We have an established risk management process to identify, assess and monitor the principal risks that we face as a business. We have performed a robust 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. This review included an assessment of those risks that we believe would threaten the Group’s business model, future performance, solvency or liquidity.

Following the review of the principal risks and our strategic drivers we have included two additional shorter-term risks. These relate to the ongoing uncertainty and approach to Brexit, and the timely synergy realisation and integration of Booker into the wider Group. set out on pages 24 and 25. Additionally, we have reframed our product safety and supply chain risks, currently reflected at the business unit level to form a new principal risk responsible sourcing and supply chain, set out on page 24. This risk relates to the social and environmental challenges facing our business, our customers and our communities. Our approach is outlined in our Little Helps Plan on pages 16 to 21.

The risk management process relies on our assessment of the risk likelihood and impact and on the development and monitoring of appropriate internal controls. Our process for identifying and managing risk is set out in more detail on page 43.

We maintain risk registers for the principal risks faced by the Group and this is an important component of our governance framework and how we manage our business. As part of our risk management process, risks are reviewed as a top down and bottom up activity at the Group and the business unit level. The content of the risk registers are considered and discussed through regular meetings with senior management and reviewed by the Executive Committee. Each principal risk is reviewed at least annually by the Board.

The table opposite sets out our principal risks, their link to our strategic drivers, their movement during the year and a summary of key controls as well as any mitigating factors. The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our six strategic drivers as set out on pages 8 and 9. They 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.

### Strategic drivers

1. A differentiated brand
2. Reduce operating costs by £1.5bn
3. Generate £9bn cash from operations
4. Maximise the mix to achieve a 3.5% – 4.0% margin
5. Maximise value from property
6. Innovation

### Risks

- Customer
- Transformation
- Liquidity
- Competition and markets
- Brand, reputation and trust
- Technology
- Data security and data privacy
- Political, regulatory and compliance
- Health and Safety
- Responsible sourcing and supply chain
- Booker synergy realisation and integration
- Tesco Bank

### Oversight

**Board**
Overall responsibility for risk management, engages directly with risk assessment, mitigations and risk appetite.

**Audit Committee**
Oversight of the risk framework and controls on behalf of the Board.

**Group Chief Executive and Executive Committee**
The Group Chief Executive has overall accountability for control and the management of risk. Individual members, reporting to the Group Chief Executive, are accountable for specific risks.

**Group Risk and Compliance Committee**
Oversight of key regulatory and compliance risks on behalf of the Executive Committee, reporting biannually to the Audit Committee.
The time of investing in and implementing new technology.

Failure to build resilience capabilities at an early stage will negatively impact our reputation.

Effectively, financial or regulatory penalties and costs to rebuild trust in our brand.

Failure of our IT infrastructure or key IT systems will impact our ability to improve profitability.

We continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.

A broad range of factors impact our brand, reputation and trust in the year and, on balance, the level of risk remains unchanged.

Our technology landscape continues to require further investment as external threats increase and the challenges around securing the right capability to deliver change continues.

We continue to assess our technology resilience capabilities and have identified opportunities to make significant enhancements. We are progressing greater adoption of cloud computing technologies to provide further resilience.

We now have a more consistent approach to building impactful customer propositions, offering high quality, competitive value, while improving the customer experience. Propositions are now developed across channels and geographies to ensure consistency in the engagement with customers.

Group-wide customer insight management is undertaken to understand customer behaviour, expectations and experience, and leverage more consistently across the different parts of the business.

We monitor the effectiveness of our processes by regular tracking of our business performance and that of our competitors, against measures that customers tell us are important to their shopping experience. We have well established product development and quality management processes, which keep the needs of our customers central to our decision making.

Failure of our business performance to deliver cash as expected; access to funding markets or facilities is restricted; failures in operational and financial management; Tesco Bank cash call; or adverse changes to the regulatory landscape and price pressure across most of our markets.

We have reduced our debt levels and have improving debt metrics. Liquidity levels and sources of cash are regularly reviewed and the Group maintains access to committed credit facilities.

We maintain an infrastructure of systems, policies and reports to ensure discipline and oversight on liquidity matters, including specific treasury and debt-related issues. Our treasury policies are communicated across the Group and are regularly reviewed by the Board, Executive Committee and management.

The Group’s funding strategy is approved annually by the Board and includes maintaining appropriate levels of working capital, undrawn committed facilities and access to the capital markets. The Audit Committee reviews and approves annually the viability and going concern statements and reports into the Board.

There is a long-term funding framework in place for the pension deficit and there is ongoing monitoring of the activities of Tesco Bank that could give rise to risks to Tesco PLC.

Customer† Failure to have a coherent, connected and engaging customer journey and in-store experience will lead us to be less competitive and lose market share.

Ongoing fragmentation of our customer engagement channels exposes us to an increased risk of diluting our customer experience and ability to differentiate our brand.

