Corporate governance report

Board effectiveness review
The Board carries out an annual evaluation of its effectiveness. Having undertaken an external review in 2015/16 and an internal review overseen by me in 2016/17, the 2017/18 review was overseen by Deanna Oppenheimer, our Senior Independent Director, which encompassed the areas recommended for improvements in 2016/17. The results of the review are set out on page 35, together with information about our progress against the 2016/17 review actions.

Succession planning
While much of the scrutiny of succession plans for the levels of management immediately below Executive Committee has been delegated to the Nominations and Governance Committee, the Board remains focused on ensuring that our talent pipeline is managed to support our long-term strategy. The Board allocates significant time to discuss succession planning and talent development of the Executive Committee. During the year, the Board further increased its engagement with talent development and conducted a comprehensive review of the Executive Committee talent pipeline, focusing on their specific development needs against the future plans and requirements for our business. The Board reviewed assessments of a number of senior leaders and discussed their leadership qualities, strengths and areas for development. From this review, we have developed our medium and long-term succession plans.

Remuneration
Our approach to reward aims to establish a framework that is fair and balanced, and provide a clear and demonstrable link between remuneration and delivery of the Group’s key strategic objectives, while delivering long-term and sustainable returns to shareholders. This year, we will be seeking shareholder support for a new remuneration policy, which will formally apply, subject to shareholder approval, from the date of the 2018 AGM.

Culture
At Tesco we recognise that culture plays a fundamental role in the delivery of strategy and the Board is ultimately responsible for ensuring that our activities reflect the culture we wish to instil in our colleagues and other stakeholders to drive the right behaviours. The Board is committed to promoting a strong and positive culture and upholding our well-established core values that underline how we run our business:

• Nobody tries harder for our customers.
• We treat people how they want to be treated.
• Every little help makes a big difference.

One of my goals as Chairman is to build a culture in which we fully understand our stakeholders – customers, colleagues, suppliers, shareholders and our communities – and what matters to them, and then act by changing and innovating to meet their needs. At the Board, there is a clear emphasis on setting the tone from the top and leading by example.

The Board receives reports throughout the year on stakeholder issues and concerns, including details of our Group-wide employee engagement surveys, which include data on whether colleagues recommend us as a great place to work and shop, results of our supplier satisfaction surveys and statistics on our customers recommending Tesco as a great place to shop and coming back time and again, which are three of the Big 6 KPIs set out in the Strategic report. We engage also with our shareholders through a full calendar of events and meetings, including the AGM and General Meeting on the Booker Group merger, and the Board receives details of our impact on our communities through the Corporate Responsibility Committee. The Board places great importance on these reports, which help inform our decisions, track progress and monitor culture.

Chairman’s introduction.

Dear Shareholder
At Tesco, we recognise the importance of good corporate governance in supporting the long-term success and sustainability of our business. We strive to maintain a robust and effective governance framework which supports the application and execution of our strategy and remains consistent with our values.

Board role and effectiveness
The core objective of the Board is to create and deliver the long-term success of the Company and long-term returns for shareholders. This requires the Board to set the Company’s strategic aims, ensure that the necessary financial and human resource structures are in place to achieve the Company’s objectives, provide oversight of management’s performance in delivering against strategy on a day-to-day basis and set the Company’s risk appetite. The Board is aware of its obligations to the Company’s shareholders and other stakeholders and responds to their needs by transparent reporting and active engagement.

My role as Chairman is to lead the Board and to ensure that Tesco has a Board which works effectively in all aspects of its role. A key part of that role is to ensure the Board works collaboratively with the executive team, providing support and guidance to complement and enhance the work undertaken, constructively challenge management when necessary and exercise an appropriate level of rigorous enquiry and intellectual debate. This involves having Directors with the right range and balance of skills, experience and attributes, including a broad diversity of perspectives, for the Board and for Tesco. I believe we have this on our Board, enhanced by the appointments of Stewart Gilliland and Charles Wilson in March 2018 following the successful completion of the Booker Group Merger.

Governance
We are committed to maintaining high standards of corporate governance within Tesco. Over the last few years, we have worked hard to ensure that good governance is part of our way of thinking and working, and underpins how we conduct ourselves every day. Our governance framework ensures robust, informed and transparent decision-making processes and the Board encourages open discussion and constructive challenge.

There has been much focus on corporate governance recently and the standards continue to change and evolve. To ensure sufficient time is devoted to understanding and discussing governance matters, during the year we enhanced the remit of the Nominations Committee to include the oversight of the Group’s governance framework and renamed it the Nominations and Governance Committee. The Committee has reviewed the FRC’s proposals to revise the UK Corporate Governance Code and we will report further on the changes to Tesco’s governance framework in next year’s Annual Report, in anticipation of the revised Code becoming effective in the 2019/20 financial year.

‘Your Board firmly believes that a sound governance framework is essential in supporting management in delivery of the Group’s strategy to drive business success.’
John Allan
Non-executive Chairman

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Diversity and inclusion

The Board has previously highlighted that it is an advocate of diversity in its broadest sense in the boardroom and a supporter of the Hampton-Alexander report, which aims to raise the proportion of women on UK Boards to at least one-third by the end of 2020, and the Parker report on ethnic diversity on the Board. We have also become a member of the 30% Club, which is an organisation that encourages businesses to achieve 30% female representation on their Boards and also in their senior leadership teams.

Board membership reflects a wide range of skills and business experience drawn from a number of industries, which is critical for bringing both the expertise required, and to enable different perspectives to be brought to Board discussions. The combination of these factors mean that the Board benefits from a diverse range of competencies, perspectives and thoughts, providing an ability to challenge on strategic issues and a dynamic environment for decision-making.

The Board remains of the opinion that appointments to the Board should be made on merit relative to a number of different criteria including diversity of gender, cultural background, independence and personal attributes, alongside the appropriate skill set, experience and expertise. Although we have not established a formal policy, the Board intends to continue with this approach to diversity in all aspects, while maintaining the principle that all future appointments to the Board must also complement the balance of skills that the Board already possesses. The role of succession planning in promoting diversity is acknowledged and the Group has a range of policies to help provide mentoring and development opportunities.

The Board recognises the need to create the conditions that foster talent and encourage all employees to achieve their full career potential in the Group. As part of our overall approach to inclusion we have established an External Advisory Panel to help guide our inclusion agenda and implemented an Inclusion Strategy which aims to ensure that everyone is welcome at Tesco. We also have a number of well-established colleague networks, including Women at Tesco, BAME at Tesco, Armed Forces at Tesco, Disability at Tesco and Out at Tesco, which provide support to allow colleagues to be themselves at work and develop within Tesco.

Further details of the Group’s approach to diversity can be found online at www.tescoplcl.com.

Conclusion

Looking forward to 2018/19, the Board and I will continue to focus on the effective oversight of the Company and progress against our purpose of serving shoppers a little better every day.

John Allan
Non-executive Chairman
Board of Directors.

John Allan CBE
Non-executive Chairman
Appointed 1 March 2015
Tenure 3 years
Board meeting attendance 6/6

Skills and experience
John has significant board, retail and financial experience gained from both the commercial and financial sectors. He was CEO of Exel PLC and when it was acquired by Deutsche Post in 2005 he joined the board of Deutsche Post, becoming CFO in 2007 until his retirement in 2009. John was Chairman of Dixons Retail plc during its turnaround period, and following its merger with Carphone Warehouse was Deputy Chairman and Senior Independent Director of Dixons Carphone until 2015. He was also previously a non-executive director of Workpay Group PLC, National Grid plc, the UK Home Office Supervisory Board, 3i plc, PHS Group plc, Connell plc, Royal Mail plc, Wolseley plc and Hamleys plc.

External appointments
– Chairman of Barratt Developments PLC;
– Chairman of London First; and
– Vice President of the Confederation of British Industry.

Stewart Gilliland
Independent Non-executive Director
Appointed 5 March 2018

Skills and experience
Stewart has significant business and management experience in international markets, specifically those in Europe, having previously held roles with leading consumer-facing companies, including Whitbread and Interbrew. He held the position of Chief Executive of Muller Dairies UK and Ireland until 2010. Prior to joining Tesco, he was Chairman of Booker Group plc.

External appointments
– Senior Independent Director of Mitchells & Butlers plc;
– Non-executive director of C&C Group plc;
– Non-executive director of Curious Drinks Ltd; and
– Director of Nature’s Way Foods Ltd.

