# TESCO

# Serving shoppers a little better every day.

Strategic Report 2018

# Welcome to our Strategic Report.

The screen icon indicates where further information is available online. We have also produced a number of short videos, available at **www.tescoplc.com/ar2018**.

## Tesco at a glance

# As a leading retailer, our 440,000[(a)] colleagues serve around 80 million customers every week, in more than 6,800[(b)] stores and online.

+2.3%
**£51.0bn**Δ(c)
**Group sales**
(2016/17: £49.9bn)

+2.8%
**£57.5bn**(c)
**Statutory revenue**
(2016/17: £55.9bn)

+28.4%
**£1,644m**Δ(c)
**Group operating profit before exceptional items**
(2016/17: £1,280m)

+80.6%
**£1,837m**(c)
**Operating profit**
(2016/17: £1,017m)

+795.2%
**£1,298m**(c)
**Statutory profit before tax**
(2016/17: £145m)

+62.7%
**11.88p**Δ(c)
**Diluted EPS pre-exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements**
(2016/17: 7.30p)

+>100%
**12.08p**(c)
**Statutory diluted EPS**
(2016/17: 0.81p)

+21.7%
**£2,773m**Δ
**Retail operating cash flow**
(2016/17: £2,278m)

29.6% down
**£(2.6)bn**Δ(d)
**Net debt**
(2016/17: £(3.7)bn)

**3.0p**
**Dividend per share**
(2016/17: 0.0p)

**Δ Alternative performance measures (APM)**
Measures with this symbol Δ are defined in the Financial calendar and summary glossary section on pages 39 and 40 and in the Glossary section of the Annual Report and Financial Statements 2018 on pages 150 to 153.
(a) Based on an actual year-end headcount.
(b) Includes franchise stores.
(c) Reported on a continuing operations basis.
(d) Excludes the net debt of Tesco Bank.

## Contents



The Strategic Report 2018 is a part of the Tesco PLC Annual Report and Financial Statements 2018 and does not contain sufficient information to allow as full an understanding of the results of the Group and the state of affairs of the Company or the Group as would be provided by the full document. The full Annual Report is available on our website www.tescoplc.com or shareholders may obtain a copy, free of charge, on request to the Company.

The independent auditor's report on the full accounts for the 52 weeks ended 24 February 2018 was unqualified, and their statement under section 496 (whether the Strategic report and the Directors' report are consistent with the accounts) of the Companies Act 2006 was also unqualified.

# Serving shoppers a little better every day.

With our turnaround firmly on track, we continue to deliver value for every stakeholder in our business.

We have taken important decisions to help our customers through the year – from reformulating thousands of products to reduce salt, fat and sugar, to launching great value exclusive food brands.

Thanks to these efforts, our offer is more competitive, and more customers are shopping at Tesco as a result.

At the same time, we are also focused on new opportunities for growth. Most significantly, our merger with Booker allows us to become the UK's leading food business.

This report sets out what we have achieved in the year, and gives an update on our medium-term ambitions – our six strategic drivers.

We are making strong progress, and firmly believe that by serving shoppers a little better every day, the momentum in our business will continue.

Chairman's statement

# A platform for growth.

'I would like to pay tribute to every colleague at Tesco.'

**John Allan**
Non-executive Chairman

**Watch our videos.**
Visit **www.tescoplc.com/ar2018** to hear more from John Allan.

**We have made substantial progress this year, as we position our business for new growth.**

The management team has built solid foundations – and operating profit before exceptional items for the Group is up 28.4% to £1,644m (2016/17: £1,280m), with statutory profit before tax of £1,298m (2016/17: £145m).

This greatly improved performance has also allowed us to make a return to paying dividends, for the first time since 2014.

The decision to reinstate the dividend was a particularly important one, and reflects the conviction that the Board and I have in Dave and his team, and the progress we are seeing.

So it is from this strong position that we also look ahead to the new opportunities presented by our merger with Booker Group.

Shortly after the end of our financial year, and following regulatory and shareholder approval, we completed that merger.

Work is already well underway to unlock the substantial synergies that are now available to the combined Group. Bringing together knowledge and skills from across retail and wholesale is both allowing us to trial innovative new concepts and to move faster with existing strategies, for example in rapidly growing the fresh food offer available to Booker's customers.

Following completion of the merger, I am delighted to welcome two new Directors to the Board: Charles Wilson and Stewart Gilliland.

Charles has been appointed to the role of CEO for our retail and wholesale operations in the UK & ROI, while Stewart has joined the Board as a Non-executive Director.

Both Charles and Stewart bring substantial levels of experience and expertise, and I know that our business will benefit greatly from their talents.

I would also like to take the opportunity here to welcome the very many new shareholders in Tesco, who took up our shares as part of the merger. I look forward to meeting many of you over the coming months, and to hearing your views.

Throughout the year, the Board has dedicated significant time to overseeing the merger process, as well as continuing its close involvement in matters of strategy.

The Board has also supported the development of our corporate responsibility strategy for the Group, which culminated in the launch of the Little Helps Plan in October 2017.

The plan sets out how we will make a positive contribution to our colleagues, customers and communities – as a sustainable business that also takes a lead on issues of societal importance, such as health and tackling food waste. More details on the Little Helps Plan, and the commitments we have made, can be found starting on page 16 of the Strategic report.

Finally, I would like to pay tribute to every colleague at Tesco. I firmly believe that the retail industry, and Tesco in particular, have an important role in helping people to develop fulfilling and successful careers. Almost a quarter of our most senior leaders began their careers in stores and, as I travel around our business, I am constantly impressed by the calibre and experience of the colleagues I meet, from a very diverse range of backgrounds. Tesco is a powerful engine of social mobility, and creating opportunities for colleagues to get on in their careers is a focus for us at every level of our business.

It is our colleagues' dedication, and relentless focus on doing the right thing for our customers, that has enabled us to build the strong platform we have today.

I am confident that the Board and management team have the right plans in place to build from that platform and continue to grow.

That will be our collective focus for the coming year, and beyond, as we create long-term value for every stakeholder in our business.

**John Allan**
Non-executive Chairman

# Delivering on our commitments.

'I'm pleased with the progress we have made, and excited by the opportunities ahead.'

**Dave Lewis**
Group Chief Executive

**Watch our videos.**
Visit **www.tescoplc.com/ar2018** to hear more from Dave Lewis.

This has been another significant year for our business.

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

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

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

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


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

### Customers

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

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

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

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

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

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

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

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

### Colleagues

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

This year, we announced a 10.5% increase in hourly pay for our UK store colleagues over the next two years, and our Colleague Bonus Plan continues to reward colleagues in the UK for their contribution to our turnaround.


Some of the changes we have made to simplify our business have had a significant impact on colleagues, including the closure of our Customer Engagement Centre in Cardiff, and changes to our operational structures in stores, and I am grateful for the professionalism and integrity of our colleagues at these difficult times.

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

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

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

### Suppliers

With our suppliers, we are building even closer partnerships, working together to deliver great quality products for our customers and grow our mutual businesses.

## Good.



## Better.



**UK food market: food consumed 'in home'**

# £110bn

**UK food market: food consumed 'out of home'**

# £85bn

More detail on our performance, including statutory results, can be found in our **Financial review** on page 12.

In our most recent anonymous Supplier Viewpoint survey, 83% of our UK & ROI suppliers say they are treated fairly, and 94% say we pay promptly – and for the second year running, we topped the independently-run supplier Advantage Survey.

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

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

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

### Shareholders

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

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

By maintaining a disciplined approach to capital, and further reducing our debt – already down from £(8.5)bn in 2014/15 to £(2.6)bn today – we can continue to strengthen our balance sheet and return to investment grade credit metrics.

Our underlying philosophy for creating sustainable value for shareholders places increasing focus on cash profitability, free cash flow and earnings growth.

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

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

### A sustainable business

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

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

- create a business where colleagues can get on, whatever their background;
- help our customers make healthier choices and enjoy good quality, sustainable products, at affordable prices; and
- help make sure no food that could be eaten is wasted, anywhere in our supply chain.

# Best.


We have made good progress in all of these areas this year, and you can read more on pages 16 to 21 of this report.

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

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

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

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

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

**Dave Lewis**
Group Chief Executive

# Tesco and Booker merger.

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

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

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

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

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

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

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

# An update on our six strategic drivers.

## Our six strategic drivers will create long-term value for all of our stakeholders.


## 1. A differentiated brand

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

Over the last year, we have continued to build trust, and have seen a 5 point improvement in customer recommendations of our brand.

We continue to focus on products and services which make the Tesco offer unique, and this year we have relaunched our core and *finest** food ranges, as well as introducing new brands which are exclusive to Tesco, such as our Hearty Food Co. ready meals, and our Fox & Ivy homeware.

Food quality is a particularly powerful driver of supermarket choice, so strengthening customer perceptions of our food is a priority. Our Food Love Stories campaign has continued this year, celebrating the food our customers love to make, for the people they love – and helping increase customer perceptions of quality at Tesco, up 2.7 points year-on-year.

But the way customers feel about our brand is defined by more than just our products: it's also about how we respond to the issues that matter to them, from healthy eating to reducing plastic packaging – and the value that Tesco creates for society.

In May 2017, we held our first ever health month for colleagues and customers, including helpful 'little swaps' with products that are lower in saturated fat, salt and sugar, and recorded our highest ever score for customers saying that Tesco helps them lead healthier lives.

## 2. Reduce operating costs by £1.5bn

We continue to simplify our business and reduce costs, with in-year savings of £594m – and £820m of savings to date towards our £1.5bn ambition.

We have reviewed every aspect of our operation to identify opportunities for savings – with a particular focus on our store operating model, where we have delivered £541m of savings; logistics and distribution, with £104m of savings; and goods not for resale, where we have made savings of £174m.

We continue to encourage a cost-conscious culture, finding savings so that we can reinvest for the benefit of customers.

We have also simplified the shopping experience for customers, at the same time as reducing costs, for example by increasing availability of our Scan As You Shop self-scan handsets – now in over 500 UK stores and beginning to roll out in Central Europe – and making till receipts optional in our smaller stores, which has generated savings of around £3m.

We have also made strong progress in reducing the costs of procuring goods and services not for resale, finding synergies across the Group. In particular, we have improved our services in facilities management, freight and media services, while also delivering savings of £50m.

## 3. Generate £9bn cash from operations

Our focus on free cash generation continues, and Retail cash generated from operations increased by £495m to £2,773m this year, driven by improved profitability and strong working capital management.

One example of our work is in reducing stockholding, by improving the way we receive deliveries from our suppliers.

To minimise our environmental impact, and reduce transport costs, we order full trucks of products from suppliers whenever we can – which sometimes means 'rounding up' an order.

However, by analysing our orders forensically, we have been able to sort stock between trucks and identify where we can eliminate a truck. This removes unnecessary journeys for our suppliers, and allows us to take out unnecessary 'rounded' stock.

Because we are ordering only what's needed to ensure great availability, our customers can buy what they want, and we can order less.


## 4. Maximise the mix to achieve a 3.5% - 4.0% margin

To achieve our 3.5% - 4.0% margin ambition by our 2019/20 financial year, we continue to build sustainable profitability across our businesses, channels and product ranges. By carefully managing the combination of volume, mix and cost-effectiveness in our business, Group operating margin for this year was 2.9% – up 57 basis points.

In Asia, our margin has grown to 6.0%, as we have stepped back from unprofitable bulk selling in Thailand. This was a deliberate decision that we took at the start of the year, allowing us to focus on serving our core retail customers better, and increase profitability.

In our online business, we are improving the economics of our offer, while giving customers greater choice and flexibility. For example, we have extended our delivery saver subscription service, to introduce new monthly plans – offering a great value option to our most loyal customers. We have also extended our Click & Collect options – including same-day collection – with slots at a range of prices so that customers can choose the service most convenient to them.

## 5. Maximise value from property

Our property portfolio across the Group is significant, and we are looking at opportunities to better use our space for the benefit of customers, while also releasing value where it's the right thing to do for our business.

Over the last three years, we have released a cumulative £1.4bn of value from property proceeds, at the same time as increasing our proportion of freehold property in the UK & ROI from 41% to 52%.

In the UK, we are exploring a small number of opportunities to work with a third-party to re-develop our store sites in high-value locations. Our Hackney store in London is one such example, where we have sold the site for a mixed-use development – allowing us to release value, while still retaining a store on the new site and with continuity of trade throughout.

We can also create value for our customers by using space in new ways, as we repurpose space in our larger stores – and this year, we have repurposed 1.1m sq. ft. of space. In Central Europe, we have worked with partners to bring a new offer to customers in a number of our stores – and this year, across the region, we opened ten shop units with H&M, and three with Decathlon.

## 6. Innovation

To serve our shoppers a little better every day, it's important we listen and respond to their needs, with innovation across every aspect of our offer, and a strong pipeline of ideas to come to market.

We have innovated in our product ranges – for example, with the launch of our exclusive Wicked Kitchen range of plant-based dishes, including new ingredients and exotic preparations such as carrot 'pastrami' and eryngii mushroom 'bolognese'. The range responds to increasing demand for vegetarian and vegan food, and since its January launch has proved extremely popular with customers.

As customers look for increasingly convenient options to do their shopping, this year we became the first retailer in the UK to offer same-day grocery deliveries nationwide, and in London – through our Tesco Now app – we can deliver within an hour.

