This has been another significant year for our business.

After three years of turnaround, the results we’ve shared for this year show that we are firmly on track, and delivering on our commitments. I am pleased with the progress we have made, and excited by the opportunities ahead.

We have seen nine consecutive quarters of sales growth in our core UK business, with Group sales up 2.3% for the year. Group operating profit before exceptional items is up 28.4% to £1,644m (2016/17: £1,280m), and we are generating more cash – with Retail operating cash flow up 21.7% to £2.8bn (2016/17: £2.3bn).

We are also making good progress towards the margin ambition we set out in October 2016, with Group operating margin reaching 3.0% in the second half of the year. At the same time, we have strengthened our balance sheet, with Net debt down 29.6% to £2.6bn (2016/17: £3.7bn).

The external environment remains challenging: consumers are feeling the impact of economic uncertainty, and the pressures I described in last year’s Annual Report, such as business rates in the UK and competitive market conditions in Central Europe, have not eased.

However, the journey we are on to simplify and grow our business puts us in a strong position to deal with these challenges. By keeping our focus, we are creating value for our customers, colleagues, suppliers and shareholders.

Customers
We are helping customers in the areas that matter most to them, and bringing them more sustainable, affordable, healthy food.

As a result, our net promoter score has increased by 5 points as more customers recommend Tesco as a place to shop; loyalty is growing, and in the UK 260,000 more shoppers are shopping at Tesco.

In the first half of the year, we took a strategic decision to protect our customers and hold back the inflationary pressure we were seeing in the rest of the UK market.

We’ve also looked at other ways to add value for our customers, with a series of little helps through the year, including:

– covering the cost of the ‘tampon tax’ on women’s sanitary products in the UK;
– removing barriers to eating healthily with our ‘little helps to healthier living’ campaign in the UK, and taking 4,100 tonnes of sugar out of our Own Brand soft drinks in Central Europe;
– launching our Clubcard app in Thailand, making it easier for customers to manage their points;
– passing on an interest rate increase to savers at Tesco Bank, following the Bank of England’s base rate rise in November; and
– running regular ‘Weekly Little Helps’ in the UK, helping customers save money on everything from fresh food to fuel.

As a business with food at our heart, improving our Own Brand food ranges is a particularly important part of our plans. This year we have relaunched many of these ranges – bringing our customers the best quality products at the very best prices.

We have looked at each of the three tiers of our Own Brand offer – ‘good’, ‘better’ and ‘best’ – and are strengthening some brands, like our Tesco core range, and redesigning others, like Tesco Finest*. Where our customers want the best value, without any compromise on quality, we are adding to our range of entry-level brands that are exclusively available at Tesco.

New brands we have launched for Tesco customers include prepared meals, pasta and sauces from the Hearty Food Co. and bakery products from H. W. Nevill’s. As part of this work, we have already relaunched 1,300 products in the year, with thousands more to follow – and our brand perception measures of quality and value have both increased.

Colleagues
The improvements we are making to our business are driven by our colleagues, as they serve our shoppers a little better every day.

This year, we announced a 10.5% increase in hourly pay for our UK store colleagues over the next two years, and our Colleague Bonus Plan continues to reward colleagues in the UK for their contribution to our turnaround.
Some of the changes we have made to simplify our business have had a significant impact on colleagues, including the closure of our Customer Engagement Centre in Cardiff, and changes to our operational structures in stores, and I am grateful for the professionalism and integrity of our colleagues at these difficult times.

Over the summer, we also began to move to a new service model in our offices in the UK, followed by similar changes in Central Europe, in order to simplify the way we organise ourselves, reduce duplication and cost, and invest in serving shoppers better.

In a simpler business, it’s particularly important that we still do everything we can to help colleagues develop their careers as they wish, and this year we have continued our apprenticeship programme in the UK, as well as running a Career Academy in our Thai business, for around 150 students.

We’re also committed to building a team which is diverse, and reflects the communities we serve. We continue to develop an inclusive culture at every level of our organisation, helping our colleagues with the flexibility, skills and reward they need to get on.

Suppliers

With our suppliers, we are building even closer partnerships, working together to deliver great quality products for our customers and grow our mutual businesses.
In our most recent anonymous Supplier Viewpoint survey, 83% of our UK & ROI suppliers say they are treated fairly, and 94% say we pay promptly – and for the second year running, we topped the independently-run supplier Advantage Survey.