Mark Armour
Independent Non-executive Director
Appointed 2 September 2013
Tenure 4.5 years
Board meeting attendance 6/6

Skills and experience
Mark has significant strategic planning and financial expertise, as well as experience of executive leadership. He was CFO of Reed Elsevier Group plc (now RELX Group plc) and its two parent companies, Reed Elsevier PLC and Reed Elsevier NV. From 1996 to 2012, this role has provided him with considerable experience of digital business transition and operating in a multi-channel environment. Prior to joining Reed Elsevier, he was a partner at Price Waterhouse in London. He was previously a non-executive director and chair of the audit committee of SABMiller PLC.

External appointments
– Non-executive director of the Financial Reporting Council; and
– Member of the Takeover Panel (from 1 May 2018).

Steve Golsby
Independent Non-executive Director
Appointed 1 October 2016
Tenure 1.5 years
Board meeting attendance 6/6

Skills and experience
Steve has a wealth of knowledge of operating internationally, specifically significant leadership experience in Asia. He has a strong background in consumer marketing and held senior executive positions with Bristol Myers Squibb and Unilever, before being appointed President of Mead Johnson Nutrition, a leading global infant nutrition company, in 2004. He was President and CEO from 2008 to 2013 and a non-executive director from 2013 to 2017. He was also previously a non-executive director of Beam Inc.

External appointments
– Non-executive director of RMA Group;
– Advisor to Thai Union Group PLC, a global leader in the seafood industry; and
– Honorary Investment Advisor to the Thailand Board of Investment.

Byron Grote
Independent Non-executive Director
Appointed 1 May 2015
Tenure 3 years
Board meeting attendance 6/6

Skills and experience
Byron brings broad financial and international experience to the Board, having worked across BP PLC in a variety of commercial, operational and executive roles covering numerous geographies. Byron’s strategic focus and financial experience complements the balance of skills on the Board and makes him ideal for the role of Chair of the Audit Committee. He served on the BP PLC board from 2000 until 2013 and was BP’s CFO during much of that period. He was previously a non-executive director of Unilever PLC.

External appointments
– Vice Chairman of the Supervisory Board of Akzo Nobel NV;
– Non-executive director of Anglo American PLC; and
– Non-executive director of Standard Chartered PLC.

Dave Lewis
Group Chief Executive
Appointed 1 September 2014
Tenure 3.5 years
Board meeting attendance 6/6

Skills and experience
Dave has significant experience in brand marketing, customer management and general management. Prior to joining Tesco, he worked for Unilever for nearly 30 years in a variety of different roles across Europe, Asia and the Americas. He has experience across many sectors in the UK and overseas, and has been responsible for a number of business turnarounds. He was previously a non-executive director of Sky PLC.

External appointments
– Member of the Governance Committee of the Consumer Goods Forum; and
– Chair of Champions 12.3, a UN programme seeking to add momentum to the achievement of the UN Sustainable Development Target 12.3 by 2030.

Mikael Olsson
Independent Non-executive Director
Appointed 1 November 2014
Tenure 3.5 years
Board meeting attendance 6/6

Skills and experience
Mikael joined the Tesco Board after an extensive career at IKEA Group, holding a variety of senior roles including being a member of the executive committee from 1995 until 2013 and holding the position of CEO and President from 2009 until 2013. He brings a wealth of retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment.
He was previously a non-executive director and vice chairman of Volvo Cars AB.

External appointments
- Non-executive director of Ikano S.A.;
- Non-executive director of Lindenigruppen AB;
- Non-executive director of The Royal Schiphol Group; and
- Member of the Nominations Committee of Volvo Cars AB.

Deanna Oppenheimer
Senior Independent Director
Appointed 1 March 2012
Tenure 6 years
Board meeting attendance 6/6

Skills and experience
Deanna has significant marketing, brand management and consumer knowledge and experience, bringing a broad perspective to the Board. She held several senior roles at Barclays plc, including Chief Executive of UK Retail and Business Banking and Vice Chair of Global Retail Banking. Deanna was appointed as Chair of Hargreaves Lansdown plc in February 2018. She is also currently a non-executive director of the US fresh-prepared food company, Joshua Green Corporation and is the founder of advisory firm, CameoWorks LLC, which provides bespoke support to early stage companies. Deanna was previously a non-executive director of NCR Corporation and Worldpay, Inc. Her extensive board, investor and commercial experience makes her a strong Senior Independent Director and Chair of the Remuneration Committee.

External appointments
- Chair of Hargreaves Lansdown plc;
- Non-executive director of AXA Group;
- Non-executive director of Joshua Green Corp;
- Founder of consumer-focused boutique advisory firm, CameoWorks LLC; and
- Senior advisor to Bain & Company.

Simon Patterson
Independent Non-executive Director
Appointed 1 April 2016
Tenure 2 years
Board meeting attendance 6/6

Skills and experience
Simon has extensive knowledge of and years of experience in finance, technology and global operations gained in various management and leadership roles. He was a member of the founding management team of the logistics software company Global Freight Exchange and has worked at the Financial Times and McKinsey & Company. He has previously served on the boards of Skype, MultiPlan, Cegid Group, Intelsat, Gerson Lehrman Group and N Brown Group.

External appointments
- Managing Director of Silver Lake Partners, a leading global technology investment firm;
- Board member of Delfi and FlixBus;
- Trustee of the Natural History Museum; and
- Trustee of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry.

Alison Platt
Independent Non-executive Director
Appointed 1 April 2016
Tenure 2 years
Board meeting attendance 6/6

Skills and experience
Alison has extensive experience of the property sector and customer service delivery through her role as Chief Executive of Countrywide plc, which she held until January 2018. She also has significant business-to-business and international commercial experience, having held a number of senior positions at Bupa. Alison’s experience as a CEO enables her to provide challenge and advice to the Board across a range of issues. Alison was previously Chair of Opportunity Now, which seeks to accelerate change for women in the workplace, as well as a non-executive director of the Foreign & Commonwealth Office and Cable & Wireless Communications PLC.

Lindsey Pownall OBE
Independent Non-executive Director
Appointed 1 April 2016
Tenure 2 years
Board meeting attendance 6/6

Skills and experience
Lindsey has substantial experience in food, grocery and retail brand development, having enjoyed a career of over 20 years at Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined the Samworth Board in 2001 and served as Chief Executive between 2011 and 2015. Lindsey is a passionate advocate of supplier relationships, customers, colleagues and sustainability which directly support Tesco’s strategy and her role as Chair of the Corporate Responsibility Committee.

External appointments
- Non-executive director of Meadow Foods Limited;
- Non-executive director of Story Contracting Limited; and
- Non-executive director of Story Homes Limited.

Alan Stewart
Chief Financial Officer
Appointed 23 September 2014
Tenure 3.5 years
Board meeting attendance 6/6

Skills and experience
Alan brings to the Board significant corporate finance and accounting experience from a variety of highly competitive industries, including retail, banking and travel, as well as executive leadership experience within a listed company environment. Prior to joining Tesco, he was UK CEO and CFO of Thomas Cook Holdings, Group Finance Director of WHSmith plc and CFO for AWS and Marks & Spencer plc. He was previously a non-executive director of Games Workshop Group plc.

External appointments
- Non-executive director of Diageo plc;
- Non-executive director of Tesco Bank;
- Member of the Advisory Board, Chartered Institute of Management Accountants; and
- Member of the Main Committee and Chairman of the Pension Committee of the 100 Group of Finance Directors.

Charles Wilson
CEO, UK & ROI
Appointed 5 March 2018

Skills and experience
Charles started his career in 1986 with Procter & Gamble following which he was a consultant with OC&C Strategy Consultants and a director of Abberton Associates. In 1998 he became an executive director of Booker Group plc which merged with Iceland plc in 2000. In 2001 he became an executive director of Arcadia Group plc and in 2004 he became an executive director of Marks & Spencer plc. In 2005 he was appointed as Chief Executive of Booker Group plc.

Committee membership (at 10 April 2018)
- Nominations and Governance Committee
- Audit Committee
- Remuneration Committee
- Corporate Responsibility Committee
- Chair of Committee
- Independent Board member
Alison Horner
Chief People Officer
Alison joined the Executive Committee on 1 March 2011.
Responsibilities
Alison is responsible for setting the people strategy and plans at Tesco, including reward, colleague experience and capability.
Skills and experience
Prior to Tesco, Alison worked at Unilever for over 21 years, latterly as Vice President for the Food Category in North America and Food General Manager for the USA. Previously, she had a 12-year career in advertising, working both in Italy and the UK. An international executive, Alison has held roles in North America, the UK, Italy and Central and Eastern Europe.