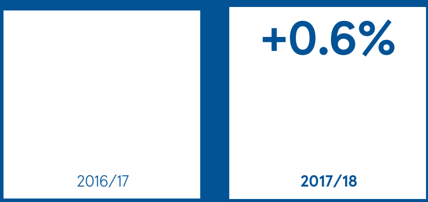
And at Tesco Bank, our award-winning Tesco Pay+ digital wallet continues to prove popular with customers, with over 450,000 downloads of the app.

## Our business model and Big 6 KPIs

# Customers, Product, Channels.

Our business is organised around the three pillars of Customers, Product and Channels, and we measure our progress with six simple key performance indicators.

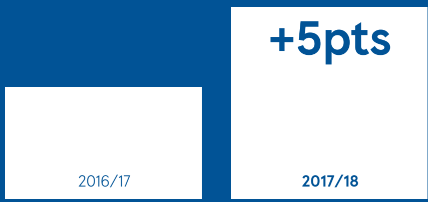
## Grow sales




**£51.0bnΔ[a]**
**Group sales**
(2016/17: £49.9bn)

Group sales continue to grow, with Q4 2017/18 marking our ninth consecutive quarter of like-for-like sales growth for the Group.

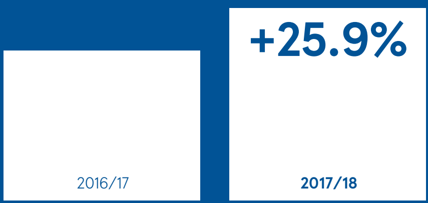
## Customers recommend us and come back time and again




**12pts**
**Group net promoter score[c]**
(2016/17: 7pts)

Customer feedback continues to improve, reflecting our work to serve shoppers a little better every day.

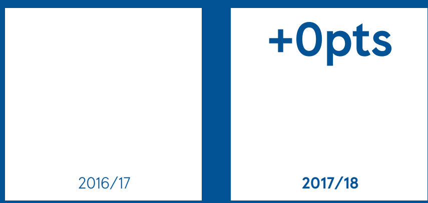
## Deliver profit




**£1,644mΔ**
**Group operating profit before exceptional items[a]**
(2016/17: £1,280m)

Group operating profit before exceptional items increased by 25.9% at constant exchange rates, with Group operating margin reaching 3.0% in the second half of the year.

## Colleagues recommend us as a great place to work and shop

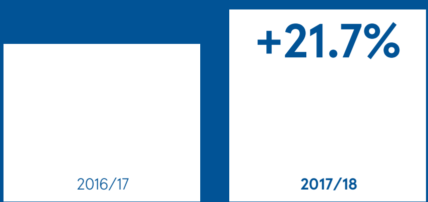



**83%**
**Great place to work[d]**
(2016/17: 83%)

**49pts**
**Great place to shop[c]**
(2016/17: 48pts)

Every day our colleagues go the extra mile to serve our shoppers better, and more colleagues are recommending Tesco as a great place to shop.

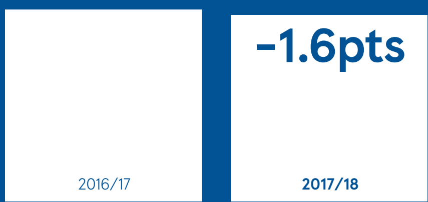
## Improve operating cash flow




**£2,773mΔ**
**Retail operating cash flow[b]**
(2016/17: £2,278m)

Retail operating cash flow increased by £495m in the year, mainly driven by improved Group profitability.

## We build trusted partnerships




**74.9%**
**Group supplier satisfaction[e]**
(2016/17: 77%)

We are committed to strong partnerships with our suppliers, built on open, fair and transparent relationships. Our supplier feedback score remains at a high level, despite inflationary challenges.

**Δ Alternative performance measures (APM)**
Measures with this symbol Δ are defined in the Financial calendar and summary glossary section on pages 39 and 40 and in the Glossary section of the Annual Report and Financial Statements 2018 on pages 150 to 153.

[a] Reported on a continuing operations basis (excludes Turkey). Growth is at constant exchange rates, on a comparable days basis.
[b] Reported on a continuing operations basis (excludes Turkey). Growth is at actual exchange rates.
[c] Net Promoter Score (NPS) equals 'fans' (those scoring 9-10 out of 10) minus 'critics' (those scoring 0-6) on an 11 point scale question of 0-10.
[d] Based on our internal 'What Matters To You?' survey. Chart shows the movement in 'Great place to work'.
[e] Based on the question "Overall, how satisfied are you with your experience of working with Tesco?" in our Supplier Viewpoint survey.

Financial review

# Another year of strong progress.

'This was another strong performance for Tesco, with profits ahead of expectations and a solid improvement in cash generation.'
**Alan Stewart**
Chief Financial Officer

Visit **www.tescoplc.com/ar2018** to find PDF and Excel downloads of our financial statements.

### Group results 2017/18

| 52 weeks ended 24 February 2018<br>On a continuing operations basis | 2017/18 | 2016/17 | Year-on-year change (Constant exchange rates) | Year-on-year change (Actual exchange rates) |
|---|---|---|---|---|
| **Group sales (exc. VAT, exc. fuel)[a]** | **£50,991m** | **£49,867m** | **0.6%** | **2.3%** |
| Fuel | £6,500m | £6,050m | 7.1% | 7.4% |
| **Revenue (exc. VAT, inc. fuel)** | **£57,491m** | **£55,917m** | **1.3%** | **2.8%** |
| **Group operating profit before exceptional items[b]** | **£1,644m** | **£1,280m** | **25.9%** | **28.4%** |
| UK & ROI | £1,053m | £803m | 30.3% | 31.1% |
| Central Europe | £119m | £58m | 89.7% | 105.2% |
| Asia | £299m | £262m | 7.6% | 14.1% |
| Tesco Bank | £173m | £157m | 10.2% | 10.2% |
| Include exceptional items | £193m | £(263)m | | |
| Group operating profit | £1,837m | £1,017m | 76.6% | 80.6% |
| Group profit before tax before exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements | £1,282m | £781m | | 64.1% |
| **Group statutory profit before tax** | **£1,298m** | **£145m** | | **795.2%** |
| Diluted EPS before exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements | 11.88p | 7.30p | | |
| Diluted EPS | 12.08p | 0.81p | | |
| Basic EPS | 12.12p | 0.81p | | |
| **Dividend per share** | **3.0p** | **–** | | |
| **Capex[c]** | **£1.1bn** | **£1.2bn** | | |
| **Net debt[d][e]** | **£(2.6)bn** | **£(3.7)bn** | | |
| **Cash generated from retail operations[d]** | **£2.8bn** | **£2.3bn** | | |

[a] Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis.
[b] Excludes exceptional items by virtue of their size and nature in order to reflect management's view of the performance of the Group.
[c] Capex is shown excluding property buybacks.
[d] Net debt and retail operating cash flow exclude the impact of Tesco Bank, in order to provide further analysis of the retail cash flow statement.
[e] Net debt includes both continuing and discontinued operations.

The definition and purpose of the Group's alternative performance measures, which includes like-for-like sales, are defined in the Financial calendar and summary glossary section on pages 39 and 40 and on pages 150 to 153 of the Annual Report and Financial Statements 2018. A detailed analysis of discontinued operations can be found in Note 7.

This was another strong performance for Tesco with results ahead of expectations. We grew sales by 0.6%, excluding VAT, excluding fuel, at constant exchange rates and experienced like-for-like sales growth of 0.7%. Group operating profit before exceptional items was £1,644m, up 28.4% on last year as we significantly strengthened our profitability, remaining firmly on track to deliver our medium-term ambitions. Our statutory profit before tax increased to £1,298m including £155m of exceptional items. We generated retail operating cash flow of £2.8bn, up 21.7% on last year, driven by the strong improvement in our operating profit. We reduced net debt (excluding Tesco Bank) by 29.6% to £(2.6)bn.

We are well placed to deliver our ambition of a Group operating margin of 3.5%-4.0% by the 2019/20 financial year. This ambition is underpinned by six strategic drivers, including the £1.5bn operating cost reductions which we are on track to secure, having delivered cumulative savings of £820m to date.

Reflecting our improved performance and confidence in future prospects, the Board has proposed the payment of a 2.0 pence per share final dividend following on from the interim dividend of 1.0 pence per share. We expect dividends to grow towards a target cover of around two times earnings per share over the medium term.

### Segmental results

**UK & ROI**

| On a continuing operations basis | 2017/18 | 2016/17 | Year-on-year change (Constant exchange rates) | Year-on-year change (Actual exchange rates) |
|---|---|---|---|---|
| **Sales (exc. VAT, exc. fuel)** | **£38,650m** | **£37,692m** | **2.2%** | **2.5%** |
| Like-for-like sales (exc. VAT, exc. fuel) | 2.3% | 0.9% | | |
| **Revenue (exc. VAT, inc. fuel)** | **£44,908m** | **£43,524m** | | |
| Revenue includes: fuel | £6,258m | £5,832m | | |
| **Operating profit before exceptional items** | **£1,053m** | **£803m** | **30.3%** | **31.1%** |
| Operating profit margin before exceptional items | 2.34% | 1.84% | 49bp | 50bp |
| **Operating profit** | **£1,199m** | **£519m** | | |

In the UK and the Republic of Ireland (ROI), like-for-like sales grew by 2.3%. In the UK, like-for-like sales growth of 2.2% includes our ninth consecutive quarter of positive performance, despite an ongoing drag of (0.4)% from general merchandise as we take action to de-emphasise certain categories. We delivered a consistently strong performance in fresh food, outperforming the market in volume terms. During the fourth quarter we experienced some distribution-related disruption, following the administration of Palmer & Harvey, resulting in lost tobacco sales across December. Despite these challenges, which are now behind us, we continued to deliver positive sales momentum through the fourth quarter.

Market conditions have remained challenging with continued cost price inflation. We have worked hard with our supplier partners throughout the year to mitigate price increases wherever possible, and made a significant investment in the first half to further hold back inflation and protect customers. We have continued to reduce promotional participation over the year, focusing instead on consistently offering the best value for customers on all of our products.

Our own brand ranges have performed very well, with like-for-like sales growing 4.2% year-on-year. We have embarked on a re-launch of over 10,000 own brand products, across our entry, core and *finest** ranges, with the initial focus on ready meals and Italian products. Our new, exclusive Hearty Food Co. range of ready meals and improved core Tesco products have proved particularly popular, contributing to an increase in overall own brand participation of nearly one percent. We have continued to refine our general merchandise range, reducing SKUs by 16%, as we focus on categories with more sustainable profitability. We have delivered 2.7% sales growth in our home category, following the launch of our new own brand Go Cook and Fox & Ivy ranges. These new brands have driven a 14% and 20% increase in customers to our cook and homeware ranges, respectively. Clothing performed well during the year with like-for-like sales growth of 2.6%, reflecting the strength of the F&F brand and quality of our range.

All store formats and channels have achieved like-for-like growth, with our large store business growing at 1.9% and our online grocery sales growing 5.1% with both higher order numbers and increased average basket size.

In ROI, like-for-like sales grew by 2.7%, improving steadily throughout the year as customers responded well to an even more competitive price position. The main driver of growth was a 4.2% increase in volume, ahead of market volume growth. Fresh food volumes were particularly strong, growing by 5.2% year-on-year.

Our full-year UK & ROI operating profit before exceptional items was £1,053m, up 31.1% on last year. Our efforts to reduce operating costs and improve efficiencies across our store estate and head office have delivered a significant increase in profitability, particularly during the second half when our operating margin reached 2.5%, up 67 basis points year-on-year. Further progress on maximising the mix within our business and driving volume more selectively, particularly in general merchandise, has aided margin expansion.

**Central Europe**

| On a continuing operations basis | 2017/18 | 2016/17 | Year-on-year change (Constant exchange rates) | Year-on-year change (Actual exchange rates) |
|---|---|---|---|---|
| **Sales (exc. VAT, exc. fuel)** | **£6,343m** | **£5,977m** | **(1.6)%** | **6.1%** |
| Like-for-like sales (exc. VAT, exc. fuel) | 0.3% | 0.9% | | |
| **Revenue (exc. VAT, inc. fuel)** | **£6,585m** | **£6,195m** | | |
| Revenue includes: fuel | £242m | £218m | | |
| **Operating profit before exceptional items** | **£119m** | **£58m** | **89.7%** | **105.2%** |
| Operating profit margin before exceptional items | 1.81% | 0.94% | 86bp | 87bp |
| **Operating profit** | **£212m** | **£190m** | | |

In Central Europe, like-for-like sales increased by 0.3% despite competitive market conditions. Our focus on improving the quality and breadth of the range in our stores has delivered positive results with fresh food sales growth of 1.2%. However, this growth was held back by declines in general merchandise and clothing. Our convenience formats delivered positive like-for-like growth across all countries. We have continued to exit from unprofitable stores in the region, with 28 store closures contributing to an overall sales reduction of (1.6)% at constant exchange rates. Legislative changes in the region are affecting our business, with Poland phasing in a gradual ban on Sunday trading from March 2018, which takes complete effect by 2020.

Central Europe operating profit before exceptional items was £119m, up £61m year-on-year at actual exchange rates. We have made continued progress towards operating the four markets we serve as one combined region, helping to improve our customer offer. In the first half of the year we opened a new distribution centre in Galánta, Slovakia serving all four countries and benefiting from the best local practices in the region. The resulting benefits of more effective stock management combined with our other efforts on cost savings have more than offset the impact of inflation on the cost base and enabled us to improve profitability.

