

TESCO

A close-up photograph of a man with dark skin and long dreadlocks, smiling broadly with his eyes closed. He is wearing a dark blue patterned button-down shirt and has two black and yellow circular earrings. He is holding a white bowl filled with a colorful salad, including fried falafel balls, sliced avocado, arugula, corn, and purple cabbage. The background is a solid purple color.

**Serving shoppers
a little better every day.**

Annual Report and Financial Statements 2017

Welcome to our annual report

Strategic report:

Tesco at a glance	1
Introduction	2
Chairman's statement	3
Group Chief Executive's statement	4
The six strategic drivers	6
Our business model	11
Key performance indicators	12
Financial review	14
Environmental and social review	20
Principal risks and uncertainties	26
Corporate governance	32
Financial statements	79
Other information	166



Find out more online

We have produced a number of short videos that are available at www.tescopl.com/ar2017 and are featured within our report this year, as indicated by the video screen icon.



Tesco at a glance

As a leading retailer, with 460,000 colleagues, we serve millions of customers every week, in our stores and online.

£49.9bn^{Δ(a)}

Group sales
(exc. VAT, exc. fuel)
(2015/16: £47.9bn)

£55.9bn^(a)

Statutory revenue
(exc. VAT, inc. fuel)
(2015/16: £53.9bn)

£1,280m^{Δ(a)}

Group operating profit
before exceptional items
(2015/16: £985m)

£1,017m^(a)

Operating profit
(2015/16: £1,072m)

£145m^(a)

Statutory profit before tax
(2015/16: £202m)

7.90p^{Δ(a)}

Diluted earnings per share
before exceptional items
and net pension finance costs
(2015/16: 5.61p)

0.81p^(a)

Statutory diluted EPS
(2015/16: 3.22p)

£(3.7)bn^{Δ(b)}

Net debt
(2015/16: £(5.1)bn)

6,809^{(a),(c)}

Shops around the world
(2015/16: 6,733)

79m^(a)

Shopping trips per week
(2015/16: 78m)

23m

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

460,000^(a)

Colleagues at year end
(2015/16: 471,000)

^(a) Reported on a continuing operations basis.
^(b) Excludes the net debt of Tesco Bank.
^(c) Includes franchise stores.

Δ Alternative Performance Measures

Measures with this symbol Δ are defined in the Alternative Performance Measures section of the Annual Report on pages 170 to 172.

Serving shoppers a little better every day.

We believe we have made another year of strong progress at Tesco.

Having focused on our three turnaround priorities, we are competitive in the UK again, our balance sheet is more secure, and we continue to rebuild trust by operating with transparency. At the same time, feedback from our customers, colleagues, supplier partners and shareholders continues to improve.

We have stabilised our business, and now we are rebuilding profitability.

But there is much more we want to do. We must keep listening and innovating; we want to offer truly helpful service; and we need to keep unlocking the power and potential of our colleagues.

So we have shared our plans to do that. Our six strategic drivers are not new; they have been guiding our efforts throughout much of the last three years. But taken together, they set a clear direction. Our intention is to become even more competitive for customers, simpler for colleagues, and an even better partner for suppliers, while creating long-term value for our shareholders.

At the centre of everything is our purpose: to serve shoppers a little better every day. If we keep putting the customer at the heart of our business, and ask ourselves how we can help serve them a little better every day, we can build on the momentum we are showing.

There is still work to do, but this year's performance has demonstrated that every little help really can make a big difference at Tesco.

Chairman's statement

Building on strong foundations.



John Allan Non-executive Chairman

“I am very pleased to report another strong year of improvement at Tesco.”

This year has been a significant one for Tesco, where, against a challenging external environment, we have continued to make progress against our purpose: to serve shoppers a little better every day. I am grateful to the management team and Tesco colleagues for all that they have done to deliver this.

In October, we shared our plans to create long-term value for stakeholders, and in November, Dave Lewis and the management team invited investors, supplier partners and analysts to Tesco's offices in Welwyn Garden City to hear more about the six strategic drivers at the heart of those plans.

This report sets out the progress we are making against each of those drivers and tells the story of how we are building on the strong foundations we laid down in the last few years.

Although the business has continued to make significant progress this year, across many of our markets we continue to face a challenging operating environment. In the UK, business rates in particular continue to be a considerable burden, and are the biggest tax we have paid this year.



Watch our videos
Visit www.tescopl.com/ar2017
to hear more from John Allan.

We welcome the fact that the UK Government has committed to reviewing the tax framework and look forward to working with them on this.