Jane Lawrie
Group Communications Director
Jane joined the Executive Committee on 10 October 2016.
Responsibilities
Jane is responsible for rebuilding trust in the Tesco brand and its businesses.
Skills and experience
Jane has over 25 years’ experience of corporate, financial, colleague and digital communications. She joined Tesco from Coca-Cola, where she led European public affairs and communications. She has significant experience in advising businesses on trust and corporate reputation through previous roles at Diageo and Boots.

Tony Hoggett
CEO, Asia
Tony joined the Executive Committee on 1 April 2017.
Responsibilities
Tony is responsible for Tesco’s businesses in Thailand and Malaysia, as well as its joint ventures in India and China. He also leads our business partnerships across the region.
Skills and experience
Tony joined Tesco in 1990 and has served in a range of leadership roles in the UK and Asia over the last three decades. Between 2007 and 2011 he held the roles of VP South China, as well as President North China, before moving to Turkey as Chief Operating Officer for Tesco Kipa. In 2011, Tony returned to the UK as Managing Director for Superstores, before becoming Managing Director, Tesco Extra and a board member of Tesco Mobile in 2012. In 2014, he joined the UK Leadership Team as Retail Director and then was appointed Chief Operating Officer UK in 2016. In April 2017, Tony was appointed to his current role of CEO, Asia.

Alessandra Bellini
Chief Customer Officer
Alessandra joined the Executive Committee on 1 March 2017.
Responsibilities
Alessandra is responsible for building the Tesco brand globally and putting the customer at the heart of everything that we do.
Skills and experience
Prior to Tesco, Alessandra worked at Unilever for over 21 years, latterly as Vice President for the Food Category in North America and Food General Manager for the USA. Previously, she had a 12-year career in advertising, working both in Italy and the UK. An international executive, Alessandra has held roles in North America, the UK, Italy and Central and Eastern Europe.

Dave Lewis
Group Chief Executive
Dave joined the Board and the Executive Committee on 1 September 2014. His full biography appears on page 28.
Jason Tarry
Chief Product Officer
Jason joined the Executive Committee on 1 January 2015.

Responsibilities
Jason is responsible for setting the strategy and policy for the planning, ranging, sourcing and supply of the products we sell across the Group. In addition, he has direct responsibility for managing this for the UK.

Skills and experience
Jason joined Tesco in October 1990 on the graduate recruitment programme. He has held a number of positions in the UK and internationally across both food and non-food divisions. Jason became CEO for clothing across the Group in 2012 before being appointed as Chief Product Officer in January 2015.

Charles Wilson
CEO, UK & ROI
Charles joined the Board and the Executive Committee on 5 March 2018.
His full biography appears on page 29.

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

Responsibilities
Adrian is responsible for the legal, company secretarial, government relations, regulatory and compliance functions across Tesco.

Skills and experience
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.

Matt Simister
CEO, Central Europe
Matt joined the Executive Committee on 1 April 2017.

Responsibilities
Matt is responsible for all of Tesco’s businesses in the Czech Republic, Hungary, Poland and Slovakia.

Skills and experience
Matt joined Tesco in 1996 as a marketer. He built on his UK experience with three years as Commercial Director for our Czech and Slovak businesses. Following which, he returned to the UK to set up our Group Food capability, managing our regional fresh food and Tesco Brand sourcing, buying and inbound supply chains for the UK, ROI, Central Europe and Asia. In April 2017, Matt was appointed to his current role of CEO, Central Europe.

Alan Stewart
Chief Financial Officer
Alan joined the Board and the Executive Committee on 23 September 2014.
His full biography appears on page 29.
Governance framework

The 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 colleagues 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 while maintaining high standards of governance. The Governance Framework is designed to safeguard and enhance long-term shareholder value and provide a platform to realise the Group’s strategy. Our system of internal control and risk management arrangements are integral to our Governance Framework.
**UK Corporate Governance Code compliance**
The Board confirms that throughout the year ended 24 February 2018 the Company applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code (Code) issued by the Financial Reporting Council (FRC) in April 2016. The Code can be found on the FRC website www.frc.org.uk.

**Leadership**

**Our Board and Committees**
The Board has a collective responsibility to promote the long-term success of the Company and is accountable to shareholders for ensuring that the Group is appropriately managed and achieves the strategic objectives it sets, in a way that is supported by the right culture, values and behaviours throughout the Group. In this performance of its duties, it has due regard to the interests of other key stakeholders and is aware of the potential impact of the decisions it makes. To support the Board’s role in establishing the strategic objectives and policies of the Group, it has a well-defined Governance Framework as shown on page 32.

**Board activity**
The Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. To retain control of these key decisions, certain matters have been identified that only the Board may approve and there is a formal schedule of powers reserved to the Board, as shown in the Governance Framework on page 32.

Specific responsibilities have been delegated to the Board Committees, each of which is responsible for reviewing and dealing with matters within its own terms of reference. Each Committee reports to, and has its terms of reference approved by, the Board. The Committee papers and minutes are shared with all Directors.

**Board activity in 2017/18**

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Description</th>
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<tbody>
<tr>
<td>20%</td>
<td>Financial performance and risk</td>
</tr>
<tr>
<td>28%</td>
<td>Strategy development and planning</td>
</tr>
<tr>
<td>23%</td>
<td>Reviews of our businesses</td>
</tr>
<tr>
<td>29%</td>
<td>Other corporate activities, including stakeholders</td>
</tr>
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</table>

**UK & ROI**
- Strategy day
- Portfolio update
- Competitors
- Maximising property value
- Technology update
- Brexit
- Customer insight

**Central Europe**
- UK & ROI
- Asia
- Joint ventures
- Tesco Mobile
- Tesco Bank
- F&F
dunnhumby

**Asia**
- Customers, Colleagues, Suppliers & Shareholders
- Succession planning and talent management
- CEO reports
- Litigation reports
- Committee reports
- Board effectiveness
- Health and Safety

At Board meetings, we receive and consider papers and presentations from the Executive Directors on relevant topics and senior management are regularly invited to attend meetings for specific items. This enables the Non-executive Directors to engage with colleagues from across the Group. Effective review and decision-making is supported by providing the Board with high quality, accurate, clear and timely information, including input from advisers where necessary. If a Director were to have any material concerns, these would be recorded in minutes of meetings, and on resignation any Non-executive Director having such concerns would provide a written statement to the Chairman and the Board.

Board meetings are structured around the following areas:
- financial performance and risk;
- strategy development and planning;
- reviews of our businesses; and
- other corporate activities, including stakeholders.

Details of the proportion of time spent by the Board in 2017/18 in these areas are set out below.

**Division of responsibilities**
The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group. The responsibilities of the Chairman, Group Chief Executive, Senior Independent Director and other Directors are clearly defined, as shown in our Governance Framework on page 32, so that no individual has unrestricted powers of decision.

The Group Chief Executive is supported by the Executive Committee, and the Group’s senior management structure has been designed to support management’s decision-making responsibilities, aligned to personal accountability and delegated authority, while embedding risk and control in business decision-making.
Corporate governance report continued

Non-executive Directors
The Non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under law for the stewardship of the Company’s affairs, the Non-executive Directors fulfill a vital role in corporate accountability. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the Board Committees. Between them, the current Non-executive Directors have the appropriate balance of skills, experience, knowledge and independent judgement gained through experience in a variety of business sectors.

Diversity and inclusion
The Board continues to recognise that an appropriate mix of diversity and skills is key for introducing different perspectives into Board debate and for better anticipating the risks and opportunities in building a long-term sustainable business. As set out in their biographies on pages 28 and 29 and in the charts below, each member of the Board offers a range of core skills and experience that is relevant to the successful operation of the Group. In addition, we believe it is helpful to maintain a blend within the Non-executive group where some are in full-time employment and others are pursuing a Non-executive portfolio career path.

Board Committees
The four principal Committees of the Board are: Audit; Corporate Responsibility; Nominations and Governance; and Remuneration. Board Committee members are appointed by the Board upon the recommendation of the Nominations and Governance Committee, which reviews the composition of each Committee regularly. The Committee memberships are spread between the Non-executive Directors, drawing on each of their relevant skills and experience.

Membership details for the Committees can be found in the respective Committee reports.