**Asia**

| On a continuing operations basis | 2017/18 | 2016/17 | Year-on-year change (Constant exchange rates) | Year-on-year change (Actual exchange rates) |
|---|---|---|---|---|
| **Sales (exc. VAT, exc. fuel)** | **£4,947m** | **£5,186m** | **(9.4)%** | **(4.4)%** |
| Like-for-like sales (exc. VAT, exc. fuel) | (10.0)% | 1.8% | | |
| **Revenue (exc. VAT, inc. fuel)** | **£4,947m** | **£5,186m** | | |
| Revenue includes: fuel | – | – | | |
| **Operating profit before exceptional items** | **£299m** | **£262m** | **7.6%** | **14.1%** |
| Operating profit margin before exceptional items | 6.04% | 5.04% | 96bp | 99bp |
| **Operating profit** | **£277m** | **£231m** | | |

In Asia, our previously announced decision to withdraw from unprofitable bulk selling activities in Thailand and scale back mass couponing contributed to a (10.0)% decline in like-for-like sales. Adjusting for this impact, underlying like-for-like sales in the region were down (1.0)%, largely reflecting the deflationary effect of lowering our fresh food prices for customers.

Asia operating profit before exceptional items was £299m, up 7.6% at constant exchange rates and up 14.1% at actual exchange rates. This improvement has been driven by refocusing on our core retail offer and continuing to reduce our cost base as part of the Group's overall cost savings programme.

**Tesco Bank**

| | 2017/18 | 2016/17 | Year-on-year change |
|---|---|---|---|
| **Revenue** | **£1,051m** | **£1,012m** | **3.9%** |
| **Operating profit before exceptional items** | **£173m** | **£157m** | **10.2%** |
| **Operating profit** | **£149m** | **£77m** | **93.5%** |
| Lending to customers | £11,522m | £9,961m | 15.7% |
| Customer deposits | £9,245m | £8,463m | 9.2% |
| Net interest margin | 3.9% | 4.0% | (0.1)% |
| Risk asset ratio | 19.3% | 20.0% | (0.7)% |

Tesco Bank celebrated twenty years of serving Tesco shoppers this year. Throughout the year, the Bank has continued to strengthen its product and service offering to customers, delivering growth of 4.1% in active customer account numbers across its primary products. During the year, we completed the roll-out of Tesco Pay+, the Group's digital wallet offering, to every one of our stores in the UK. In July 2017, we celebrated the fifth anniversary of the launch of our mortgage product, which has now reached £3.0bn in balances.

Operating profit before exceptional items increased by 10.2% year-on-year to £173m. Lending growth in the year has been strong, driven by secured mortgage lending which now comprises 26% of the lending portfolio, versus 22% last year. In addition, Money Services products such as our Travel Money offer have performed well overall as the Group continues to enhance the product range and expand the customer base. Exceptional items of £(24)m relating to Tesco Bank include an increase in the provision for customer redress and a credit received following the conclusion of negotiations with a third party in respect of previously recognised customer redress.

The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective with a risk asset ratio of 19.3%.

**Exceptional items in operating profit**

| | 2017/18 | 2016/17 |
|---|---|---|
| Net restructuring and redundancy costs | £(102)m | £(199)m |
| Net impairment reversal/(charge) of non-current assets and onerous lease provisions | £53m | £(6)m |
| Provision for customer redress | £(24)m | £(45)m |
| Interchange settlement | – | £57m |
| Investment disposal | £124m | – |
| Property transactions | £79m | £165m |
| Disposal of opticians business | £38m | – |
| Amounts provided and released in relation to SFO and FCA obligations | £25m | £(235)m |
| **Total exceptional items in operating profit** | **£193m** | **£(263)m** |

Exceptional items are excluded from our headline performance measures by virtue of their size and nature in order to reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £193m.

Net restructuring and redundancy charges of £(102)m relate principally to structural changes to our business to simplify our operating model within stores and head office.

The net impairment reversal of non-current assets and onerous lease provisions of £53m includes a net reversal of £185m in property, plant and equipment and investment property, a net £(24)m charge in software and other intangible assets and a net charge of £(108)m of onerous lease provisions.

Provision for customer redress of £(24)m relating to Tesco Bank, includes an increase of £(35)m in the provision for Payment Protection Insurance (PPI), partially offset by a £1m Consumer Credit Act (CCA) provision release and a credit of £10m received following the conclusion of negotiations with a third party in respect of previously recognised customer redress.

The investment disposal profit of £124m reflects the sale of our remaining minority stake in the Lazada e-commerce platform, completed during the first half. The sale of our opticians business in the UK & ROI to Vision Express resulted in a £38m gain on disposal.

Two property-related transactions completed in the UK in the first half of the year account for the majority of the £79m property transactions within exceptional items.

In the prior year, we took an exceptional charge of £(235)m in respect of the Deferred Prosecution Agreement (DPA) between Tesco Stores Limited and the UK Serious Fraud Office (SFO) regarding historic accounting practices and an agreement with the UK Financial Conduct Authority (FCA) of a finding of market abuse in relation to the Tesco PLC trading statement announced on 29 August 2014. Included in this charge was £(85)m for the Shareholder Compensation Scheme. With the Compensation Scheme now being closed to new claimants, we have released £25m of the amounts provided. Outstanding claims submitted before the 22 February 2018 deadline are still being processed.

### Joint ventures and associates, interest and tax

**Joint ventures and associates**

Our share of post-tax losses from joint ventures and associates before exceptional items was £(6)m, an improvement of £24m year-on-year due to reduced losses recognised in Gain Land, our joint venture in China. There were no exceptional items this year relating to our share of post-tax losses from joint ventures and associates.

**Finance income and costs**

| | 2017/18 | 2016/17 |
|---|---|---|
| Interest payable on medium term notes, loans and bonds | £(363)m | £(434)m |
| Interest receivable on associated derivatives | £31m | £6m |
| Net interest on medium term notes, loans and bonds | £(332)m | £(428)m |
| Other interest receivable and similar income | £44m | £42m |
| Other finance charges and interest payable | £(70)m | £(89)m |
| Capitalised interest | £2m | £6m |
| **Net finance cost before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements** | **£(356)m** | **£(469)m** |
| IAS 39 fair value remeasurements | £23m | £61m |
| IAS 19 net pension finance costs | £(162)m | £(113)m |
| Exceptional charge – translation of Korea proceeds | £(38)m | £(244)m |
| **Net finance costs** | **£(533)m** | **£(765)m** |

Net finance costs before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements reduced by £113m year-on-year to £(356)m. This 24.1% decline year-on-year was mainly driven by a net £96m reduction in interest on interest-bearing liabilities. Debt maturities totalled £1.4bn during the year and we also undertook £1.3bn of bond tenders in two separate liability management exercises. These bond tenders during the year contributed to £23m lower interest costs and we expect an associated reduction in interest payable of c.£50m on an annualised basis. In cash interest terms, we were helped by a favourable timing benefit of £55m on our largest sterling-denominated bond, for which no annual coupon payment was made during the year owing to the timing of our year-end date.

Net finance costs, which include non-cash items, were around 30% lower year-on-year. Fair value remeasurements are largely driven by changes in the market assessment of credit risk and various market indices which can fluctuate significantly.

Net pension finance costs increased by £(49)m year-on-year driven by a higher opening pension deficit part offset by a lower opening discount rate. Net pension finance costs are calculated by multiplying the opening deficit by the opening discount rate each year. For 2018/19, they are expected to decrease to c.£(95)m as the impact of a higher opening discount rate is more than offset by the year-on-year reduction in deficit.

The exceptional charge of £(38)m relating to the translation of the remaining proceeds from the sale of our business in Korea will not arise again since the funds have now been moved to a Sterling denominated entity within the Group. The proceeds had been held in GBP money market funds in a non-Sterling denominated subsidiary and the translation effect represents no economic cost to the Group.

**Group tax**

Tax on profit before exceptional items was £(286)m, with an effective tax rate on profit before exceptional items for the Group of 25.0%. As previously indicated, this tax rate is higher than the UK statutory rate primarily due to the depreciation of assets that do not qualify for tax relief and the impact of the 8% supplementary tax surcharge on bank profits. We expect the impact of these items on the effective tax rate to reduce as our overall level of profitability continues to increase, and therefore we expect the effective tax rate to reduce to around 20% in the medium term.

The effective tax rate on profit before exceptional items for the 2018/19 financial year is expected to be around 24%.

### Earnings per share (on a continuing operations basis)

Diluted earnings per share before exceptional items were 11.88p, nearly 63% higher year-on-year principally due to our stronger profit performance. Statutory basic earnings per share from continuing operations were 12.12p, up from 0.81p last year.

### Summary of total indebtedness

| | 2017/18 | 2016/17 | Movement |
|---|---|---|---|
| Net debt (excludes Tesco Bank) | £(2,625)m | £(3,729)m | £1,104m |
| Discounted operating lease commitments | £(6,931)m | £(7,440)m | £509m |
| Pension deficit, IAS 19 basis (post-tax) | £(2,728)m | £(5,504)m | £2,776m |
| **Total indebtedness** | **£(12,284)m** | **£(16,673)m** | **£4,389m** |

Retail net debt reduced by £1.1bn to £(2.6)bn as retail operating cash flow and disposal proceeds were greater than capital expenditure and other charges. Within net debt, we used surplus cash to prepay £1.3bn of the Group's long-dated bonds as part of an ongoing focus to strengthen the balance sheet.

We have a strong funding and liquidity profile underpinned by £4.2bn committed facilities and our key credit metrics, fixed charge cover and total indebtedness/EBITDAR, have improved to 2.7 times and 3.3 times respectively.

Discounted operating lease commitments have reduced by £509m, including the benefit from the buyback of 17 stores in the UK during the year. We anticipate rental savings of £26m on an annualised basis as a result of these property purchases.

On an IAS 19 basis, the pension deficit measure (net of deferred tax) has reduced from £5.5bn last year to £2.7bn at the end of the current year. The movement during the year was partly driven by an increase in yields on corporate bonds, which drive the discount rate used for accounting purposes and our decision at the half-year stage to update the discount rate model in line with developing market practice and following actuarial advice. In the Group's view, it now more appropriately reflects expected yields on corporate bonds over the life of the scheme's liabilities. At the same time, the application of latest industry life expectancy tables and favourable actual scheme experience have also contributed to the reduction.

During the year, the triennial pension review was concluded, with the business and the Trustees agreeing that annual contributions will increase by £15m to £285m per annum from April 2018, with our framework for the long-term funding of the scheme unchanged. As at 31 March 2017, the actuarial deficit was £3.0bn, an increase of c.£0.25bn since the last triennial valuation.

Overall, total indebtedness has reduced by £4.4bn in the year. Net debt has reduced by almost £6bn over the last three years.

### Summary retail cash flow

Retail operating cash flow increased by £495m to £2,773m in the year. This increase of 21.7% year-on-year, was mainly driven by improved Group profitability. Further improvements in working capital of £499m also contributed to the improvement in cash flow, although this includes £102m of timing benefits principally as a consequence of the failure of a supplier towards the end of the year.

Exceptional cash items increased year-on-year, largely driven by a cash outflow of £149m relating to payment of the SFO fine and initial Shareholder Compensation Scheme payments. We expect a further cash outflow of c.£60m relating to such claims. Other cash exceptional items totalling £169m include a £160m VAT refund from HMRC regarding the treatment of VAT on Clubcard rewards, which HMRC have appealed. This has no net effect in the Group income statement.

Cash capital expenditure of £(1.2)bn was up year-on-year due to the timing of payments relating to commitments made towards the end of the last financial year.

Combined net cash interest and tax of £(428)m was £113m lower than last year largely as a result of debt maturities and bond tenders. We generated £253m of proceeds from property sales and completed the buyback of 17 stores during the year, for a cash consideration of £393m.

| | 2017/18 | 2016/17 |
|---|---|---|
| **Operating profit before exceptional items** | **£1,644m** | **£1,280m** |
| Less: Tesco Bank operating profit before exceptional items | £(173)m | £(157)m |
| **Retail operating profit from continuing operations before exceptional items** | **£1,471m** | **£1,123m** |
| Less: Retail operating loss (discontinued operations) | – | £(15)m |
| Add back: Depreciation and amortisation | £1,212m | £1,172m |
| Other reconciling items | £28m | £12m |
| Pension deficit contribution | £(245)m | £(248)m |
| Underlying (increase)/decrease in working capital | £499m | £379m |
| **Retail cash generated from operations before exceptional items** | **£2,965m** | **£2,423m** |
| Exceptional cash items: | £(192)m | £(145)m |
| *Relating to prior years:* | | |
| – SFO Fine and Shareholder Compensation Scheme Payments | £(149)m | – |
| – Utilisation of onerous lease provisions | £(92)m | £(111)m |
| – Restructuring payments | £(53)m | £(54)m |
| *Relating to current year:* | | |
| – Restructuring payments[a] | £(67)m | £(75)m |
| Other[b] | £169m | £95m |
| **Retail operating cash flow** | **£2,773m** | **£2,278m** |
| *Memo: Retail operating cash flow on continuing operations basis* | £2,773m | £2,279m |
| Cash capex | £(1,190)m | £(963)m |
| Net interest & tax | £(428)m | £(541)m |
| Property proceeds | £253m | £509m |
| Property purchases – store buybacks | £(393)m | £(365)m |
| Disposals and dividends received | £362m | £369m |
| **Retail free cash flow** | **£1,377m** | **£1,287m** |

[a] In addition to cash outflows of £(67)m relating to current year restructuring, exceptional items charged to profit include a net restructuring provision of £(35)m, resulting in a total exceptional restructuring charge to operating profit of £(102)m.
[b] Other exceptional cash items include VAT recovered in relation to the appeal against HMRC regarding the treatment of VAT on Clubcard rewards of £160m and working capital acquired of £9m from the unwind of the Group's joint venture with British Land Co PLC (British Land) (2016/17: legal settlement of £57m in respect of interchange fees, development stock disposal of £36m and discontinued operations of £2m).