By growing our business with our closest product partners, we have been able to launch new and exclusive products for our customers, and support our suppliers to invest in innovation. This year we have worked with our partners to launch new products including our Wicked Kitchen vegan range in the UK, Eat Fresh produce brand in Malaysia, and an extended Free From range in Central Europe.

One example of particularly close partnership is our Tesco Sustainable Dairy Group, which has now paid an extra £300m to farmers above the market price of milk since it launched – helping them to manage the volatility in milk price experienced by the dairy industry. The group also incentivises our farmers to focus on quality, sustainability and productivity – and following this success, we have set up similar groups for other agricultural products including potatoes, lamb, poultry and eggs.

I’m also pleased that 25 of our largest food suppliers have agreed to join us in tackling food waste, by committing to targets on waste, publishing their data, and acting to stop good food going to waste.

**Shareholders**

With our business growing again, we resumed the payment of dividends to our shareholders this year – after a three-year absence while we stabilised our business.

We remain firmly on track to deliver the medium-term ambitions we set out in October 2016: to reduce our costs by £1.5bn, generate £9bn of retail cash from operations and improve operating margins to between 3.5% and 4.0% by 2019/20.

By maintaining a disciplined approach to capital, and further reducing our debt – already down from £8.5bn in 2014/15 to £2.6bn today – we can continue to strengthen our balance sheet and return to investment grade credit metrics. Our underlying philosophy for creating sustainable value for shareholders places increasing focus on cash profitability, free cash flow and earnings growth.

An important driver of this growth will come from the benefits of our merger with Booker, which we completed on 5 March 2018. The combined business allows us to access new growth areas, and provide food wherever it is prepared or eaten – ‘in home’ or ‘out of home’.

As a result of the merger, I am also delighted to welcome Charles Wilson to the Executive team and Board as our UK & ROI CEO, responsible for both retail and wholesale.

**A sustainable business**

It is critically important that as our business delivers growth, we do so in a way which is sustainable.

In October 2017, we published our Little Helps Plan, which sets out how we will:

- create a business where colleagues can get on, whatever their background;
- help our customers make healthier choices and enjoy good quality, sustainable products, at affordable prices; and
- help make sure no food that could be eaten is wasted, anywhere in our supply chain.
We have made good progress in all of these areas this year, and you can read more on pages 16 to 21 of this report.

I’m particularly proud of our efforts to stop good food going to waste – in the UK we have donated 19 million meals from surplus this year to help feed people in need, with a further 2 million and 25 million meals from our businesses in the Republic of Ireland and Central Europe respectively.

Looking ahead

With our business focused on growth, we will continue to deliver on the same plans for Tesco – our six strategic drivers – that have served us well in our turnaround so far.

At the same time, we will begin to deliver the substantial synergies that our merger with Booker unlocks: bringing benefits to consumers and colleagues, creating a wider market opportunity for our suppliers and new career opportunities for our colleagues – as well as accelerating the growth of our combined business for shareholders.

In what has been a very significant year, I am grateful to every colleague in our business for everything they have done to keep serving shoppers better.

It is their dedication and talent which drives all of our plans, and I look forward to continuing our work together as we grow the UK’s leading food business.

Dave Lewis
Group Chief Executive

Best.

Tesco and Booker merger.

The combined Tesco and Booker business allows us to bring together the retail and wholesale expertise of our two businesses, and access new opportunities for growth.

Together we employ over 310,000 colleagues in the UK, serve 117,000 independent retailers, 441,000 catering businesses, 641,000 small businesses, and work with over 7,000 suppliers.

Through our merger, we will bring benefits to customers, suppliers, colleagues and shareholders:

– We will delight consumers with better availability of quality food at attractive prices across retail and eating out locations, and serve better the faster growing ‘out of home’ food market.
– We will help independent retailers, caterers and small businesses by further improving choice, price and service, with enhanced digital and delivery service options.
– And for our suppliers, we will create a broader market opportunity, with strong growth prospects and a clear opportunity to develop better own brand and fresh ranges.

As our two businesses join forces, we are already beginning to deliver benefits. Importantly, there is no lengthy integration process, as we want to keep the complementary skills of retail and wholesale in our business, and start accessing growth opportunities as quickly as possible.

For example, our trial of a new Chef Central format is well underway, with a first store in Bar Hill, Cambridge selling products in bulk to professional caterers and the public alongside our existing Tesco Extra store. And, where it’s right for our customers, we are offering catering-format products in a number of Tesco stores too.

These are just the early stages of the many exciting opportunities in front of us. As we look ahead, our combination of businesses uniquely positions us to better serve the large and growing food market in the UK.