<table>
<thead>
<tr>
<th>Board expertise (no. of directors)</th>
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<tbody>
<tr>
<td>Financial</td>
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<td>Retail</td>
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<td>Strategy</td>
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<td>Marketing</td>
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<th>Gender split</th>
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<tr>
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<td>Executive Committee</td>
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<th>Tenure</th>
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<td>4-6 yrs</td>
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<tr>
<th>Nationalities of the Board</th>
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<tr>
<td>UK</td>
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<td>North America</td>
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<td>Europe</td>
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<td>Asia</td>
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* Based on residency.

Effectiveness

Board balance
Effective management and good stewardship are led by the Board. The Board is currently composed of the Chairman, who was independent on appointment, three Executive Directors and nine Non-executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of shareholders are protected. Charles Wilson and Stewart Gilliland joined the Board on 5 March 2018, following completion of the Booker Group Merger. Charles Wilson also joined the Executive Committee.

Board independence
Independent Non-executive Directors form a majority of the Board. The Board considers each of its current Non-executive Directors to be independent in character and judgement. In reaching its determination of independence, the Board has concluded that there are no relationships or circumstances likely to affect, or could appear to affect, the judgement of our nine Non-executive Directors. Each continues to provide objective challenge to management and is willing to stand up and defend his or her own beliefs and viewpoints in order to support the ultimate good of the Company.

Attendance at Board meetings
Directors are expected to attend all Board and relevant Committee meetings. The Nominations and Governance 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. Following Deanna Oppenheimer’s appointment as Chair of Hargreaves Lansdown plc in February 2018, she stepped down as non-executive director of Worldpay, Inc. and she has confirmed that she will relinquish a further directorship by mid-2018, which will be announced at the appropriate time. Details of the Directors’ attendance at Board meetings can be found in their biographies on pages 28 and 29.

In addition to the six scheduled meetings of the Board during the year, there was one further meeting held in respect of the Booker Group Merger. A number of additional meetings on the merger were held after the year end. As Charles Wilson and Stewart Gilliland were not appointed until 5 March 2018, they did not attend any meetings in the year, however they have attended all Board meetings since their appointment.

During the year, the Chairman met frequently with Non-executive Directors without Executive Directors being present.

Development
The Chairman regularly discusses training requirements with the Board and arranges meetings or asks for information to be provided, as appropriate. As part of the ongoing development of Directors, key site visits are arranged and Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes in best practice.

Information and support
The Group Company Secretary, through the Chairman, is responsible for advising the Board on all governance matters and for ensuring that Board procedures are followed, applicable rules and regulations are complied with, and that due account is taken of relevant codes of best practice. The Group Company Secretary is also responsible for ensuring communication flows between the Board and its Committees, and between senior management and Non-executive Directors. All Directors have access to the advice of the Group Company Secretary and, in appropriate circumstances, may obtain independent professional advice at the Company’s expense. In addition, a Directors’ and Officers’ Liability Insurance policy is maintained for all Directors and each Director has the benefit of a Deed of Indemnity.

The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole.
Conflicts of interest

In accordance with the Companies Act 2006 and the Company’s Articles of Association, Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from consideration of the relevant matter. The Company maintains a register of authorised conflicts of interest which is reviewed annually by the Nominations and Governance Committee.

Induction

All new Directors receive a comprehensive induction programme tailored to their needs. The Chairman and Group Company Secretary are responsible for delivering an effective induction programme for newly appointed Directors. The programme is designed to include briefings from senior managers on key areas of the business, including internal control and risk management processes, the key risks facing the business, financial data, site visits and corporate governance. The programme is designed to facilitate their understanding of Tesco, the six strategic drivers, the Company’s corporate governance practices and procedures, as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

The Group has put in place tailored induction programmes for Charles Wilson and Stewart Gilliland.

Performance evaluation

The Board undertakes an annual evaluation of its own performance as well as that of its Committees and individual Directors. This provides an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas for further development, as well as checking that each Director continues to demonstrate commitment to his or her role and each has sufficient time to meet his or her commitments to the Company. Following an external review in 2015/16 by Independent Board Evaluation, who has no connection to the Group, and an internal review led by the Chairman in 2016/17, the 2017/18 internal review was led by the Senior Independent Director with the support of the Group Company Secretary and Lintstock Ltd. The 2017/18 evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company’s processes.

The 2017/18 performance evaluation process is set out below.

2017/18 performance evaluation

| Stage 1 | Completion of a detailed questionnaire to assess the effectiveness of the Board, its Committees and individual Directors. |
| Stage 2 | Senior Independent Director conducts one-to-one interviews with each Director based on the results of the questionnaire. |
| Stage 3 | Preparation of a composite report. |
| Stage 4 | Results presented and discussed at Board and Committee meetings. |
| Stage 5 | Action plan and key areas of focus approved by the Board. |

The results of the 2017/18 evaluation were presented to the Board in February 2018. Having assessed the findings of the evaluation, the Directors were satisfied that the Board and each of its Committees were performing well, with high scores recorded across a range of performance measures.

Details of the outcomes of the 2016/17 and 2017/18 evaluations, as well as the actions taken in 2017/18 to address the 2016/17 outcomes are shown below.

<table>
<thead>
<tr>
<th>2016/17 evaluation outcomes</th>
<th>2017/18 actions</th>
<th>2017/18 evaluation outcomes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Create more opportunities for the testing and development of strategy.</td>
<td>Through the year a number of updates were provided on strategic developments agreed at the Board strategy sessions.</td>
<td>Further improve the oversight of risk.</td>
</tr>
<tr>
<td>Further increase the oversight of succession planning.</td>
<td>During the year the Board and Nominations and Governance Committee reviewed succession plans and the talent pipeline for the Board, Executive Committee and the level below the Executive Committee. Regular reviews are incorporated into forward planning agendas.</td>
<td>Ensure the effective monitoring of the integration of Booker Group.</td>
</tr>
<tr>
<td>Consider ways to improve the focus of the Corporate Responsibility Committee.</td>
<td>In October 2017, the Corporate Responsibility Committee approved the Little Helps Plan, setting out a number of targets and actions.</td>
<td>Identify ways to further engage on technology issues.</td>
</tr>
</tbody>
</table>

The Senior Independent Director also led the Non-executive Directors in evaluating the performance of the Chairman, with the Chairman continuing to show effectiveness in leadership.

In accordance with the UK Corporate Governance Code, the 2018/19 review will be conducted by an external consultant.

Election and re-election of Directors

In accordance with best practice and the UK Corporate Governance Code, all Directors will submit themselves for election or re-election at the forthcoming AGM, including Charles Wilson and Stewart Gilliland. More information is provided in the Notice of Meeting.

Code of Business Conduct

All colleagues are required to comply with the Code of Business Conduct, which is intended to help them put Tesco’s principles into practice. This clarifies the basic rules and standards colleagues are expected to follow and the behaviour expected of them. Colleagues must complete mandatory Code of Business Conduct training and annually attest to compliance with the Code. Designated colleagues are required to complete additional mandatory training, including on anti-bribery and corruption laws, data protection laws and supplier legislation.
Relations with our stakeholders

The Board recognises its responsibility to take into consideration the needs and concerns of our stakeholders as part of its discussion and decision-making processes. The Board understands that maintaining strong stakeholder relationships is the key to building a sustainable business. The following provides an insight into the ways in which the Board is engaged with our stakeholders:

- **Shareholders**
  The Board is committed to maintaining open and constructive dialogue with our shareholders, whether institutional, private or employee shareholders. The Board takes ultimate responsibility for ensuring that such engagement takes place. More information can be found opposite.

- **Customers**
  The Board is dedicated to ensuring that we maintain our core purpose to serve shoppers a little better every day. Ensuring that customers recommend us and come back time and again is one of our six key performance measures, which the Board monitors closely through regular reporting.

- **Suppliers**
  The Board recognises that building trusted partnerships with our suppliers is critical and this is one of the six key performance measures for the whole business. The Board maintains engagement through regular reporting of the results of our supplier viewpoint surveys, to ensure that the progress we have made over the past three years continues.

- **Colleagues**
  Our colleagues are the heart of our business and help to communicate the values of our business to our customers every day. We have various tools to ensure that our Board is fully engaged with our colleagues, including our Group-wide employee engagement surveys, the results of which are monitored by the Board, and members of the Board regularly visit our stores to engage directly with colleagues.

- **Community**
  The Board is mindful of the impact that our business has on the communities it operates in. During the year, the Corporate Responsibility Committee launched our new strategy, the Little Helps Plan, which sets out how Tesco plans to follow our core value ‘every little help makes a big difference’ in three main areas: our people; our products; and our places. In addition, members of the Board have undertaken visits to beneficiaries of both the Tesco Bags of Help scheme and the Tesco Community Food Connection, to see the work being undertaken as a result of Tesco supporting these initiatives.
Shareholder engagement

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

Meetings, roadshows and conferences.