Finally, cash inflows of £362m relating to disposals and dividends received includes consideration of £196m from the sale of our remaining minority stake in the Lazada online business, a dividend of £50m from Tesco Bank, and proceeds of £45m relating to the disposal of our opticians business in the UK to Vision Express, in addition to a number of smaller transactions.

Retail free cash flow of £1,377m is up 7.0% year-on-year. This is lower than the rate of growth in retail operating cash flow principally due to timing of cash capital expenditure and lower property proceeds.

### Capital expenditure

| | 2017/18 | 2016/17 |
|---|---|---|
| UK & ROI | £676m | £731m |
| Central Europe | £133m | £141m |
| Asia | £239m | £261m |
| Tesco Bank | £50m | £46m |
| **Group** | **£1,098m** | **£1,179m** |

On an accrued basis, capital expenditure (excluding buybacks) of £1.1bn was £0.1bn lower than last year reflecting our disciplined approach to capital spending and focus on delivering attractive returns. Our capital expenditure in the UK focused on maintaining and replacing essential assets, alongside programmes to refresh and repurpose the estate, enhancing our store operations. New store capex has mainly been allocated to our new store opening programme in Thailand, with a limited number of Express store openings and a net gain of one new superstore in the UK. Our capital expenditure in Central Europe relates mainly to repurposing of existing stores. We expect capital expenditure to remain within a range of £1.1bn-£1.4bn. There was a net reduction of (1.2)m square feet, including (1.1)m square feet of space repurposed to a range of complementary partners such as Arcadia Group and H&M.

Across the Group, our repurposing programme has focused on improving the ease and relevance of our large-store shopping trip for customers. In the UK & ROI, we have repurposed 75,000 square feet across 20 stores. Within the year, we opened over 50 concessions within our stores including Arcadia Group, Holland & Barrett, Dixons Carphone and Next. A brand new Booker 'Chef Central' concept store was also opened within the Tesco Extra store at Bar Hill, Cambridge in February 2018. The store primarily serves professional caterers but is open to all customers. In Central Europe, we have primarily been partnering with other clothing brands in repurposed store space including H&M and Decathlon. In Asia, we have worked with a range of different partners across a variety of brands including MR. DIY and Major Cineplex.

### Property

The estimated market value of our fully owned property has increased by £0.8bn to £20.7bn, with a surplus of £2.5bn over the net book value (NBV). Our Group freehold property ownership percentage, by value, has increased to 58% from 57% last year, driven by the UK & ROI. We regained ownership of 17 stores in the UK during the year, increasing our proportion of freehold ownership by value in the UK & ROI to 52%. This repurchase of stores will result in an annualised rental saving of £26m. We continue to seek opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation where the economics are attractive.

### Dividend

We propose to pay a final dividend of 2.0 pence per ordinary share. The proposed final dividend was approved by the Board of Directors on 10 April 2018 and is subject to the approval of shareholders at the Annual General Meeting to be held on 15 June 2018. This takes the total dividend for the year to 3.0 pence per ordinary share following the payment of an interim dividend of 1.0 pence per ordinary share in November 2017. We anticipate a split of broadly one-third to two-thirds between next year's interim and final dividends and intend to reach our targeted cover of around two times earnings in the medium term.

### Merger with Booker Group

We completed our merger with Booker Group on 5 March 2018, after the end of the Tesco financial year. Our 'Joining Forces' integration programme is well underway and we are focused on delivering the £200m recurring run-rate synergies identified during the merger process by the end of the third year post-completion.

Booker Q4 results show a continued strong performance, with customer satisfaction up 0.3% to 85.7% and like-for-like sales up 9.9%. While Booker's full year results are still subject to audit approval, operating profit before exceptional items for the financial year to 30 March 2018 is c.£195m and net cash is c.£120m.

Transaction costs of £(26)m relating to our merger with Booker were included in Tesco's UK & ROI operating profit before exceptional items in the 2016/17 financial year. Further costs and fees of £(21)m arising in the 2017/18 financial year have been treated in a consistent fashion. A similar amount, consisting of stamp duty costs directly arising from the completion of the merger, will be charged to underlying profit in the 2018/19 financial year. As outlined in our merger prospectus, we anticipate up to £(145)m of integration costs over three years, which will be treated as exceptional.

### Looking ahead

We remain firmly on track to deliver the medium-term ambitions we set out in October 2016; to reduce our costs by £1.5bn, to generate £9bn of retail cash from operations and to improve operating margins to between 3.5% and 4.0% by 2019/20. In addition, by further reducing debt and maintaining a disciplined approach to capital we can continue to strengthen the balance sheet and generate an increasing level of free cash flow. Our intention remains to return to an investment grade credit rating, with our key metrics being fixed charge cover and total indebtedness/EBITDAR.

The integration of Booker is well underway and we are focused on delivering the identified synergies to create value for all stakeholders. We anticipate a synergy benefit of c.£60m in the first year, growing to a cumulative c.£140m in the second year and reaching a recurring run-rate of c.£200m per year by the end of the third year.

As we look to capitalise on the enhanced opportunities for growth available to the combined Group, we will place increasing focus on growth in earnings and free cash flow generation, in order to deliver strong, sustainable returns for shareholders.

**Alan Stewart**
Chief Financial Officer

# Working together to make a big difference.

## Our approach

‘Every little help makes a big difference’ is our third value and emphasises our belief that small actions can add up to make a big difference. Our Little Helps Plan identifies the most pressing social and environmental challenges facing the business, our customers and our communities, and outlines our commitments to help tackle these.

The Little Helps Plan outlines how Tesco works in partnership with others, including suppliers, NGOs, governments and other retailers, to make a positive contribution and work towards shared global ambitions.

The plan builds on the progress we have made so far and covers three areas core to the long-term success of our business: people, products and places.

## Our Three Pillars

**People**

**Products**

**Places**

In October 2017, we shared targets and actions under each of these three pillars. More information on these can be found at www.tescoplc.com/littlehelpsplan.

The Little Helps Plan covers our retail businesses in the UK, Republic of Ireland, Central Europe and Asia. However, with the majority of our customers being in the UK, implementation of the plan and reporting will begin with the UK business. We have committed to sharing our progress along the way and will next update in October 2018.

Accountability for the Little Helps Plan is led at an Executive level by Jane Lawrie, Group Communications Director, and at the Board level by Dave Lewis, Group Chief Executive. Our Corporate Responsibility Committee, chaired by Lindsey Pownall, Non-executive Director, governs the plan. More information on the activities of the Corporate Responsibility Committee can be found in the Corporate governance report on page 39 of the Annual Report and Financial Statements 2018.

For the full list of our targets and actions see our Little Helps Plan at **www.tescoplc.com/littlehelpsplan**.

## People

The 440,000 colleagues who work for us around the world are at the forefront of serving our shoppers better every day. We want to give them a great experience of working at Tesco and be a place where everyone can get on, whatever their ambitions.

To do this, we are investing in training so colleagues are supported to develop their careers and to build skills for their future. We are committed to building an inclusive culture and ensuring these opportunities are available to all colleagues. We are also trialling a number of innovative solutions that will offer colleagues greater flexibility over their own work schedules.

**Our target**
To help our colleagues succeed by providing them with the flexibility, skills and reward they need to get on.


## Products

### Sourcing
Our customers should have peace of mind that the products that they buy at Tesco are sourced with respect for both the environment and the people who make or grow them. Building strong, trusted relationships with our suppliers plays a key role in achieving this.

### Health
Our customers and colleagues tell us that they want to make healthier choices, but sometimes it can be difficult. We want to make it easier to lead a healthier life and we are focused on offering simple, practical actions that lead to sustainable changes.

### Packaging
We know packaging plays an important role in preserving and protecting products but we are taking action to reduce its overall impact on the environment. We are working with the industry to develop a closed loop system which can be applied to all key packaging materials.

### Food waste
We have a responsibility and commitment to lead reduction of food waste from farm to fork. Through our Group Chief Executive's Chairmanship of the international Champions 12.3 coalition, we are committed to accelerating progress towards the UN Sustainable Development Goal target to halve per capita global food waste by 2030.

**Our targets**

To help make sustainable products accessible and affordable for all.

To support all of our colleagues to live healthier lives and help our customers make healthier food choices every time they shop with us.

To ensure we never use more packaging than is needed, and that what we do use is from sustainable sources and goes on to be reused or recycled.

To help halve global food waste, farm to fork, by 2030.


## Places

We are proud to be a valued part of over 6,000 communities around the world and want to help them thrive. We bring social and economic benefits through the local people we employ, the local businesses we work with and the local projects we support.

We support causes important to colleagues and customers. We deliver this through our community donation programmes, strategic partnerships with charities and support for food banks.

**Our target**

To help our local communities thrive by positively contributing both socially and economically.

## Foundations

Underpinning all the pillars of the Little Helps Plan are a number of areas where it is vital to do the right thing. It remains a priority for us to ensure our products are safe, that we have a strong health and safety culture for customers and colleagues, and that we stay on track with our ambitious plan to become a zero-carbon business.

We recognise that these areas and strong corporate governance are equally important to ensuring our business is having a positive impact on society. They are core expectations and are embedded in the way we do business.

## Products

### Sourcing with care

In our UK supply chains, we are prioritising the environmental and social risks associated with 20 of our most important products and ingredients – from beef and coffee, to wild fish and cotton. To view the full top 20 list and some of the actions we are taking, visit www.tescoplc.com/top20.

Collaboration with suppliers, industry organisations, government bodies and civil society is vital for us to make progress.

For example, we know that soil degradation is a key issue facing agricultural products and the environment. We analysed the most vulnerable regions we sourced from and in 2017 we started a new project in partnership with the Broads Authority and with the support of the Rivers Trust, National Farmers Union (NFU) and the Environment Agency. To raise awareness of the impact of water run-off with potato growers in East Anglia, we tested new technologies that help retain valuable top soil and reduce the amount of fertiliser entering local waterways. Working with partners, we will share the learnings in other key sourcing regions.

This year, as part of our human rights due diligence approach, we have engaged stakeholders and other businesses to further understand the risks of forced labour in palm oil supply chains. 100% of the palm oil used in our Own Brand products in the UK is certified by the Roundtable on Sustainable Palm Oil but we want to take further action to mitigate the social challenges associated with palm oil production. Our engagement has helped us identify and understand the areas of greatest risk, and we are working collaboratively through the Consumer Goods Forum to tackle this challenge as an industry.

Visit **www.tescoplc.com/sourcing** for more information and **www.tescoplc.com/modernslavery** for our latest Modern Slavery Statement.

### A healthier place to work and shop

For many years we've worked hard to help colleagues and customers make healthier food choices. We are also continuing to work with our suppliers to reduce the amount of sugar, fat and salt in thousands of products. In Central Europe in 2017 we reviewed 120 Own Brand soft drinks and introduced a new standard to limit the sugar to less than 1 teaspoon per 100ml. This follows the UK business which, by November 2016, had reduced the sugar in all Own Brand soft drinks to below the threshold for the government levy. We've also helped increase consumption of fruit and vegetables by introducing new, great value ranges such as Farm Brands and Perfectly Imperfect. Our Free Fruit for Kids initiative remains popular in the UK and since 2016, we have given out 50 million pieces of free fruit in 800 stores.

In May 2017 we held our first ever in-store health event in the UK. As part of this we reduced the price of 200 healthier products and highlighted in-store and online products which are lower in sugar, fat or salt. As a result, we saw the biggest monthly improvement in the health of our customers' shopping baskets outside of seasonal changes. For colleagues we have given out free fruit and offered mini health checks throughout our health events. In 2017/18 we also made mental wellbeing training available for all colleagues and brought together a group of colleague Health Heroes to share their stories and inspire others to make healthier choices.

In January 2018, we announced a groundbreaking new five-year strategic partnership with the British Heart Foundation, Cancer Research UK and Diabetes UK. The aim of the partnership is to help reduce the risk of heart and circulatory disease, cancer and diabetes. The partnership will support colleagues, customers and their families to make sustainable lifestyle changes and adopt healthier habits.

For more information visit **www.tescoplc.com/health**.

### Packaging

We continue to make changes to our packaging to help reduce our impact on the environment. 87% of our Own Brand packaging by weight is currently widely recyclable.

We have made significant changes to the packaging of our wet wipes, resulting in a 20% reduction in the material used and thereby removing 57 tonnes of plastic. This material saving is enough to make over 10 million more packs.

We recognise that we can do more in partnership with government and industry to help establish a robust, closed loop approach to recover and reuse all key packaging materials. We have three strategic priorities to help reduce packaging waste and boost recycling across the UK:

1. Materials and design: In collaboration with our suppliers we are reducing packaging and restricting the number of materials we accept so that less packaging is used and packaging is easier to recycle.
2. Recovery and recycling: We believe a holistic approach is required to create an integrated national recovery and recycling system. We support developing a cost-effective Deposit Return System (DRS) as one aspect of this approach.
3. Changing customer behaviour: Once consistent recycling infrastructure is in place, we can help customers recycle more with simple, clear information.

For more information visit **www.tescoplc.com/packaging**.