We have a disciplined and policy-based approach to treasury management. We have reduced our debt levels and have improving debt metrics. Liquidity levels and sources of cash are regularly reviewed and the Group maintains access to committed credit facilities.

We continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.

A broad range of factors impact our brand, reputation and trust in the year and, on balance, the level of risk remains unchanged.

We continue to develop communication and engagement programmes to listen to our customers and stakeholders and reflect their needs in our plans. This includes the supplier viewpoint programme and the integration of local community and local marketing programmes. We continue to maximise the value and impact of our brand with the advice of specialist external agencies and in-house marketing expertise. Maintaining a differentiated brand is one of our strategic priorities and our Group processes, policies and our Code of Business Conduct sets out how we can make the right decisions for our customers, colleagues, suppliers, communities and investors. Our Corporate Responsibility Committee is in place to oversee all corporate responsibility activities and initiatives ensuring alignment with customer priorities and our brand. Further details can be found on page 39.

Technology Failure of our IT infrastructure or key IT systems in the time of investing in and implementing new technology.

Our technology landscape continues to require further investment as external threats increase and the challenges around securing the right capability to deliver change continues.

We continue to assess our technology resilience capabilities and have identified opportunities to make significant enhancements. We are progressing greater adoption of cloud computing technologies to provide further resilience.

We have combined governance processes covering both technology disaster recovery and business continuity to ensure alignment.

Our technology security programme is designed to continuously strengthen our Infrastructure and Information Technology General Controls.

1† Indicates that the principal risk has been included as part of the longer term viability scenarios.
### Principal risks and uncertainties continued

<table>
<thead>
<tr>
<th>Principal risk</th>
<th>Risk movement</th>
<th>Key controls and mitigating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>Data security and data privacy†</td>
<td>We continue to enhance our data security to keep pace with increasing threats on a global scale. As a retail organisation we hold a large amount of data and are working to ensure we comply with the General Data Protection Regulations.</td>
<td>Our multi-year data security programme has been driving the enhancement of our security capabilities. We continue to work towards meeting regulatory requirements and regularly report the status of the security programme to governance and oversight committees. We have established a team to detect, report and respond to security incidents in a timely fashion. We have a third-party supplier assurance programme focusing on data security and privacy risks. We are making significant investment across the Group to ensure we comply with the requirements of the General Data Protection Regulation (GDPR) in Europe, and any other relevant legislation globally. We put our customers and our colleagues at the heart of all decisions we make in relation to the processing of personal data. Our privacy compliance programme, driven by the Group Privacy Officer continues to drive compliance throughout our global business.</td>
</tr>
<tr>
<td>Political, regulatory and compliance†</td>
<td>We continue to monitor and improve our controls to ensure we comply with legal and regulatory requirements across the Group. Given the ongoing uncertainty around Brexit, we have separated this out as an independent risk for the current year.</td>
<td>Wherever we operate, we aim to ensure that the impact of political and regulatory changes is incorporated in our strategic planning. We manage regulatory risks through the use of our risk management framework and have implemented compliance programmes to manage our most important risks (e.g. bribery and competition law). Our compliance programmes ensure that sustainable controls are implemented to mitigate the risk and we conduct assurance activities for each risk area. Our Code of Business Conduct is supported by new starter and annual compliance training and other tools such as our whistleblowing hotline. The engagement of leadership and senior management is critical in the successful management of this risk area and leaders provide clear tone from the top for colleagues.</td>
</tr>
<tr>
<td>Health and safety</td>
<td>We continue to focus our efforts on controls which ensure colleague and customer safety.</td>
<td>We have a business-wide, risk-based safety framework which defines how we implement safety controls to ensure that colleagues, contractors and customers have a safe place to work and shop. Each business is required to maintain a Safety Improvement Plan to document and track enhancements. Overall governance is provided by the Group Risk and Compliance Committee, with each business unit operating their own Health and Safety Committee. Our annual colleague survey programme allows us to measure safety behaviour improvements Group-wide. The survey results alongside other inputs through the year, informs the delivery of safety initiatives and targeted communications.</td>
</tr>
<tr>
<td>People</td>
<td>We continue to operate in a fast changing and complex legislative environment. Market competitiveness and volatility affects our ability to attract and retain key specialist talent thereby increasing this risk.</td>
<td>We seek to understand and respond to colleagues’ needs by listening to their feedback from open conversations, social media, colleague surveys and performance reviews. Talent planning and people development processes are well established across the Group. Talent and succession planning is discussed annually by the Board and three times a year at the Executive Committee and Nominations and Governance Committee. The Remuneration Committee agrees objectives and remuneration arrangements for senior management, and the current remuneration policy is due for review at this year’s Annual General Meeting. There is a change programme in place, supported by Executive Committee and Audit Committee governance, to deliver technology and processes that are simple, helpful and trusted to all our markets.</td>
</tr>
<tr>
<td>Responsible sourcing and supply chain</td>
<td>New principal risk.</td>
<td>We have product standards, policies and guidance covering both food and non-food, as well as goods and services not for resale, ensuring that products are safe, legal and of the required quality, and that the human rights of workers are respected and environmental impacts are managed responsibly. Refer to pages 16 to 21 for specific actions highlighted under our Little Helps Plan. Supplier audit programmes are in place to monitor product safety, traceability and integrity, human rights and environmental standards, including unannounced specification inspections of suppliers and facilities. We run colleague training programmes on food and product safety, responsible sourcing, hygiene controls and provide support for stores. We also provide targeted training for colleagues and suppliers dealing with specific challenges such as modern slavery. Our store audit programme seeks to ensure we comply with safety and legal requirements.</td>
</tr>
<tr>
<td>Booker synergy realisation and integration</td>
<td>New principal risk.</td>
<td>A detailed synergy realisation and integration plan is being implemented with period-end reporting and tracking of targeted benefits and key performance indicators. For further information on the Tesco and Booker merger see page 7.</td>
</tr>
</tbody>
</table>