The Executive Directors, Chairman and Senior Independent Director held regular meetings with institutional investors throughout the year, to discuss the governance and strategy of the Group. These meetings are in addition to the roadshows organised following our full-year and half-year results.

All Non-executive Directors are able to attend scheduled meetings with major shareholders and do so if requested.

The Investor Relations team held further investor meetings throughout the year and attended a number of store tours and conferences.

The Board receives regular updates from the Investor Relations team on investor sentiment and analyst commentary to ensure that all Non-executive Directors develop an understanding of the views of major shareholders.

In October 2017 we held a stakeholder event to launch our Little Helps Plan. We also engaged socially responsible investors by holding calls to discuss various issues and responding to queries.

Consultation and engagement.

The Chairman and the Chair of the Remuneration Committee held meetings and calls to consult with major investors on our proposed Remuneration Policy.

AGM's.

The AGM was held on Friday 16 June 2017 at the ExCeL Centre in London. At the meeting, all shareholders were given an opportunity to question the Board on the business being proposed. The results of voting at the AGM were published on our website www.tescoplc.com.

The AGM for this year will be held at 2.00pm on Friday 15 June 2018 at the ExCeL Centre in London. Full details are included in the Notice of Meeting.

On Wednesday 28 February 2018, we held a General Meeting at etc venues St Paul's in London to approve the share and cash merger with Booker Group plc. Shareholders were given the opportunity to question the Board on the merger. The results of voting at the General Meeting were published on our website www.tescoplc.com.

Website and shareholder communications.

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

Video recordings of the Group Chief Executive and Chief Financial Officer commenting on results statements were uploaded to our website during the year, along with the results presentations and transcripts of analysts' calls.

Following the announcement of the Booker Group Merger, a dedicated section of our website was made available containing details of the terms of the merger and presentations.

Results and routine announcements.

We invited our institutional shareholders and analysts to attend presentations following our full-year and half-year results announcements. The presentation slides and a webcast of the presentations were made available at www.tescoplc.com along with transcripts of all the results presentations and trading statement conference calls.

Debt investors.

The Treasury team holds biannual formal review meetings with all of our relationship banks and maintains regular contact with them. In addition, it held calls with the three credit rating agencies following the results announcements and the Chief Financial Officer and Group Treasury Director met with each of the credit rating agencies during the year.

Following the full-year and half-year results, the Chief Financial Officer and Group Treasury Director held conference calls with fixed income investors.

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Nominations and Governance Committee

‘We recognise the importance of a diverse and inclusive culture to the delivery of the Group’s strategy.’

John Allan
Non-executive Chairman

Nominations and Governance Committee attendance

<table>
<thead>
<tr>
<th>Member</th>
<th>Number of scheduled meetings eligible to attend</th>
<th>Meetings attended</th>
</tr>
</thead>
<tbody>
<tr>
<td>John Allan</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Deanna Oppenheimer</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Byron Grote</td>
<td>3</td>
<td>3</td>
</tr>
</tbody>
</table>

Nominations and Governance Committee responsibilities

The responsibilities of the Nominations and Governance Committee include:

- review of the structure, size and composition (including skills, knowledge, experience and diversity) of the Board and its Committees and make recommendations to the Board regarding any changes;
- identification and nomination of candidates for appointment to the Board; and
- review of succession planning and talent management over the longer term for Directors and senior management.

Governance

- review and approve changes to the Group’s Governance Framework, including monitoring the Group’s compliance with applicable legal, regulatory and listing requirements;
- make recommendations to the Board on the independence of Non-executive Directors;
- keep under review the time commitment expected from the Chairman and Non-executive Directors; and
- ensure an effectiveness review is conducted annually of the Board, its Committees and Directors.

The Committee’s terms of reference are available at www.tescopl.com

Dear Shareholder

During the year the Committee went through a significant transformation in terms of its focus and responsibilities. In light of the increased focus on corporate governance matters, it was agreed to extend the Committee’s remit to include oversight of the Group’s corporate governance framework and rename it the Nominations and Governance Committee. The terms of reference of the Committee were updated to reflect these additional responsibilities.

The Committee held three scheduled meetings during the year, which were attended by all members, primarily focusing on diversity, succession planning, talent management, inclusion and corporate governance.

Our policy for the composition of the Board is to support diversity in its widest sense. We wish to attract Board members with a diverse range of backgrounds who will contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates. The Committee strongly believes that diversity throughout the Group and at Board and senior management level is a driver of business success. Our gender diversity policy for the Board is aimed to have at least 33% female representation on the Board by 2020. During the year we had 27% female representation on the Board, until the appointment of Stewart Gilliland and Charles Wilson in March 2018, when it declined to 23%. We will look to address this in line with our policy. We ensure that diversity is considered as part of any shortlist process drawn up by external search consultants.

Proper planning for Board and senior management succession, and refreshing and selecting the right individuals for the Board and senior management positions from a diverse talent pool are key issues for the Committee. It is essential in ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity. During the year, the Committee reviewed the status of succession planning for the Non-executive Directors and the Executive Committee, as well as the pipeline of talent below the Executive Committee.

In March 2018, we welcomed Charles Wilson and Stewart Gilliland onto the Board, following the successful completion of the Booker Group Merger. They both bring a wealth of commercial and retail experience to the Board, specifically in the wholesale sector, and will bolster the capabilities and effectiveness of the Board.

The Committee also reviewed the independence of each Non-executive Director, all Directors’ conflicts of interest, the time commitments of each Non-executive Director and the balance of skills, knowledge, experience and diversity on the Board prior to recommending to the Board that each Director stand for election or re-election at the forthcoming AGM.

During the year, the Committee received regular updates on developments in corporate governance reform. The Committee was provided with detailed reports on the revised UK Corporate Governance Code issued by the Financial Reporting Council for consultation in December 2017 and proposals for the Group’s approach to the changes. We will report further on the changes to Tesco’s governance framework in next year’s report, following the anticipated publication of a revised UK Corporate Governance Code in June 2018, which will become effective for the 2019/20 financial year.

Having undertaken an external evaluation of the Board in 2015/16, the Committee agreed that the 2017/18 Board evaluation should be conducted internally. A questionnaire was sent out in December 2017 by the Group Company Secretary. The Senior Independent Director also conducted one-to-one interviews with Directors as well as conducting the annual evaluation of the Chairman. Having assessed the findings at the February 2018 Board meeting, the Directors were satisfied that the Board and each of its Committees continue to operate effectively.

More details on the evaluation are set out on page 35 of the Corporate Governance Report.

John Allan
Nominations and Governance Committee Chair

Key activities

During 2017/18, the Committee considered, amongst other matters, the following:

- succession planning for the Non-executive Directors and Executive Committee;
- reviewing the time commitments and independence of the Non-executive Directors;
- assessing the Group’s diversity and inclusion strategies;
- monitoring developments in corporate governance reform;
- the extension of Mikael Olsson’s appointment following three years of service on the Board. In accordance with Non-executive Directors’ letters of appointment;
- making a recommendation to the Board regarding the election and re-election of Directors at the 2018 AGM;
- reviewing the results of the annual performance evaluation of the Committee; and
- reviewing and updating the Committee’s terms of reference.

John Allan
Nominations and Governance Committee Chair
At the invitation of the Committee Chair the Group CEO and the Group Communications Director attended all of the Committee meetings.

Corporate Responsibility Committee responsibilities
The responsibilities of the Corporate Responsibility Committee include:
– approving and monitoring a strategy for discharging the Group's corporate and social responsibilities in such a way as to build trust and command respect and confidence;
– overseeing the Group's conduct with regard to its corporate and societal obligations as a responsible corporate citizen;
– overseeing the creation of appropriate policies and supporting measures;
– 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 corporate citizen and review how best to protect that reputation or that ability; and
– overseeing the Group's engagement with external stakeholders and other interested parties.

The Committee's terms of reference are available at www.tescoplccom

Dear Shareholder
I became Committee Chair in July 2017 and I am pleased to report on the significant progress that has been made this year in developing our new corporate responsibility strategy, the Little Helps Plan.

The Little Helps Plan sets out how Tesco plans to follow the philosophy that small actions add up to make a big difference, which is expressed through the Group's core value ‘every little help makes a big difference’. The Little Helps Plan is made up of three pillars: our people, our products and our communities around the world.