### Tackling food waste

Five years ago, we made a commitment to lead on reducing global food waste in our own operation, supply chains, and in our customers' homes. Food waste is a global challenge and through our international markets and Dave Lewis's Chairmanship of the international Champions 12.3 coalition, we are committed to driving progress towards the UN Sustainable Development Goal target to halve per capita global food waste by 2030.

In 2017/18, the 10 million tonnes of food sold in the UK retail operations generated 73,340 tonnes (0.7%) of surplus. 53,126 tonnes (0.5%◊) was wasted, which we sent for energy recovery. Of this, just 19,898 tonnes (0.2%) was safe for human consumption. In September 2017 we also shared our 2016/17 food waste data for the Republic of Ireland and Central Europe for the first time. The page opposite gives a breakdown on our food surplus and waste in all these markets for 2017/18.

In 2016, we made the commitment that no food that is safe for human consumption will go to waste from our UK retail operations by the end of 2017/18. We have worked hard to deliver our target through the launch of new industry leading initiatives. Surplus food safe for humans is offered to local charities through Community Food Connection. Food not taken by charities is offered to colleagues through our 'colleague shops' which have been rolled out to all stores. We send any suitable remaining surplus to animal feed. We have achieved huge progress in ensuring more good food goes to charity and we are now introducing a further programme of work to ensure no food safe for human consumption goes to waste.

Our other markets share the same ambition and food redistribution programmes are now in all stores in the Republic of Ireland and all hypermarkets in Bangkok and Malaysia. In Central Europe over 600 stores (out of a total 961) are already donating surplus food and all remaining stores will be donating by 2020.

We are also working in partnership with our suppliers to offer customers the food they love with less waste.

In 2017/18, we introduced resealable salad bags across our most popular salad lines and became the first UK supermarket to start selling perfectly ripe green satsumas and clementines that stay fresher for longer. In Central Europe, we introduced our Perfectly Imperfect range which has helped save over 6,000 tonnes of 'wonky' fruit and vegetables from going to waste.

With 25 of our largest suppliers, we have announced a joint commitment to adopt UN Sustainable Development Goal target 12.3, measure and publish food waste data for their own operations and act to reduce food waste farm to fork. We are planning to build on this work over the coming year across more of our supply chains and communicate with customers on how they can reduce food waste in the home.

To view further analysis of all our food waste figures visit **www.tescoplc.com/foodwaste**.

## **Food surplus** (total of food not sold)

**2017/18 sales tonnage vs surplus tonnage**
(Not to scale)

**UK**
Total food sales
10,023,559 tonnes

Total food surplus
73,340 tonnes

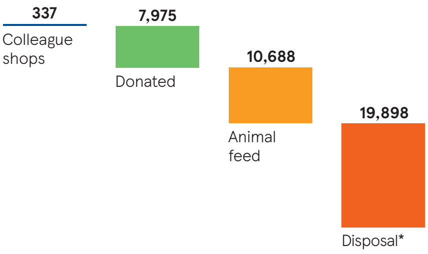
**Ireland**
Total food sales
557,317 tonnes

Total food surplus
7,762 tonnes

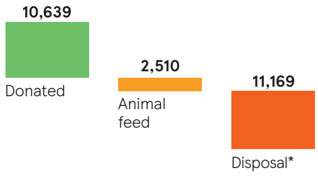
**Central Europe**
Total food sales
3,227,655 tonnes

Total food surplus
51,579 tonnes

**2017/18 food surplus safe for human consumption (tonnes)**








* Disposal = energy recovery and waste management.

## **Food waste** (food surplus wasted)

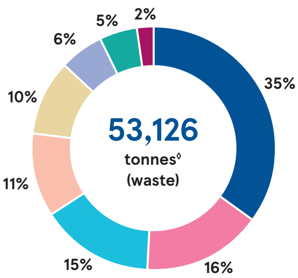
**2017/18 food waste as % of sales**

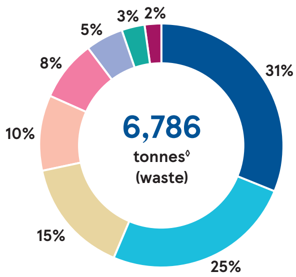
UK: 0.5%◊

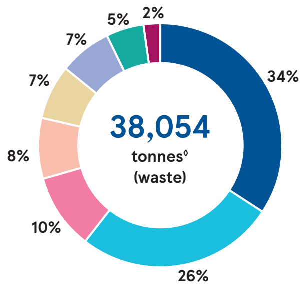
Ireland: 1.2%◊

Central Europe: 1.2%◊

**2017/18 food waste by category**[a]
(% do not total 100% due to rounding)




Bakery | Beers, Wine and Spirits | Dairy | Grocery | Impulse | Meat, Fish and Poultry | Prepared Foods | Produce

◊ KPMG LLP were engaged to provide independent limited assurance over the selected food waste data highlighted in this report with a ◊ using the assurance standard ISAE 3000. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescoplc.com/foodwastefigures.
(a) Total food waste is made up of both food safe for human consumption and food that is not safe for human consumption which has been disposed of.

## People

Colleagues have told us how important flexibility and certainty are in order for them to reach their ambitions both inside and outside of work. In 2017/18 we started to trial a new app in the UK that allows colleagues to see their shifts, manage overtime and request holiday. In time the app will also give the option to swap shifts, request shift changes and even take shifts in different stores – providing them with genuine flexibility and control over their hours. We have committed to rolling out this app in all our markets and have already started to introduce a simplified version in our Asian stores.

Our UK apprenticeship programme aims to give over 1,000 colleagues, of all ages and all levels of experience, the opportunity to continue their education and build skills for their future. With technology transforming society, we are also developing a training programme to ensure that all our colleagues have the digital competence and confidence to succeed.

Inclusivity and creating a culture where everyone has equal opportunity remains integral to our business. In January 2018 we pledged support to the UN standards promoting the rights of Lesbian, Gay, Bisexual, Transgender and Intersex (LGBTI) people. More recently we signed up to the 30% Club, demonstrating our commitment to having strong female representation within our senior leadership team by 2020. The ratio of male to female colleagues at 2017/18 year-end is outlined in the table below. Further analysis of our gender pay gap can also be found in the Corporate governance report on page 47 of the Annual Report and Financial Statements 2018 or online.

For more information visit **www.tescoplc.com/people**.

## Places

In 2017/18 we have continued to support communities through our community donation initiatives. We have established programmes in the UK (Bags of Help), Republic of Ireland (Community Fund) and Central Europe (You Choose, We Help). All of these programmes put the power in the hands of our customers to choose the local projects that Tesco supports financially. In Central Europe one in every four customers voted in 'You Choose, We Help'. Through these programmes we have distributed over £51m and supported more than 24,000 local projects to date.

Wherever we operate we also work closely with food banks and local charities to help feed people in need in local communities. In 2017/18 we donated the equivalent of 46 million meals to help feed people in need across the UK, Republic of Ireland, and Central Europe through our food surplus redistribution programmes. In January 2018, all our stores in Malaysia also participated in a campaign which enabled customers to donate food to 100 local charities supporting vulnerable families and homeless people. In Thailand, customer fundraising meant that underprivileged children were able to have nutritious lunches throughout February 2018.

For more information visit **www.tescoplc.com/places**.

'Tesco is an important part of the town, with four large and seven convenience stores in and around the area. We're one of the biggest employers in Oldham and have become an integral part of the community by taking part in many charitable projects.'

**Marie Toora**
Store Manager, Oldham Chadderton Superstore

'The biggest advantage of 'You Choose, We Help' is the close relationship we develop with local communities. Local people decide which of the nominated projects should receive grants.'

**Urszula Wiśniewska**
Manager of Możesz więcej Poland (beneficiary)

| Gender diversity (based on actual year-end headcount) | Male | | Female | |
|---|---|---|---|---|
| Board of Directors | 10 | 77% | 3 | 23% |
| Senior managers – Directors | 353 | 75% | 117 | 25% |
| Senior managers – Directors and managers | 2,646 | 63% | 1,524 | 37% |
| All employees | 189,097 | 43% | 251,561 | 57% |


## Foundations

### Climate change

In May 2017, we announced the new science-based targets on the right, which are aligned with the Paris Climate Agreement recommendation of a 1.5 degree global warming trajectory. They will also enable us to meet our ambition to become a zero-carbon business by 2050.

Our carbon footprint is calculated according to the Greenhouse Gas Protocol and our net carbon footprint in 2017/18 was 3.4 million tonnes of $CO_2e$. For our own operations absolute carbon emissions we achieved a 13% reduction compared to last year and 26% compared to 2015/16. To help us achieve our new targets, we have committed to source 100% of our electricity from renewable sources by 2030. In 2017/18, 55% of our electricity across the Group was from renewable sources and in the UK we have already switched to 100% renewable purchased electricity, supported by renewable energy certificates. This, in addition to investments in energy efficiency, has enabled us to reduce our net carbon intensity per sq. ft. of retail and distribution floor space by 6% compared with last year, and 15% since 2015/16.

**Our targets**

Reduce absolute carbon emissions from our operations from 2015/16 levels: 35% by 2020, 60% by 2025 and 100% by 2050.

Source 65% of our electricity from renewable sources by 2020 and 100% by 2030.

### Anti-bribery and fraud

We are committed to maintaining the highest standards of ethics and integrity in the way we do business around the world. We adopt a zero tolerance approach to bribery and fraud at Tesco and expect our business partners to do the same.

Our Code of Business Conduct outlines our most important legal obligations and the policies that guide the conduct of all our colleagues in areas including health and safety, information security, bribery and fraud. In February 2018, we refreshed all our communications on the Code and held an internal campaign to encourage colleagues to speak up if they have any concerns the Code is not being followed.

To support this culture, we also provide an independent and confidential whistleblowing service – Protector Line – that enables our colleagues, suppliers and their staff around the world to raise concerns. We use e-learning to support compliance with the Code and anti-bribery and anti-fraud training is included in our annual refresher training for all relevant colleagues. Everyone in the business must comply with the Code and we have implemented annual Code compliance declarations which are reviewed by our Group Risk and Compliance Committee.

For more information visit **www.tescoplc.com/foundations**.

| | Global tonnes of $CO_2e$ | | |
|---|---|---|---|
| | 2017/18 | 2016/17 | Base year 2015/16 |
| Scope 1 | 1,306,985* | 1,236,980 | 1,301,746 |
| Scope 2[a] | | | |
| Market-based method | 1,136,325* | 1,582,275 | 2,004,992 |
| Location-based method | 2,077,528* | 2,357,245 | 2,528,323 |
| Scope 1 and 2 carbon intensity (kg $CO_2e$/sq. ft. of stores and DCs) | 21.23* | 22.95 | 26.33 |
| Scope 3 | 975,312* | 1,073,721 | 1,097,491 |
| Total gross emissions | 3,418,677* | 3,892,977 | 4,404,230 |
| $CO_2e$ from renewable energy exported to the grid | 1,134* | 1,154 | 1,513 |
| Total net emissions | 3,417,543* | 3,891,822 | 4,402,717 |
| Overall net carbon intensity (total net emissions kg $CO_2e$/sq. ft. of stores and DCs) | 29.70* | 31.69 | 35.06 |

* KPMG LLP were engaged to provide independent limited assurance over the selected greenhouse gas emissions data highlighted in this report with a * using the assurance standards ISAE 3000 and 3410. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescoplc.com/carbonfigures.

[a] Tesco uses the market-based method for calculating Scope 2 emissions for our total emissions to account for our efforts in generating and purchasing low carbon energy. The location-method impact is provided for disclosure only and all intensity, net and gross emissions shown are calculated using the market-based method.

## Principal risks and uncertainties

# A robust review.

'The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our six strategic drivers.'

We have an established risk management process to identify, assess and monitor the principal risks that we face as a business. We have performed a robust review of those risks that we believe could seriously affect the Group's performance, future prospects, reputation or its ability to deliver against its priorities. This review included an assessment of those risks that we believe would threaten the Group's business model, future performance, solvency or liquidity.

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

The risk management process relies on our assessment of the risk likelihood and impact and on the development and monitoring of appropriate internal controls. Our process for identifying and managing risk is set out in more detail on page 43 of the Annual Report and Financial Statements 2018.

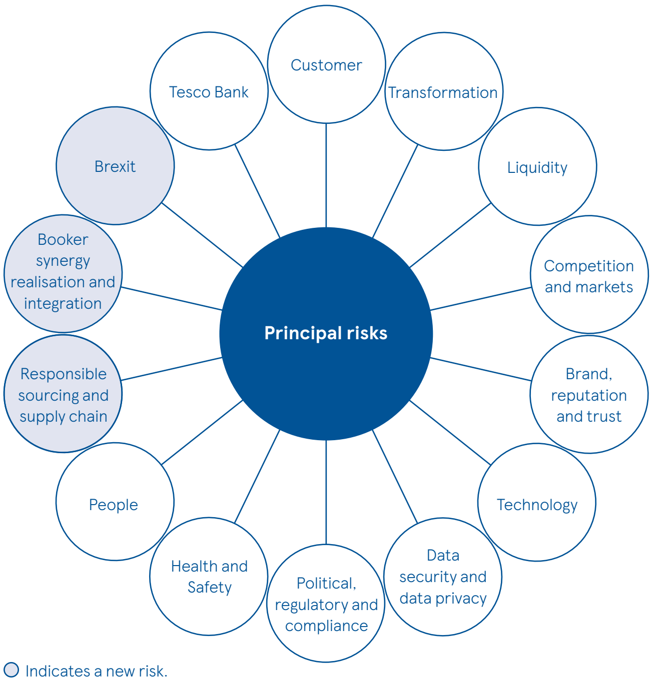
We maintain risk registers for the principal risks faced by the Group and this is an important component of our governance framework and how we manage our business. As part of our risk management process, risks are reviewed as a top down and bottom up activity at the Group and the business unit level.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

The table opposite sets out our principal risks, their link to our strategic drivers, their movement during the year and a summary of key controls as well as any mitigating factors. The Board considers these to be the most significant risks faced by the Group that may impact the achievement of our six strategic drivers as set out on pages 8 and 9. They do not comprise all of the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

## Strategic drivers

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

## Risks




Indicates a new risk.