In terms of the Board's support for Tesco's agenda, we have focused on three areas:

1. corporate governance;
2. helping the business to benefit from the expertise of our Board; and
3. exploring opportunities for future growth.

Throughout the year, we have continued to focus on strengthened corporate governance. In July, we appointed a new Non-executive Director, Steve Golsby, who brings a deep knowledge of Asia – in particular Thailand, our largest international market.

In January, we were pleased that Deanna Oppenheimer accepted the Board's invitation to become Senior Independent Director. Deanna has a wealth of experience, and succeeds Richard Cousins, who decided to step down from the Board. I would like to thank Richard for his strong contributions to Board deliberations and wish him well for the future.

Our emphasis on strong governance also extends to issues we have faced within our business.

Last November, our Tesco Bank debit cards were the subject of an online fraudulent attack. We acted quickly to ensure customers' accounts were protected and there was no data loss or breach of systems.

Shortly after the end of our 2016/17 financial year, we announced that our subsidiary business, Tesco Stores Limited, had reached an agreement on a Deferred Prosecution Agreement in relation to historic accounting practices, and that we had agreed with the UK Financial Conduct Authority to a finding of market abuse. This brings towards a close a challenging time in Tesco's history. The Board will continue to support Dave and the management team in their efforts to restore trust in the Tesco business and brand.

Our second focus has been helping the business to benefit from the expertise of our Board. We have had in-depth reviews of our six strategic drivers and risk management, and we have supported the leadership team on talent development and corporate responsibility.

Throughout the year, the Board has considered how Tesco can continue to create long-term value for our stakeholders. That included completing a portfolio review. As a result, we have sold Kipa, our retail business in Turkey; garden centre chain Dobbies; Euphorium bakery; Giraffe restaurants; and Harris + Hoole coffee shops.

All of these businesses have different strengths and potential, but the sales have allowed Tesco's management team to focus on the areas where Tesco can build on its core competencies and unique strengths to create future growth.

This focus has allowed us to announce, in January, a proposed merger with Booker Group. This merger builds on Tesco's core strength as a food business and allows both Tesco and Booker to unlock growth in the UK food market in a way that neither would be able to do alone – in particular by focusing on the fast-growing 'out of home' and 'on the go' food markets, to create the UK's leading food business.

Reflecting our improved performance and the Board's confidence in Tesco's future prospects, I am pleased to confirm that we intend to recommence paying dividends in respect of the 2017/18 financial year. We expect dividends to grow progressively from that financial year.

We are conscious that the Tesco turnaround is a significant project, but I am confident that with the clear plans and superb talent we have in Dave and the whole Tesco team, there is a huge amount of potential to create sustainable, long-term value for all our stakeholders.

John Allan
Non-executive Chairman

A strong performance.



Dave Lewis Group Chief Executive

“In every decision, we ask ourselves: how will this help serve shoppers a little better?”

Whilst our business continues to face significant external challenges, such as the increasing burden of business rates, National Living Wage and the Apprenticeship Levy in the UK, and greater competitive intensity in Poland, we are making good progress.

The energy and commitment of our 460,000 colleagues has enabled us to make further significant improvements to the way we serve our customers, and we have done this at the same time as increasing operating profit before exceptional items by 30% for the Group.

In October 2014, we set out our three turnaround priorities and, in 2016, we shared the detail of the six strategic drivers which are driving our medium- and long-term decisions. This Annual Report gives a high-level overview of those six drivers.

The strategic drivers are designed to create sustainable value for our four stakeholders in our business: customers, colleagues, supplier partners, and our shareholders.

Customers

At the heart of everything we do are our customers. In every decision we take, and every plan we develop, we ask ourselves one simple question: will

it help serve shoppers a little better every day? In the year, we've done a lot to strengthen our customer offer. We're continuing to see a sustained improvement in the feedback we're getting from customers on price, service, quality and availability.

We continuously innovate to serve our customers better, and this year we have developed 2,422 new products with our supplier partners, as well as reformulating hundreds more products to make them healthier. We've also made shopping easier for parents by offering free fruit for children in our large stores.

Our prices are lower, with a typical basket of products in the UK costing 6% less than in September 2014. We've also made our offer simpler, for example by cutting multi-buy promotions by a further 24%. At the same time, we have worked hard to remove reasons for customers to shop elsewhere by introducing seven exclusive fresh food brands, alongside our existing Brand Guarantee.

Colleagues

Every day, our colleagues go the extra mile to help our customers and it is really encouraging to see this coming through in customer feedback, with a continued increase in ratings of colleague helpfulness through the year.