It is recognised that we need to work together across society to build a truly sustainable future and the business fully supports global efforts to build this future, including the UN Sustainable Development Goals and the Paris Climate Agreement. The leadership that Dave Lewis has shown as Chair of Champions 12.3 demonstrates the commitment by the business to work with stakeholders to reach the UN Sustainable Development Goal target of halving global food waste by 2030. I am proud that in September we announced that 24 of our largest food suppliers had agreed to adopt this goal and to start to publish food waste data for their own operations within the next 12 months.

In 2017, the business announced tougher new science-based climate change targets. The new targets ensure that our supply chain and operations support the Paris Climate Agreement to limit global temperature rises to 1.5 degrees Celsius this century, as well as our long-term ambition to become a zero-carbon business.

The Committee has agreed an ongoing programme to regularly review areas of the Little Helps Plan through deep-dive sessions and measuring performance against the plan’s targets. It is also intended that the Committee will experience the work being done by the business through off-site visits and by meeting stakeholders in the future.

More information on the Little Helps Plan is provided on pages 16 to 21 of this report and online at www.tescoplccom/littlehehelpsplan.

Lindsey Pownall
Corporate Responsibility Committee Chair

Key activities
A summary of some of the key areas considered at each meeting is set out below:

July 2017
- Little Helps Plan roadmap and KPIs – The Committee gave feedback on the draft Little Helps Plan and the individual targets.
- Health month – The Committee reviewed the initiative launched in May 2017 to encourage helpful little swaps for customers and employees.
- Food waste – The Committee reviewed the business’ progress on delivering the UK food waste target and progress being made in Central Europe, Thailand and Malaysia on food waste.

October 2017
- Packaging – The Committee received information on this foundation area of the Little Helps Plan and the strategy to achieve the packaging targets.
- Responsible sourcing – The Committee reviewed the business’ ambition to lead the industry in addressing the sustainability challenges in our supply chain.
- Local campaigns – The Committee received information on the impact of the Group's engagement with local communities, in particular on the success of the Bags of Help scheme in the UK and the similar schemes being operated in the ROI and Central Europe.

February 2018
- Climate change – The Committee received information on this foundation of the Little Helps Plan.
- Funding for key projects – The Committee reviewed the use of the funds released by the forfeiture of Tesco PLC shares undertaken in 2017 and designated for corporate responsibility activities.

Terms of reference
In July 2017, Tesco PLC adopted new terms of reference for the Committee. The number of meetings increased to three per year and the scope of the Committee was expanded to include reviewing:
– progress of the corporate responsibility strategy against agreed performance measures; and
– expenditure and other commitments by the Group on corporate donations, community programmes and charitable support.

Committee effectiveness review
It was concluded that the Committee continued to operate effectively.
Audit Committee

“The Committee has continued to play a key role within the Tesco PLC governance framework to support the Board in matters relating to financial reporting, internal control and risk management.”

Byron Grote
Non-executive Director

Audit Committee attendance

<table>
<thead>
<tr>
<th>Member</th>
<th>Number of scheduled meetings eligible to attend</th>
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<tbody>
<tr>
<td>Byron Grote</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Mark Armour</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Simon Patterson</td>
<td>6</td>
<td>6</td>
</tr>
</tbody>
</table>

Audit Committee responsibilities

The Committee’s terms of reference were updated in April 2018, and its responsibilities include:

- monitoring the Group’s financial reporting processes;
- review, and challenge where necessary, of the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board;
- review of the interim and annual financial statements and announcements relating to the financial performance of the Group;
- 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 permitted non-audit work in accordance with the Group’s non-audit services policy, review of policy and appropriateness;
- review and agreement with the external auditor as to the nature and scope of the external audit and approving the audit fee;
- review of the Group’s declaration of any proposed interim and final dividends;
- 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 Group;
- review of the Group’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 business continuity plans and processes for the prevention of fraud, bribery and corruption.

The Committee’s terms of reference are available at www.tescoplc.com

Dear Shareholder

The Committee has continued to play a key role within the Tesco PLC governance framework to support the Board in matters relating to financial reporting, internal control and risk management. As well as the key activities undertaken or overseen by the Audit Committee during the year through a periodic and structured rolling forward-looking planner, this report shares insights into our discussions. Full details of the matters discussed at Committee meetings is set out later in this report. Looking ahead, these areas will remain a key focus in 2018/19.

Byron Grote
Audit Committee Chair

Audit Committee membership

The Committee comprises Byron Grote, as Chairman, Mark Armour and Simon Patterson. All of the Committee members are independent Non-executive Directors and the Board is satisfied that Byron Grote and Mark Armour have significant, recent and relevant financial experience for the purposes of the Code and are competent in accounting and auditing.

In addition, and as required by the revised Code which was issued in April 2016 and applied to the Company from its 2017/18 financial year, the Board considers that the Committee members as a whole have competence relevant to the Company’s sector, in addition to general management and commercial experience. The expertise and experience of the members of the Committee is set out in each of their biographies on pages 28 and 29.

Robert Welch is appointed as Secretary to the Committee. Other regular attendees at Committee meetings include the Chairman, Group Chief Executive, Chief Financial Officer, Chief Audit and Risk Officer, Group Planning and Reporting Director and representatives of the external auditor.

Audit Committee meetings

The Committee met six times in the 2017/18 financial year, with each meeting having a distinct agenda to reflect the annual financial reporting cycle of the Group and particular matters for the Committee’s consideration. The Committee has a forward-looking planner, which is designed to ensure that its responsibilities are discharged in full during the year. This planner is developed with the Group Company Secretary and its content regularly reviewed with management and Deloitte. It is developed to meet the changing needs of the Group as the year progresses.

The Chairman of the Committee reports to the Board following each meeting and Committee meetings are generally scheduled close to Board meetings in order to facilitate an effective and timely reporting process.

Committee members met in private following each Committee meeting and also held separate private sessions with the Chief Audit and Risk Officer and the external auditor, in order to provide additional opportunity for open dialogue and feedback without management present. The Committee Chairman also meets with the Chief Financial Officer on an ad hoc basis and prior to each Committee meeting.

Key activities

A summary of the key matters considered at each meeting, is set out below:

April 2017

- preliminary results and Annual Report 2016/17, including confirmation of Code compliance and a comprehensive report from the Group’s Disclosure Committee on fair, balanced and understandable reviews - viability statement and going concern review, including the underlying models, assumptions and scenario testing
- key accounting judgements relating to the 2016/17 financial results
- external audit: Deloitte year-end final report and non-audit services
- external and internal audit effectiveness reviews
- Group compliance and whistleblowing update, including GSCOP update
- Tesco Bank update
- internal audit update

July 2017

- key accounting matters, including IFRS 9 and exceptional items approach update
- treasury, funding and corporate simplification update
- technology: IT and information security controls update
- transformation and service model update
- privacy compliance update, including privacy transformation plans
- insurability risk review
- Group Treasury Policy update
- external audit: audit plan, approval of audit fee, non-audit services, management letter observations from 2016/17 audit
- internal audit update, including Tesco Bank

Corporative governance report continued

Tesco PLC Annual Report and Financial Statements 2018
The Committee is responsible for assisting the Board’s oversight of the quality and integrity of the Company’s financial reporting and the Company’s accounting policies and practices. During the year, the Committee has continued to receive updates regarding the Group’s ongoing finance transformation programme and the actions taken to address observations raised by Deloitte in its letter to management following completion of the 2016/17 audit. Recommendations have been implemented to further enhance the Group’s financial reporting systems and controls environment. The Committee has also received regular updates, including from Group Audit and Advisory and the UK and ROI and International Finance Directors, on the development and effectiveness of the Group’s key internal financial controls.

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

In relation to the financial statements, the Committee reviewed and recommended approval of the half-year results and these annual financial statements, considered impairment reviews, the viability and going concern statements and their underlying assumptions, reviewed proposed dividend levels, reviewed corporate governance disclosures and monitored the statutory audit. As part of its review of the financial statements, the Committee considered, and challenged as appropriate, the accounting policies and significant judgements and estimates underpinning the financial statements. Details regarding the significant financial reporting matters and how they were addressed by the Committee are set out later in this report.

The Committee also reviewed the disclosures regarding the Company’s alternative performance measures (APMs) having regard, in particular, to the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority (ESMA) in October 2015. The Company’s 2017 Annual Report was selected by the Financial Reporting Council (FRC) for a thematic review into the use of APMs in corporate reporting. The FRC raised no issues in relation to the Group’s APM disclosures and extracts of the Company’s 2017 Annual Report were selected for inclusion in their November 2017 report as examples of best practice. The Committee reviewed the FRC’s findings and continues to monitor FRC and ESMA guidance on APM disclosure.