## Oversight

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

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

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

**Group Risk and Compliance Committee**
Oversight of key regulatory and compliance risks on behalf of the Executive Committee, reporting biannually to the Audit Committee.

**Key to risk movement**

Risk increasing | No risk movement | Risk decreasing | Link to strategic drivers on page 22

| Principal risk | Risk movement | Key controls and mitigating factors |
|---|---|---|
| Customer† <br> Failure to have a coherent, connected and engaging customer journey and in-store experience will lead us to be less competitive and lose market share. <br> 1 2 3 4 6 | Ongoing fragmentation of our customer engagement channels exposes us to an increased risk of diluting our customer experience and ability to differentiate our brand. <br> Risk increasing | We now have a more consistent approach to building impactful customer propositions, offering high quality, competitive value, while improving the customer experience. Propositions are now developed across channels and geographies to ensure consistency in the engagement with customers. Group-wide customer insight management is undertaken to understand customer behaviour, expectations and experience, and leverage more consistently across the different parts of the business. <br> We monitor the effectiveness of our processes by regular tracking of our business, and those of our competitors, against measures that customers tell us are important to their shopping experience. We have well established product development and quality management processes, which keep the needs of our customers central to our decision making. |
| Transformation† <br> Failure to achieve our transformation objectives due to poor prioritisation, ineffective change management and a failure to understand and deliver the technology required, resulting in an inability to progress sufficiently quickly to maintain or increase operating margin and generate sufficient cash to meet business objectives. <br> 2 3 4 6 | Achieving our transformation goals continues to demand further effort and investment, especially with regard to technology changes, as both internal and external expectations have increased. <br> Risk increasing | We have multiple transformation programmes underway to simplify our business with clear market strategies and business plans in place. Our service model processes provide a framework for implementing change. We have appropriate executive level oversight for all the transformation activities. <br> Transformation programmes are supported by experienced resources from within the business and externally as required. |
| Liquidity† <br> Failure of our business performance to deliver cash as expected; access to funding markets or facilities is restricted; failures in operational liquidity and currency risk management; Tesco Bank cash call; or adverse changes to the pension deficit funding requirement, create calls on cash higher than anticipated, leading to impacts on financial performance, cash liquidity or the ability to continue to fund operations. <br> 2 3 4 5 | We have a disciplined and policy-based approach to treasury management. We have reduced our debt levels and have improving debt metrics. Liquidity levels and sources of cash are regularly reviewed and the Group maintains access to committed credit facilities. <br> Risk decreasing | We maintain an infrastructure of systems, policies and reports to ensure discipline and oversight on liquidity matters, including specific treasury and debt-related issues. Our treasury policies are communicated across the Group and are regularly reviewed by the Board, Executive Committee and management. <br> The Group's funding strategy is approved annually by the Board and includes maintaining appropriate levels of working capital, undrawn committed facilities and access to the capital markets. The Audit Committee reviews and approves annually the viability and going concern statements and reports into the Board. <br> There is a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees. <br> While recognising that Tesco Bank is financially separate from Tesco PLC, there is ongoing monitoring of the activities of Tesco Bank that could give rise to risks to Tesco PLC. |
| Competition and markets† <br> Failure to deliver an effective, coherent and consistent strategy to respond to our competitors and changes in macroeconomic conditions in the operating environment, resulting in a loss of market share and failure to improve profitability. <br> 1 2 6 | We continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets. <br> No risk movement | Our Board actively develops and regularly challenges the strategic direction of our business and we actively seek to be competitive on price, range and service, as well as developing our online and multiple formats to allow us to compete in different markets. <br> Our Executive Committee and operational management regularly review markets, trading opportunities, competitor strategy and activity and, additionally, we engage in market scanning and competitor analysis to refine our customer proposition. |
| Brand, reputation and trust† <br> Failure to create brand reappraisal opportunities to improve quality, value and service perceptions thus failing to rebuild trust in our brand. <br> 1 | A broad range of factors impact our brand, reputation and trust in the year and, on balance, the level of risk remains unchanged. <br> No risk movement | We continue to develop communication and engagement programmes to listen to our customers and stakeholders and reflect their needs in our plans. This includes the supplier viewpoint programme and the integration of local community and local marketing programmes. We continue to maximise the value and impact of our brand with the advice of specialist external agencies and in-house marketing expertise. Maintaining a differentiated brand is one of our strategic priorities and our Group processes, policies and our Code of Business Conduct sets out how we can make the right decisions for our customers, colleagues, suppliers, communities and investors. Our Corporate Responsibility Committee is in place to oversee all corporate responsibility activities and initiatives ensuring alignment with customer priorities and our brand. Further details can be found on page 39 of the Annual Report and Financial Statements 2018. |
| Technology <br> Failure of our IT infrastructure or key IT systems result in loss of information, inability to operate effectively, financial or regulatory penalties and negatively impacts our reputation. <br> Failure to build resilience capabilities at the time of investing in and implementing new technology. <br> 1 6 | Our technology landscape continues to require further investment as external threats increase and the challenges around securing the right capability to deliver change continues. <br> Risk increasing | We continue to assess our technology resilience capabilities and have identified opportunities to make significant enhancements. We are progressing greater adoption of cloud computing technologies to provide further resilience. <br> We have combined governance processes covering both technology disaster recovery and business continuity to ensure alignment. <br> Our technology security programme is designed to continuously strengthen our infrastructure and Information Technology General Controls. |

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

| Principal risk | Risk movement | Key controls and mitigating factors |
|---|---|---|
| Data security and data privacy† <br>Failure to comply with legal or regulatory requirements relating to data security or data privacy in the course of our business activities, results in reputational damage, fines or other adverse consequences, including criminal penalties and consequential litigation, adverse impact on our financial results or unfavourable effects on our ability to do business.<br>1 6 | We continue to enhance our data security to keep pace with increasing threats on a global scale. As a retail organisation we hold a large amount of data and are working to ensure we comply with the General Data Protection Regulations. | Our multi-year data security programme has been driving the enhancement of our security capabilities. We continue to work towards meeting regulatory requirements and regularly report the status of the security programme to governance and oversight committees.<br>We have established a team to detect, report and respond to security incidents in a timely fashion. We have a third-party supplier assurance programme focusing on data security and privacy risks.<br>We are making significant investment across the Group to ensure we comply with the requirements of the General Data Protection Regulation (GDPR) in Europe, and any other relevant legislation globally. We put our customers and our colleagues at the heart of all decisions we make in relation to the processing of personal data.<br>Our privacy compliance programme, driven by the Group Privacy Officer continues to drive compliance throughout our global business. |
| Political, regulatory and compliance†<br>Failure to comply with legal and other requirements as the regulatory environment becomes more restrictive, due to changes in the global political landscape, results in fines, criminal penalties for Tesco or colleagues, consequential litigation and an adverse impact on our reputation, financial results, and/or our ability to do business.<br>Long-term changes in the global political environment mean that in some markets there is a push towards greater regulation of foreign investors and a favouring of local companies.<br>1 | We continue to monitor and improve our controls to ensure we comply with legal and regulatory requirements across the Group. Given the ongoing uncertainty around Brexit, we have separated this out as an independent risk for the current year. | Wherever we operate, we aim to ensure that the impact of political and regulatory changes is incorporated in our strategic planning. We manage regulatory risks through the use of our risk management framework and we have implemented compliance programmes to manage our most important risks (e.g. bribery and competition law).<br>Our compliance programmes ensure that sustainable controls are implemented to mitigate the risk and we conduct assurance activities for each risk area.<br>Our Code of Business Conduct is supported by new starter and annual compliance training and other tools such as our whistleblowing hotline.<br>The engagement of leadership and senior management is critical in the successful management of this risk area and leaders provide clear tone from the top for colleagues. |
| Health and safety<br>Failure to meet safety standards in relation to workplace, resulting in death or injury to our colleagues or third parties.<br>1 | We continue to focus our efforts on controls which ensure colleague and customer safety. | We have a business-wide, risk-based safety framework which defines how we implement safety controls to ensure that colleagues, contractors and customers have a safe place to work and shop.<br>Each business is required to maintain a Safety Improvement Plan to document and track enhancements. Overall governance is provided by the Group Risk and Compliance Committee, with each business unit operating their own Health and Safety Committee.<br>Our annual colleague survey programme allows us to measure safety behaviour improvements Group-wide. The survey results alongside other inputs through the year, informs the delivery of safety initiatives and targeted communications. |
| People<br>Failure to attract and retain the required capability and continue to evolve our culture could impact delivery of our purpose and strategic drivers.<br>1 6 | We continue to operate in a fast changing and complex legislative environment. Market competitiveness and volatility affects our ability to attract and retain key specialist talent thereby increasing this risk. | We seek to understand and respond to colleagues' needs by listening to their feedback from open conversations, social media, colleague surveys and performance reviews.<br>Talent planning and people development processes are well established across the Group. Talent and succession planning is discussed annually by the Board and three times a year at the Executive Committee and Nominations and Governance Committee. The Remuneration Committee agrees objectives and remuneration arrangements for senior management, and the current remuneration policy is due for review at this year's Annual General Meeting.<br>There is a change programme in place, supported by Executive Committee and Audit Committee governance, to deliver technology and processes that are simple, helpful and trusted to all our markets. |
| Responsible sourcing and supply chain<br>Failure to meet product safety standards resulting in death, injury or illness to customers.<br>Failure to ensure that products are sourced responsibly and sustainably across the supply chain (including fair pay for workers, adhering to human rights, clean and safe working environments and that all social and environmental standards are met), leading to breaches of regulations, illness, injury or death to workers and communities.<br>1 6 | New principal risk. | We have product standards, policies and guidance covering both food and non-food, as well as goods and services not for resale, ensuring that products are safe, legal and of the required quality, and that the human rights of workers are respected and environmental impacts are managed responsibly. Refer to pages 16 to 21 for specific actions highlighted under our Little Helps Plan.<br>Supplier audit programmes are in place to monitor product safety, traceability and integrity, human rights and environmental standards, including unannounced specification inspections of suppliers and facilities.<br>We run colleague training programmes on food and product safety, responsible sourcing, hygiene controls and provide support for stores. We also provide targeted training for colleagues and suppliers dealing with specific challenges such as modern slavery. Our store audit programme seeks to ensure we comply with safety and legal requirements. |
| Booker synergy realisation and integration<br>Failure to successfully integrate Booker is dependent upon a number of factors, leading to a risk to our planned synergy commitments and value creation.<br>1 2 3 4 5 6 | New principal risk. | A detailed synergy realisation and integration plan is being implemented with period-end reporting and tracking of targeted benefits and key performance indicators.<br>For further information on the Tesco and Booker merger see page 7. |

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

| Principal risk | Risk movement | Key controls and mitigating factors |
|---|---|---|
| **Brexit**† Failure to prepare for the UK's departure from the EU causes disruption to and creates uncertainty around our business including: our ability to recruit; as well as impacting our relationships with existing and future customers, suppliers and colleagues. These disruptions and uncertainties could have an adverse effect on our business, financial results and operations. 1 | New principal risk. | The nature of the UK's future trading relationship with the EU is still to be determined. We continue to contribute to important public policy discussions and engage with government, regulatory bodies and industry. As further details of the terms of our departure from the EU emerge, we will continue to assess and monitor the potential risks and impacts of these on Tesco customers, colleagues and shareholders and take appropriate measures. |
| **Tesco Bank** Tesco Bank is exposed to a number of risks, the most significant of which are operational risk, regulatory risk, credit risk, capital risk, funding and liquidity risk, market risk and business risk. 1 | The Bank continues to actively manage the risks to which it is exposed. | The Bank has a defined risk appetite, which is approved and reviewed regularly by both the Bank's Board and the Tesco PLC Board. The risk appetite defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day-to-day risk management of the business and its strategic priorities, long-term plan, capital planning and liquidity management. Adherence to risk appetite is monitored through a series of ratios and limits. The Bank operates a risk management framework that is underpinned by governance, policies, processes and controls, reporting, assurance and stress testing. There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee by the Bank's Chief Financial Officer, Chief Risk Officer and Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank's Board. |

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

## Longer term viability statement

### 1. The context for assessment

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

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

### 2. The assessment period

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

### 3. Assessment of viability

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

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

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

| Scenario | Associated principal risks | Description |
|---|---|---|
| Competitive pressure | – Brand, reputation and trust<br>– Competition and markets<br>– Customer | Failure to respond to fierce competition and changes in the retail market drives sustained significant like-for-like volume decline in core food categories with no offsetting price inflation, putting pressure on margins. |
| Data security or regulatory breach | – Brand, reputation and trust<br>– Data security and data privacy<br>– Political, regulatory and compliance | A serious data security or regulatory breach results in a significant monetary penalty and a loss of reputation among customers. |
| Brexit impact | – Competition and markets<br>– Political, regulatory and compliance<br>– Brexit | Brexit continues to drive higher UK domestic inflation and increased import costs from a weaker Sterling, compounded by new import duties and tariffs, with a consequential economic impact. |
| Reduction in cost savings and cash generation | – Transformation<br>– Liquidity | Failure to achieve the Group's transformation objectives, resulting in an inability to progress sufficiently quickly to maintain or increase operating margin and generate sufficient cash to meet business objectives. |

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

### 4. Conclusion

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

This Strategic report, which has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

**Robert Welch**
Group Company Secretary
10 April 2018

# Board of Directors

**John Allan CBE**
Non-executive Chairman N R C
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 Worldpay 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.