† Indicates that the principal risk has been included as part of the longer term viability scenarios.
Tesco Bank

Tesco Bank is exposed to a number of risks, the most significant of which are operational risk, regulatory risk, credit risk, capital risk, funding and liquidity risk, market risk and business risk. The Bank continues to actively manage the risks to which it is exposed.

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 and its strategic priorities, long-term plan, capital planning and liquidity management. Adherence to risk appetite is monitored through a series of ratios and limits.

The Bank operates a risk management framework that is underpinned by governance, policies, processes and controls, reporting, assurance and stress testing.

There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee by the Bank’s Chief Financial Officer, Chief Risk Officer and Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank’s Board.

Indicates that the principal risk has been included as part of the longer term viability scenarios.

### Long term viability statement

#### 1. The context for assessment

The aim of the viability statement is for the Directors to report on the assessment of the prospects of the Company meeting its liabilities over the assessment period, taking into account the current financial position, outlook and principal risks.

The Directors have based their assessment of viability on the Group’s current strategic plan, which is updated and approved annually by the Board, delivering the Group’s purpose of ‘serving shoppers a little better every day’ and underpinned by the six strategic drivers (detailed on pages 8 and 9). The strategic plan necessarily makes assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing our sector; competitor actions; market dynamics; changing customer behaviours; and the costs associated with delivering the strategy. Strategic plans also address and respond to the Group’s principal risks.

#### 2. The assessment period

The Directors have assessed the viability of the Company over a three-year period to February 2021. The Directors have determined that a three-year period is an appropriate timeframe for assessment, given the dynamic nature of the retail sector and product offering, and is in line with the Company’s strategic planning period.

#### 3. Assessment of viability

The viability of the Company has been assessed taking into account the Company’s current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the principal risks which have the greatest potential impact on viability in that period.

Four scenarios have been modelled, considered severe but plausible, that encompass these identified risks. None of these scenarios individually threaten the viability of the Company, therefore the compound impact of these scenarios has been evaluated as the most severe stress scenario.

These scenarios assumed that external debt is repaid as it becomes due and includes consolidation of the Booker business and associated synergies.

The scenarios above are hypothetical and purposefully severe for the purpose of creating outcomes that have the ability to threaten the viability of the Group. In the case of these scenarios arising, various options are available to the Group in order to maintain liquidity so as to continue in operation such as: accessing new external funding early; more radical short-term cost reduction actions; and reducing capital expenditure. None of these actions are assumed in our current scenario modelling.

#### 4. Conclusion

Based on these severe but plausible scenarios, the Directors have a reasonable expectation that the Company will continue to operate and meet its liabilities as they fall due over the three-year period considered.

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.

Robert Welch
Group Company Secretary
10 April 2018

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### Principal risk

<table>
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</tr>
</thead>
<tbody>
<tr>
<td>Brexit²</td>
<td>New principal risk.</td>
<td>The nature of the UK’s future trading relationship with the EU is still to be determined. We continue to contribute to important public policy discussions and engage with government, regulatory bodies and industry. As further details of the terms of our departure from the EU emerge, we will continue to assess and monitor the potential risks and impacts of these on Tesco customers, colleagues and shareholders and take appropriate measures.</td>
</tr>
<tr>
<td>Tesco Bank</td>
<td>The Bank continues to actively manage the risks to which it is exposed.</td>
<td>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 and its strategic priorities, long-term plan, capital planning and liquidity management. Adherence to risk appetite is monitored through a series of ratios and limits. The Bank operates a risk management framework that is underpinned by governance, policies, processes and controls, reporting, assurance and stress testing. There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee by the Bank’s Chief Financial Officer, Chief Risk Officer and Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank’s Board.</td>
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² Indicates that the principal risk has been included as part of the longer term viability scenarios.