The Committee also reviewed the disclosures regarding the Company’s key accounting matters, including key financial controls update and the status of management actions to address such findings. Reports from Deloitte, as external auditor, were also presented and considered at each Committee meeting.

Reports were also requested on ad hoc matters as they arose. One key matter considered by the Committee this year was the merger with the Booker Group and the inclusion of Booker synergy realisation and integration matters considered by the Committee this year was the merger with the Booker Group and the inclusion of Booker synergy realisation and integration

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**September 2017**
- interim results statement and going concern review, including a comprehensive report from the Group’s Disclosure Committee and validation of management’s representations to Deloitte
- dividend proposal
- key accounting matters, including key financial controls update and the Group's preparations for new reporting requirements, i.e., IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenue from contracts with customers’; and IFRS 16 ‘Leases’ implementation and basis of adoption as further described in Note 1 to the financial statements
- Group compliance update, including whistleblowing, anti-bribery and fraud, gifts and entertainment, privacy, transformation plans, GSCOP compliance and progress towards General Data Protection Regulation compliance by May 2018
- UK and ROI and International Finance Director reports and key financial controls update
- treasury, funding and corporate simplification update, including the review and consideration of the bond buy-back programme
- risk, control and assurance framework, risk appetite and internal control effectiveness, including in-depth review of specific principal risk areas
- external audit: Deloitte interim report and non-audit services
- internal audit update

**November 2017**
- risk, control and assurance update, including principal risk review process and the development of our three new principal risks set out on pages 22 to 25
- IFRS 16 update
- pensions review
- tax update, disclosures and transparency publication, including country by country reporting and UK tax strategy
- technology, IT and information security controls update
- transformation and service model update
- visibility statement: modelling and assumptions
- treasury, funding and corporate simplification update
- internal and external audit updates including Deloitte non-audit services
- non-audit fees policy update
- policy on employment of former auditor employees
- internal audit charter and 2018/19 plan
- external audit: Deloitte update on audit plan and non-audit services

**January 2018**
- consideration of the Group’s cash and share merger with the Booker Group, specifically, to review and approve: the profit forecast for the Group and financial expectations for the combined group; risk factors; pro-forma financial information & reconciliation; operations and financial review; and quantified financial benefits statements reports and confirmations

**February 2018**
- risk, control and assurance framework update, comprising principal risks review, risk roadmap, risk management and controls update, risk appetite statement, Code compliance and internal control effectiveness review, further detail can be found on page 43 of this report
- Group tax update
- technology update
- finance transformation update
- key accounting judgements relating to the 2017/18 financial results
- treasury: solvency and liquidity funding plan
- corporate simplification update
- internal audit update, including Tesco Bank
- external audit: Deloitte early warning report and non-audit services
- Committee effectiveness review

**April 2018**
- preliminary results and Annual Report 2017/18, including confirmation of Code compliance and a comprehensive report from the Group’s Disclosure Committee on fair, balanced and understandable reviews
- viability statement and going concern review, including the underlying models, assumptions and scenario testing
- dividend proposal
- key accounting judgements relating to the 2017/18 financial results, including IFRS 16 and controls update
- external audit: Deloitte year-end final report and non-audit services
- external and internal audit effectiveness reviews
- review of the Committee’s terms of reference
- Group compliance and whistleblowing update, including GSCOP update
- Booker integration update
- Tesco Bank update
- service model update
- property valuation update
- internal audit update
Corporate governance report continued

Audit Committee 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:

<table>
<thead>
<tr>
<th>Issue</th>
<th>How the issue was addressed by the Committee</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Going concern basis for the financial statements and viability statement</strong></td>
<td>The Committee reviewed management’s assessment of going concern and long-term viability with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the Group’s financing facilities and future funding plans. 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, and recommended the approval of the viability statement.</td>
</tr>
<tr>
<td><strong>Fixed asset impairment and onerous lease provisions</strong></td>
<td>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 projected cash flows, growth rates, discount rates and the use of independent third party valuations and considering any impacts of the uncertainties arising from Brexit. The Group has recognised a £182m net reversal of impaired PPE assets, together with an onerous lease provision net charge of £108m and a £24m net loss for software and other intangible assets. See Note 10 to the financial statements for software and other intangible assets impairment, Note 25 for property provisions.</td>
</tr>
<tr>
<td><strong>Goodwill impairment</strong></td>
<td>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 projections, growth rates and discount rates. The Group has not recognised any goodwill impairment in the year. See Note 10 to the financial statements.</td>
</tr>
<tr>
<td><strong>Valuation of China associate and India joint venture</strong></td>
<td>The Committee reviewed management’s assessment of the valuation of the Group’s China associate, Gain Land, and India joint venture, Trent Hypermarket Limited, covering the methodology and assumptions used by management, including latest market information, in determining the fair value of the investment. This included review of Gain Land’s and Trent’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.</td>
</tr>
<tr>
<td><strong>Pensions</strong></td>
<td>The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, principally the discount rate, including the change in methodology for calculation of the discount rate adopted in the year. See Note 27 to the financial statements.</td>
</tr>
<tr>
<td><strong>Business and property disposals</strong></td>
<td>The Committee considered the key judgements made by management in accounting for a number of property transactions including the unwind of the joint venture with British Land, the disposal of the Kipa business in Turkey and Opticians business in the UK. See Notes 1, 7 and 31 to the financial statements.</td>
</tr>
<tr>
<td><strong>Business combinations</strong></td>
<td>The Committee considered the presentation and work performed on documents published as part of the Booker merger, including the profit forecast, working capital report, financial position and prospects report, quantified forecast benefits statement and sections of the prospectus including the pro-forma financial information.</td>
</tr>
<tr>
<td><strong>Contingent liabilities</strong></td>
<td>The Committee further considered management’s assessment of the status of the ongoing regulatory investigations and litigation relating to prior periods. The Committee concurred with management’s assessment that due to the stage of the remaining matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at the year-end was appropriate. See Note 32 to the financial statements.</td>
</tr>
<tr>
<td><strong>Recognition and disclosure of commercial income</strong></td>
<td>The Committee reviewed management’s assessment of the controls that exist over the recognition of commercial income. See Notes 1 and 20 to the financial statements.</td>
</tr>
<tr>
<td><strong>Exceptional items</strong></td>
<td>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 and consistently applied across years and appropriately presented. Consideration was also given to the quality of earnings within underlying results. See Note 4 to the financial statements.</td>
</tr>
<tr>
<td><strong>New accounting standards</strong></td>
<td>The Committee considered the implementation of IFRS 9 ‘Financial Instruments’, IFRS 15 ‘Revenue from contracts with customers’, and IFRS 16 ‘Leases’, considering project approach and progress, transition approach and impact assessments as known to date.</td>
</tr>
</tbody>
</table>
Internal audit – Group Audit and 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 to protect the business, as well as reporting on the effectiveness of the systems of internal control. 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 the Board.

In April 2018, the Committee considered an assessment of the effectiveness of the GAA function in protecting the business. This assessment included consideration of the structure and scope of GAA’s work, their capabilities, independence, the adequacy of the audit plan and their engagement with stakeholders. This assessment was facilitated by Lintstock Ltd, an independent company, who distributed a questionnaire based assessment to key stakeholders, collated the responses and provided the assessment reports. The quality of the audits in providing assurance was also assessed alongside the content, quality of insights and added value of their reports; GAA’s relationships, collaboration with the business and its impact on the organisation was also reviewed.

The Committee discussed the approach and findings of the assessment in which no significant failings or weaknesses were identified. The Committee was satisfied that GAA remains effective and is adequately resourced.

There were some suggested areas of improvement highlighted, including a recommendation that GAA enhances its capability in the area of technology going forward to keep pace with technology advances and reduce reliance on third-party assurance. The Committee reviewed and agreed to the planned next steps. The Committee reviewed the GAA Charter in November 2017 and approved its continued use. The Internal Audit Plan for 2018/19 was presented and agreed by the Committee. The Internal Audit Plan will be kept under review to adapt to the changing needs of the business.

Key elements of the risk management process

The risk management process facilitates the identification and prioritisation of risks through workshops and discussions with business leaders, facilitated by GAA and assigned business risk roles. During the year the significant risks have been reviewed as a top down and bottom up process for both the business unit and the Group level to ensure awareness, agreement and appropriate prioritisation. A risk that can seriously affect the performance, future prospects or reputation of the Group is termed a principal risk and these risks are aligned to the Group’s strategic drivers.