**Mark Armour**
Independent Non-executive Director A ✓
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).

**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.

**Steve Golsby**
Independent Non-executive Director R C ✓
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 N A R ✓
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 R C ✓
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 Lindengruppen AB;
- Non-executive director of The Royal Schiphol Group; and
- Member of the Nominations Committee of Volvo Cars AB.

**Deanna Oppenheimer**
Senior Independent Director N R C ✓
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 Whitbread PLC;
- 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 A ✓
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 Dell 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 R ✓
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 C ✓
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 AWAS 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)**
- N Nominations and Governance Committee
- A Audit Committee
- R Remuneration Committee
- C Corporate Responsibility Committee
- ● Chair of Committee
- ✓ Independent Board member

# Executive Committee

**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.

**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.

**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**
Alison joined Tesco in 1999 as a Personnel Manager, and was promoted to Personnel Director for Tesco's UK stores in 2000. After that she worked running stores and leading change programmes before her promotion to Chief People Officer in 2011. Alison is a Tesco Pension Trustee and a member of the Manchester Business School Advisory Board.

**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.

**Dave Lewis**
Group Chief Executive
Dave joined the Board and the Executive Committee on 1 September 2014.
His full biography appears on page 26.

**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 27.

**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 27.

# Corporate governance summary

'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

### 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.

### 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 of the Annual Report and Financial Statements 2018, 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.

**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.tescoplc.com.

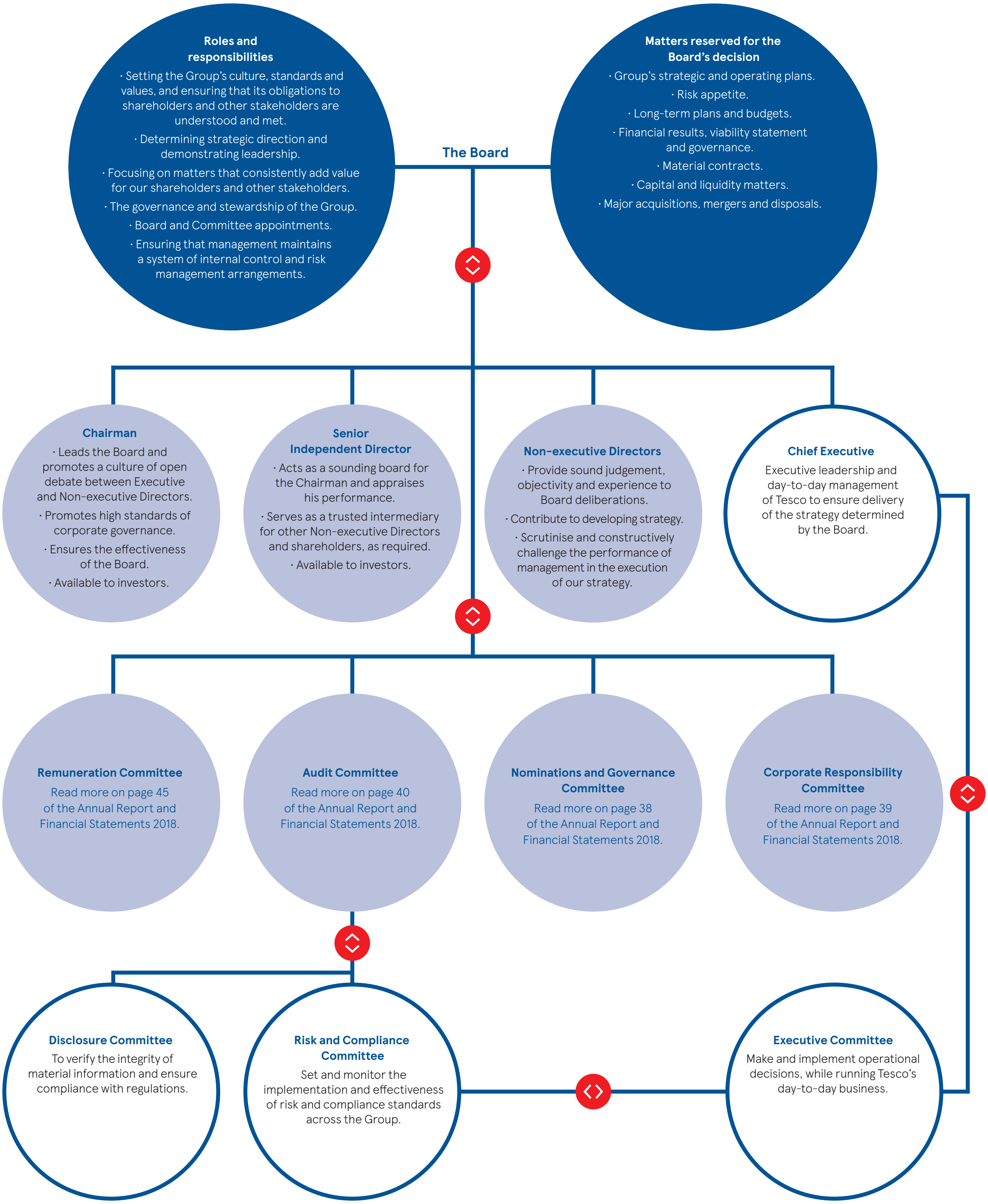
**Conclusion**

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

### 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.



# Remuneration summary

The full Directors' remuneration report can be found in the Annual Report and Financial Statements 2018.

### Strategic remuneration review

Three years after the current Remuneration Policy was approved by 96.5% of shareholders and following a thorough review, the Committee will be proposing a new Remuneration Policy for the next three years at the 2018 Annual General Meeting. The revised policy has been subject to consultation with major investors and proxy voting advisers.

The underlying principle applied to the review was that remuneration should align with, and incentivise delivery of, Tesco's strategic plan in a relevant and simple way. The Committee was satisfied that the current remuneration structure remained appropriate and the review focused on ensuring performance metrics were aligned with the next phase of the strategy. This includes a strengthened focus on profit and cash flow, while continuing to support Tesco's volume-led recovery and stakeholder focus.

The key features of the new policy are:

**Annual bonus** – While the combined weightings of the two financial metrics should remain at 80% of bonus maximum they should be split evenly, with each representing 40% of bonus maximum (previously sales growth 50% and Group operating profit before exceptional items 30%). The final 20% will be driven by outcomes against strategic objectives, including key stakeholder measures.

**Performance Share Plan** – Performance metrics should be simplified from three to two. The proposed performance metrics are: earnings per share, representing 50% of an award, which replaces the current total shareholder return metric, and a free cash flow metric, representing the remaining 50% of an award.

**Holding period** – From the 2018 grant onwards, PSP awards will be subject to a two-year holding period post vesting.

**Pension** – Pension provision will reduce to 15% of base salary (from 25%) for new Executive Directors and Executive Committee members.

**Shareholding requirement** – Current levels of shareholding requirement will remain in place. However, the way of meeting this requirement will change, so that senior management will need to retain all shares that vest to them, net of any tax liabilities, until the requirement is satisfied.

**'Good leaver' treatment under the PSP** – From the 2018 grant onwards, any subsisting PSPs will vest based on performance over the relevant performance period and will then be pro-rated for the portion of the performance period worked.

**Phasing and mitigation** – Explicit requirements on phasing and mitigation of notice periods and any non-statutory payments on departure will be introduced for new joiners at the most senior grades.

### 2017/18 incentive outcomes

The table below sets out performance against the financial measures applicable for the 2017/18 annual bonus outcomes.

| | | Performance targets | | | Vesting level | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Measures (% maximum) | Underpin | Threshold | Target | Stretch | Threshold | Target | Stretch | Actual performance | Payout (% maximum) |
| Sales growth[a] (50%) | n/a | £49,556m | £50,057m | £50,559m | 30% | 50% | 100% | £50,149m | 29.6 |
| Group operating profit before exceptional items[a] (30%) | £1,280m | £1,280m | £1,472m | £1,663m | 0% | 50% | 100% | £1,611m | 26.0 |

[a] Reported on a continuing operations basis, at constant exchange rates.

The Committee also reviewed the performance of the Executive Directors against their Individual Objectives. As a result, the Committee determined that 72.8% and 73.9% of the maximum bonus opportunity should be awarded for Dave Lewis and Alan Stewart, respectively.

The 2015 PSP was the first award in which Dave Lewis and Alan Stewart participated. The performance period ran to the end of the 2017/18 financial year. The approved vesting level was 30% of the maximum potential for Executive Directors and senior managers.

### 2017/18 Pay

The tables below set out a 'single figure' of remuneration for Executive and Non-executive Directors.

### Single total figure of remuneration – Executive Directors (audited)

The following table provides a summary single total figure of remuneration for 2017/18 and 2016/17 for the Executive Directors. Further details are set out in the Annual report on remuneration on pages 56 and 57 of the Annual Report and Financial Statements 2018.

| | Year | Base salary (£'000) | Benefits (£'000) | Pension (£'000) | Short-term annual bonus (£'000) | Long-term Performance Share Plan (£'000) | Total (£'000) |
|---|---|---|---|---|---|---|---|
| Dave Lewis | 2017/18 | 1,250 | 65 | 313 | 2,275 | 971 | 4,874 |
| | 2016/17 | 1,250 | 223 | 313 | 2,361 | – | 4,147 |
| Alan Stewart | 2017/18 | 750 | 53 | 188 | 1,248 | 530 | 2,769 |
| | 2016/17 | 750 | 46 | 188 | 1,252 | – | 2,236 |

| Director | Date | Fees (£'000) | Taxable expenses (£'000) | Total (£'000) |
|---|---|---|---|---|
| John Allan | 2017/18 | 650 | 10 | 660 |
| | 2016/17 | 650 | 13 | 663 |
| Mark Armour | 2017/18 | 84 | – | 84 |
| | 2016/17 | 82 | – | 82 |
| Steve Golsby | 2017/18 | 89 | 9 | 98 |
| | 2016/17 | 28 | 6 | 34 |
| Byron Grote | 2017/18 | 128 | – | 128 |
| | 2016/17 | 124 | – | 124 |
| Mikael Olsson | 2017/18 | 97 | 4 | 101 |
| | 2016/17 | 94 | 5 | 99 |
| Deanna Oppenheimer | 2017/18 | 155 | 14 | 169 |
| | 2016/17 | 127 | 13 | 140 |
| Simon Patterson | 2017/18 | 84 | – | 84 |
| | 2016/17 | 71 | – | 71 |
| Alison Platt | 2017/18 | 84 | 2 | 86 |
| | 2016/17 | 71 | 3 | 74 |
| Lindsey Pownall | 2017/18 | 95 | 6 | 101 |
| | 2016/17 | 71 | 15 | 86 |

[a] John Allan also received benefits of £3,000 (2016/17: £3,000) made up of security costs and healthcare insurance. The Non-executive Directors' taxable expenses comprised travel, hotel and subsistence expenses related to their role and have been grossed up for tax, where applicable.
[b] Steve Golsby joined the Board on 1 October 2016.

### Implementation of remuneration in 2018/19

For 2018/19, other than the changes to policy described overleaf, the Committee intends to implement remuneration arrangements for the Executive Directors, in line with previous years. In particular:

- no salary increases will be made to Executive Directors in 2018/19;
- the maximum annual bonus opportunity will continue to be 250% of base salary for the Group Chief Executive, 225% of base salary for the Chief Financial Officer and 200% of base salary for the CEO, UK & ROI, with 50% of any bonus awarded deferred into shares for three years. From 2018, the sales growth and Group operating profit metrics will each be weighted 40% of bonus maximum. Full details of the targets set by the Committee, and performance against these will be disclosed in next year's Directors' remuneration report;
- the maximum annual PSP opportunity will continue to be 275% of base salary for the Group Chief Executive, 250% of base salary for the Chief Financial Officer and 225% of base salary for the CEO, UK & ROI. From 2018, subject to shareholder approval, the new PSP performance measures, EPS (50%) and free cash flow (50%), will apply; and
- malus and clawback will continue to apply to both the annual bonus and PSP awards.

### Gender diversity

Throughout the year, the Committee considered the Group's approach to gender pay and the reporting of such information. Details of Tesco's gender pay report for the year to April 2017 and actions to reduce the gender pay gap are set out on page 47 of the Annual Report and Financial Statements 2018.

### Shareholder engagement

The Committee is committed to an open and transparent dialogue with shareholders on executive remuneration and considers these engagements vital to ensuring its remuneration strategy remains aligned with the long-term interests of Tesco's shareholders.

I have appreciated the time major shareholders and proxy voting advisers have given to help the Committee develop the proposed Remuneration Policy. Together with the rest of the Board, I look forward to hearing your views on the proposed policy and would ask for your support at the forthcoming Annual General Meeting.

**Deanna Oppenheimer**
Remuneration Committee Chair

# Independent auditor's statement to the members of Tesco PLC

We have examined:

- the summary financial statements contained within the Strategic report for the 52 weeks ended 24 February 2018 which comprise the Summary Group income statement, Summary Group balance sheet, Summary Group cash flow statement, Reconciliation of net cash flow to movement in Net debt and Dividends note; and
- the table of the single total figure for Directors' remuneration contained within the Remuneration summary.

