**
Total sales area – '000 sq. ft.[d]	42,522	43,950	45,300	45,946	**45,253**
Average full-time equivalent employees ('FTE')				225,192	**225,371**
Revenue (exc. fuel) per FTE – £				169,757	**165,012**
Weekly revenue (exc. fuel) per sq. ft. – £				15.81	**15.68**

[a] 53 weeks.
[b] Dividend per share relating to the interim and proposed final dividend.
[c] See glossary for definitions.
[d] Including franchise stores.

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Tesco PLC
Tesco House
Shire Park
Kestrel Way
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Hertfordshire
AL7 1GA

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