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.

The Group Chief Executive has overall accountability for the control and management of the risks Tesco face. With the Board having overall responsibility for risk management. Individual risks are managed at the business unit level on an ongoing basis with follow up through the year by GAA and assigned business risk roles. All risks are assigned to an appropriate risk owner and the Group level principal risks are assigned to an executive owner. Each principal risk is reviewed at least annually by the Board. Our principal risks are detailed on pages 22 to 25, showing the risk movement, a summary of key controls, high level mitigating factors and links to the Group’s strategic drivers.

Internal control

The Board monitors the key elements of the Group’s internal control framework throughout the year and has conducted a review of the effectiveness of its risk management and internal control systems. To support the Board’s annual assessment, GAA prepared a report on the Group’s risk and internal control effectiveness, which described the risk management systems and arrangements in place for internal control, as well as work conducted in the year to improve the risk and control environment.

The internal control framework is intended to manage rather than eliminate the risk of failure to achieve business objectives and can only provide reasonable but not absolute assurance against material misstatement or loss.

The Group’s transformation programmes are intended to increase the overall level of control environment maturity and improve consistency across the Group. As part of this, there has been progress on the risk roadmap to mature our risk management. The technology, people and finance transformation programmes remain a challenge, but continue to progress towards delivery of a strengthened control environment.

External audit

Deloitte continued as our external auditors with Panos Kakoullis as the lead partner after their initial appointment in the 2015/16 financial year. This is in line with our intention of putting the external audit out to tender every 10 years and to rotate the lead partner every five years. Panos Kakoullis will rotate as the lead partner following the audit of the 2019/20 financial year.

The Committee considers the effectiveness of the external auditor on an ongoing basis during the year, considering its independence, objectivity, appropriate mindset and professional scepticism, through its own observations and interactions with the external auditor, and having regard to:

- experience and expertise of the external auditor in their direct communication with, and support to, the Committee;
- content, quality of insights and added value of their reports;
- fulfilment of the agreed external audit plan;
- robustness and perceptiveness of the external auditor in their handling of key accounting and audit judgements;
- the interaction between management and the external auditor, including ensuring that management dedicates sufficient time to the audit process;
- provision of non-audit services, as set out below; and
- review and consideration of the results of the evaluation of the effectiveness of the external auditor.

The Committee considered an audit effectiveness review of Deloitte in April 2018, which was facilitated by an independent company, Lintstock Ltd, who distributed a questionnaire based assessment to key stakeholders, collated the responses and provided the assessment reports. The review concluded that the external auditor was effective and the Committee recommended to the Board the reappointment of Deloitte at the 2018 AGM.

The FRC’s Audit Quality Review (AQR) team selected for review the audit of the Group’s financial statements for the year ended 25 February 2017 and Tesco Bank’s standalone financial statements for the period ended 28 February 2017 as part of their 2017/18 annual inspection of audit firms. In relation to the review of the Group’s financial statements, the FRC’s review covers the audit work at the Group level and the audit work of the UK component. The Group report did not identify any significant areas for improvement. In relation to the review of Tesco Bank’s standalone financial statements, this review is in its final stages, and some matters have been identified as requiring improvement. In response, Deloitte developed an action plan to ensure that the matters identified by the AQR had been addressed in the audit of Tesco Bank’s financial statements for the period ended 28 February 2018. The Committee is satisfied that there is nothing within the report which might have a bearing on the audit appointment.

The Committee also considered the findings of the FRC’s 2017 Audit Quality Review of Deloitte as a whole and the actions being taken by Deloitte to address the matters raised.

Deloitte contribute a further independent perspective on certain aspects of the Group’s financial control systems arising from their work, and report both to the Board and the Committee.

The process for approving all non-audit work provided by our external auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor. Where Deloitte have been chosen, this is as a result of their demonstrating that they have the relevant skills and experience to make them an appropriate supplier to undertake the work in a cost-effective manner.

Our policy for non-audit services reflects the EU regulations (as of 17 June 2016) that prohibits the provision of certain non-audit services, e.g. payroll services, by the external auditor and introduces a cap on non-audit fees. In line with the regulations, the Group is required to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years. The 70% cap will first apply to the Group for the period ending February 2021. The non-audit fees policy is compliant with new Ethical Standards for Auditors.
In 2017/18, Deloitte received total fees of £13.5m (2016/17: £11.8m), consisting of £6.8m of audit fees (2016/17: £5.5m), and £6.7m for non-audit and audit-related services (2016/17: £5.3m), which is an increase of £1.7m in total fees versus the previous period. The total of Deloitte’s non-audit and audit-related fees in the year equated to 99% of the audit fees. Fees paid to Deloitte are set out in Note 3 to the financial statements and details of the significant non-audit work undertaken this year are set out in the table below.

In the period, Deloitte was appointed to report under the court approved Deferred Prosecution Agreement with Tesco Stores Limited. Safeguards were put in place to mitigate any threats to Deloitte’s independence by ensuring that work was conducted by individuals not directly involved in the external audit.

The Committee determined that it was appropriate for the external auditor to continue to provide transactional services in respect of our merger with the Booker Group. The appointment was also subject to an ethics review by Deloitte in 2016 and in the current financial year, which concluded that the proposed services were consistent with the FRC’s Revised Ethical Standards 2016 and that there were appropriate safeguards in place to preserve Deloitte’s independence as external auditor.

We continue to take steps to reduce the level of non-audit fees going forward to ensure compliance with the 70% non-audit fee cap rules.

<table>
<thead>
<tr>
<th>Nature of service</th>
<th>Safeguards to preserve independence</th>
<th>Level of fees in 2017/18 (£m)</th>
<th>Level of fees in 2016/17 (£m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Provision of transactional services:</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>including quantified financial benefits</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>synergy, working capital and profit forecast reporting, relating to the Group’s merger with the Booker Group</td>
<td>Engagement team separate to the audit team with independent reviews and working with informed management.</td>
<td>1.9</td>
<td>1.9</td>
</tr>
<tr>
<td>Retail consultancy: provision of administrative support relating to the Group’s markdown price optimisation process</td>
<td>Engagement team separate to the audit team. The service is limited to the provision of administrative support. Decision-making accountability remained with management.</td>
<td>1.5</td>
<td>1.5</td>
</tr>
<tr>
<td>Forensic services: provision of data repository services for information needed by the Group and the SFO</td>
<td>Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established.</td>
<td>1.8</td>
<td>1.2</td>
</tr>
<tr>
<td>SFO Monitor role: Deloitte has been appointed as Monitor by the SFO under the Deferred Prosecution Agreement agreed with Tesco Stores Limited</td>
<td>Under the Deferred Prosecution Agreement Deloitte were appointed to conduct independent reviews by individuals not directly involved in the commercial income audits.</td>
<td>0.8</td>
<td>–</td>
</tr>
<tr>
<td>Other non-audit services: tax compliance and advisory projects relating to businesses outside of the EU and other miscellaneous risk and compliance services</td>
<td>Careful consideration of the scope of services to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established where required. From March 2017, no tax services have been provided to entities within the EU as required by the applicable Ethical Standards.</td>
<td>0.2</td>
<td>1.2</td>
</tr>
<tr>
<td>Interim review performed under International Standards of Review Engagements (UK and Ireland) 2410</td>
<td>The interim review is considered a non-audit service under the applicable Ethical Standards although the objectives of the review are aligned with those of the audit.</td>
<td>0.5</td>
<td>0.5</td>
</tr>
</tbody>
</table>

Total | 6.7 | 6.3

Appointment of auditor statement
Following a formal tender process, Deloitte were appointed as our external auditor with effect from the 2015 AGM. The Company is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibility) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services. The Committee reviews and makes a recommendation to the Board with regard to the reappointment of the external auditor each year. In making this recommendation, the Committee considers auditor effectiveness and independence, partner rotation and any other factors that may impact the Committee’s judgement regarding the external auditor.

Fair, balanced and understandable statement
The Committee advised the Board on whether the Annual Report and Financial Statements 2018, taken as a whole, are fair, balanced and understandable and provide the necessary information to assess the Company’s position and 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 2018 are fair, balanced and understandable.

Committee effectiveness review
The effectiveness of the Committee was evaluated this year as part of the Board evaluation process. Further details can be found on pages 34 and 35. The review found that the Committee was operating effectively and that its broad role and remit remained appropriate for the current needs of the business. In order to identify opportunities for further improvement, members discuss how the Committee is functioning in the private sessions that follow each meeting.