This report is made solely to the Company's members, as a body, in accordance with the terms of our letter of engagement with the Company dated 19 September 2017. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

## Respective responsibilities of directors and auditor

The Directors are responsible for preparing the Strategic report (which includes the summary financial statements) and the supplementary material which includes the table of the single total figure for Directors' remuneration in accordance with applicable United Kingdom law.

Our responsibility is to report to you our opinion on the consistency of the summary financial statements contained within the Strategic report with the full annual financial statements and our opinion on the consistency of the table of the single total figure for Directors' remuneration contained within the supplementary material accompanying the Strategic report with that table in the Directors' Remuneration report.

We also read the other information contained in the Strategic report and the supplementary material as described in the contents section, and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the summary financial statements.

We conducted our work in accordance with Bulletin 2008/3 issued by the Auditing Practices Board. Our report on the Company's full annual financial statements describes the basis of our audit opinion on those financial statements, the Directors' Remuneration report, the Strategic report and the Directors' report.

## Opinion

In our opinion, the summary financial statements contained within the Strategic report are consistent with the full annual financial statements for the 52 weeks ended 24 February 2018 and the table of the single total figure for Directors' remuneration contained within the supplementary material accompanying the Strategic report is consistent with that table in the full Directors' Remuneration report.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (10 April 2018) and the date of this statement.

**Deloitte LLP**
Statutory Auditor
London
20 April 2018

# Summary financial statements

## Summary Group income statement

| | 52 weeks ended 24 February 2018 Before exceptional items £m | Exceptional items* £m | Total £m | 52 weeks ended 25 February 2017 Before exceptional items £m | Exceptional items* £m | Total £m |
|---|---|---|---|---|---|---|
| **Continuing operations** | | | | | | |
| **Revenue** | **57,491** | **–** | **57,491** | **55,917** | **–** | **55,917** |
| Cost of sales | (54,092) | (49) | (54,141) | (52,899) | (116) | (53,015) |
| **Gross profit/(loss)** | **3,399** | **(49)** | **3,350** | **3,018** | **(116)** | **2,902** |
| Administrative expenses | (1,786) | 153 | (1,633) | (1,734) | (261) | (1,995) |
| Profits/(losses) arising on property-related items | 31 | 89 | 120 | (4) | 114 | 110 |
| **Operating profit/(loss)** | **1,644** | **193** | **1,837** | **1,280** | **(263)** | **1,017** |
| Share of post-tax profits/(losses) of joint ventures and associates | (6) | – | (6) | (30) | (77) | (107) |
| Finance income | 98 | – | 98 | 109 | – | 109 |
| Finance costs | (593) | (38) | (631) | (630) | (244) | (874) |
| **Profit/(loss) before tax** | **1,143** | **155** | **1,298** | **729** | **(584)** | **145** |
| Taxation | (286) | (20) | (306) | (185) | 98 | (87) |
| **Profit/(loss) for the year from continuing operations** | **857** | **135** | **992** | **544** | **(486)** | **58** |
| **Discontinued operations** | | | | | | |
| Profit/(loss) for the year from discontinued operations | – | 216 | 216 | (37) | (75) | (112) |
| **Profit/(loss) for the year** | **857** | **351** | **1,208** | **507** | **(561)** | **(54)** |
| **Attributable to:** | | | | | | |
| Owners of the parent | 857 | 349 | 1,206 | 515 | (555) | (40) |
| Non-controlling interests | – | 2 | 2 | (8) | (6) | (14) |
| | **857** | **351** | **1,208** | **507** | **(561)** | **(54)** |
| **Earnings/(losses) per share from continuing and discontinued operations** | | | | | | |
| Basic | | | 14.77p | | | (0.49)p |
| Diluted | | | 14.72p | | | (0.49)p |
| **Earnings/(losses) per share from continuing operations** | | | | | | |
| Basic | | | 12.12p | | | 0.81p |
| Diluted | | | 12.08p | | | 0.81p |

* For further information refer to Note 4 on page 93 of the Annual Report and Financial Statements 2018.

### Summary Group balance sheet

| | 24 February 2018 £m | 25 February 2017 £m |
|---|---|---|
| Current assets (including assets of the disposal group and non-current assets classified as held for sale) | 13,726 | 15,417 |
| Current liabilities (including liabilities of the disposal group classified as held for sale) | (19,238) | (19,405) |
| **Net current liabilities** | **(5,512)** | **(3,988)** |
| Non-current assets | 31,136 | 30,436 |
| Non-current liabilities | (15,166) | (20,034) |
| **Net assets** | **10,458** | **6,414** |
| | | |
| Equity attributable to owners of the parent | 10,480 | 6,438 |
| Non-controlling interests | (22) | (24) |
| **Total equity** | **10,458** | **6,414** |

### Summary Group cash flow statement

| | 52 weeks 2018 £m | 52 weeks 2017 £m |
|---|---|---|
| **Cash flows generated from/(used in) operating activities** | | |
| Cash generated from/(used in) operations | 3,309 | 2,558 |
| Interest paid | (351) | (522) |
| Corporation tax (paid)/received | (176) | (47) |
| **Net cash generated from/(used in) operating activities** | **2,782** | **1,989** |
| | | |
| **Cash flows generated from/(used in) investing activities** | | |
| Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale | (1,440) | (1,205) |
| Purchase of intangible assets | (197) | (169) |
| Net (investments in)/proceeds from sale of short-term investments | 1,697 | 736 |
| Other investing activities | 606 | 917 |
| **Net cash generated from/(used in) investing activities** | **666** | **279** |
| | | |
| **Cash flows generated from/(used in) financing activities** | | |
| Repayment of borrowings | (3,721) | (2,036) |
| Other financing activities | 485 | 649 |
| **Net cash generated from/(used in) financing activities** | **(3,236)** | **(1,387)** |
| | | |
| **Net increase/(decrease) in cash and cash equivalents** | **212** | **881** |
| Cash and cash equivalents at the beginning of the year | 3,832 | 3,082 |
| Effect of foreign exchange rate changes | 15 | (131) |
| **Cash and cash equivalents including cash held in disposal group at the end of the year** | **4,059** | **3,832** |
| Cash held in disposal group | – | (11) |
| **Cash and cash equivalents at the end of the year** | **4,059** | **3,821** |

### Reconciliation of net cash flow to movement in Net debt

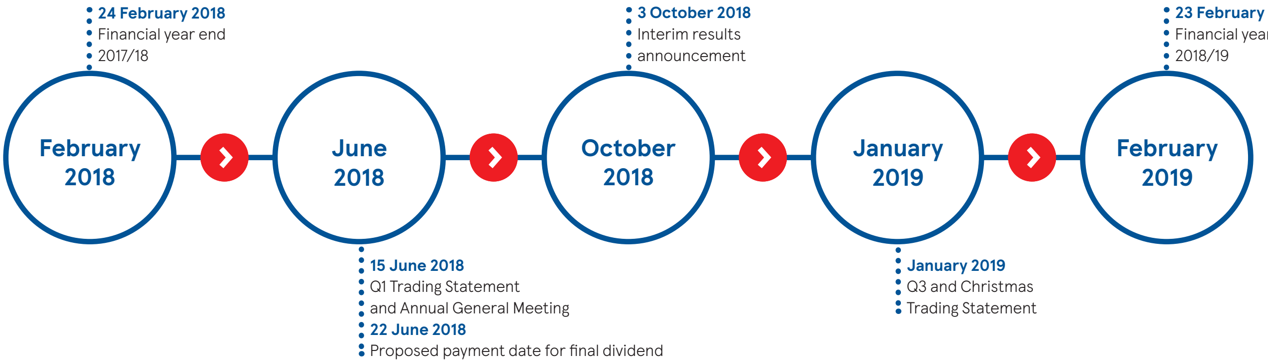
| | 2018 £m | 2017 £m |
|---|---|---|
| Net increase/(decrease) in cash and cash equivalents | 212 | 881 |
| Elimination of Tesco Bank movement in cash and cash equivalents | (515) | (235) |
| Retail cash movement in other Net debt items | 1,915 | 1,114 |
| **Change in Net debt resulting from cash flow** | **1,612** | **1,760** |
| | | |
| Retail net interest charge on components of Net debt | (356) | (472) |
| Retail fair value and foreign exchange movements | (213) | 111 |
| Debt disposed on disposal of Turkish operations | 76 | – |
| Retail other non-cash movements | (15) | (18) |
| **(Increase)/decrease in Net debt** | **1,104** | **1,381** |
| Opening Net debt | (3,729) | (5,110) |
| **Closing Net debt** | **(2,625)** | **(3,729)** |

### Dividends

| | 2018 | | 2017 | |
|---|---|---|---|---|
| | Pence/share | £m | Pence/share | £m |
| **Amounts recognised as distributions to owners in the financial year:** | | | | |
| Current financial year interim dividend | 1.00 | 82 | – | – |
| **Dividends paid to equity owners in the financial year** | **1.00** | **82** | **–** | **–** |
| | | | | |
| **Current financial year proposed final dividend** | **2.00** | **195** | **–** | **–** |

The proposed final dividend was approved by the Board of Directors on 10 April 2018 and is subject to the approval of shareholders at the Annual General Meeting. The proposed dividend has not been included as a liability as at 24 February 2018, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 22 June 2018 to shareholders who are on the Register of members at close of business on 18 May 2018.

# Financial calendar and summary glossary




Please note that these dates are provisional and subject to change.

Our full glossary, which contains a full list and comprehensive descriptions and purpose of the Group's APMs, can be found on pages 150 to 153 of the Annual Report and Financial Statements 2018.

## Alternative performance measures (APMs)

### Group sales
Group sales excludes the impact of sales made at petrol filling stations.

### Growth in sales
Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks.

### Like-for-like
Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates.

### Operating profit before exceptional items
Operating profit before exceptional items is the headline measure of the Group's performance. It is based on operating profit before the impact of certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded by virtue of their size and nature.

### Operating margin
Operating margin is calculated as operating profit before exceptional items divided by revenue.

### Earnings before interest, tax, depreciation, amortisation and rent expense (EBITDAR)
This measure is based on Retail operating profit from continuing operations before exceptional items. It excludes Retail depreciation, amortisation and rent expense and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.

### Profit before tax before exceptional items, net pension finance costs and fair value remeasurements on financial instruments
This measure excludes exceptional items, the net finance costs of the defined benefit pension deficit and fair value remeasurements on financial instruments.

### Profits/(losses) arising on property-related items
Profits/(losses) arising on property-related items relates to the Group's property activities including: gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts.

### Total finance costs before exceptional items, net pension finance costs and fair value remeasurements on financial instruments
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements is the net finance costs adjusted for non-recurring one-off items, net pension finance costs and fair value remeasurements on financial instruments.

### Earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements on financial instruments
This relates to profit after tax before exceptional items from continuing operations, net pension finance costs and fair value remeasurements attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period. It excludes net pension finance costs and fair value remeasurements on financial instruments.

### Effective tax rate before exceptional items
Effective tax rate before exceptional items is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items divided by profit before tax before exceptional items.

### Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements on financial instruments
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements on financial instruments is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items, net pension finance costs and fair value remeasurements divided by the profit before tax before exceptional items, net pension finance costs and fair value remeasurements.

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

### Total indebtedness
Total indebtedness is Net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum lease payments under non-cancellable operating leases.

### Total indebtedness ratio
Total indebtedness ratio is calculated as Total indebtedness divided by EBITDAR.

### Fixed charge cover
Fixed charge cover is calculated as EBITDAR divided by the sum of rent expense and net finance cost, excluding net pension finance costs, exceptional items, capitalised interest and fair value remeasurements on financial instruments.

### Retail operating cash flow
Retail operating cash flow is the cash generated from operations of continuing operations, excluding the effects of Tesco Bank cash flows.

### Free cash flow
Free cash flow includes all cash flows from operating and investing activities, and the purchase of shares in relation to share schemes. The following items are excluded: investing cash flows that increase/decrease items within Group net debt, and cash flows from major corporate acquisitions and disposals.

### Retail free cash flow
Retail free cash flow includes all cash flows from operating and investing activities for the Retail business, and the purchase of shares in relation to share schemes. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals.

## Other

**Capital expenditure (Capex)**
The additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

**Capital employed**
Net assets plus net debt plus dividend creditor less net assets of the disposal group and non-current assets classified as held for sale.

**Enterprise Value**
This is calculated as market capitalisation plus net debt.

**FTE**
FTE refers to full-time equivalents.

**LPI**
LPI refers to Limited Price Inflation.

**Market capitalisation**
The total value of all Tesco shares calculated as total number of shares multiplied by the closing share price at year-end.

**MTN**
MTN refers to Medium Term Note.

**Net Promoter Score (NPS)**
This is a loyalty measure based on a single question requiring a score between 0-10. The NPS is calculated by subtracting the percentage of detractors (scoring 0-6) from the percentage of promoters (scoring 9-10). This generates a figure between -100 and 100 which is the NPS.

**Return on capital employed (ROCE)**
Return divided by the average of opening and closing capital employed.

**Return**
Profit before exceptional items and interest, after tax (applied at effective rate of tax).

**RPI**
RPI refers to Retail Price Index.

**Total shareholder return**
The notional annualised return from a share, measured as the percentage change in the share price, plus the dividends paid with the gross dividends, reinvested in Tesco shares. This is measured over both a one and five year period.

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