This has been achieved while at the same time changing the way we serve our customers across our channels, as shopping habits change.

Many colleagues have been impacted by the changes we have made to management structures and shift routines, including the move from night-time to day-time replenishment. This makes the feedback from customers even more humbling, and a credit to the unwavering commitment of our colleagues in serving shoppers a little better every day.

Creating opportunities for colleagues to get on has been a big focus and will continue to be as our business evolves. This year 4,000 colleagues have been promoted or moved to broader roles across the business. We have welcomed over 100 graduates and supported 1,200 apprenticeships and work placements.

Supplier partners

Strong partnerships with our suppliers mean we can serve our customers better, invest in innovation and grow our businesses together for the long term.

This year we have relaunched our online Supplier Network, which now has over 5,000 members. Reflecting the strength of our partnerships, for the first time we topped the independent supplier survey run by Advantage in October, and our own internal Supplier Viewpoint survey shows that 77% of suppliers are positive about their relationship with us. We were also pleased to be recognised by supply chain body GS1 UK, for leading the industry in supporting small British suppliers.



Shareholders

In order to share more fully our investment case, we have set out more detail on our medium-term ambitions. In particular, we shared our ambition to deliver a Group operating margin of between 3.5% – 4.0% by our 2019/20 financial year, and we have made good progress towards that ambition this year, with a step up from 1.8% to 2.3% in Group operating margin before exceptionals.

We have also announced our intention to recommence paying dividends in respect of the 2017/18 financial year, to return value to shareholders in a way which is sustainable for our business.

Governance

Following the year-end, we announced a Deferred Prosecution Agreement with the UK Serious Fraud Office in relation to historic accounting practices, and an agreement with the UK Financial Conduct Authority to a finding of market abuse. Over the last two and a half years, we have fully cooperated with this investigation, while at the same time taking steps to transform our business. What happened in 2014 is a huge source of regret for all of us, and we are determined to maintain and strengthen the changes we have been making to rebuild trust in our business and brand.

As well as bringing this matter towards a conclusion, we have made good progress on wider issues of corporate responsibility. We have made a commitment that by the end of 2017, no

food that is safe for human consumption will go to waste from our UK retail operations – and this year we have seen a 148% increase in the amount of surplus food donated to people in need.

Future growth

In January, we announced a proposed merger with Booker Group, to create the UK's leading food business. Bringing together the complementary skills of retail and wholesale businesses will allow us to unlock new opportunities and to better serve customers with a wide range of high-quality affordable food where they want it, when they want it.

I'd like to thank all of my colleagues for everything they have done for our customers and our business this year. We have been through some tough years in rebuilding our business, and I'm continually grateful for everything they do. Our goal now is to go even further together. Over the last year we have turned a corner but, as always, we have more to do. We will keep putting the customer at the heart of the business, and we will continue to work openly and transparently with our supplier partners, our colleagues and every shareholder in our business.

We will continue to strive to serve our shoppers a little better every day.

Dave Lewis
Group Chief Executive



The six strategic drivers.

Our six strategic drivers set out the plans and aspirations which will create long-term value for all of our stakeholders.

1.

A differentiated brand

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

2.

Reduce operating costs by £1.5bn

We have undertaken a thorough review of our entire cost base, to identify further opportunities for meaningful savings.

3.

Generate £9bn cash from operations

Cash is the lifeblood of our business, and we have set a three-year target to generate £9bn of cumulative retail cash from operations.

4.

Maximise the mix to achieve a 3.5% – 4.0% Group margin

Building sustainable profitability across our businesses, channels and product ranges.

5.

Maximise value from property

Our property strategy is about releasing value from our estate, and repurposing space to enhance our customer offer.

6.

Innovation

Our innovation strategy is driven by expertise and insight in our three differentiating capabilities: Product, Channel and Customer.

1

A differentiated brand

We are on a journey to rebuild trust in our brand, and we have made significant progress. As the brand strengthens, we invest more in those things that make the Tesco brand and experience unique.

Our opportunity is to differentiate through our products and services – with great quality at affordable prices, and a unique Tesco offer – and through customer experience, for example by simplifying our systems for ordering online, and delivering consistently great service in store.

With our Brand Guarantee, customers don't have to worry about the price of branded products – which they could get from other retailers – and our own-label products become the point of differentiation, with a unique and helpful offer which gives customers a reason to choose Tesco.

We take pride in the quality of our food, and that's reflected in our 'Food Love Stories brought to you by Tesco' campaign, which aims to set out our food quality credentials and celebrate the passion and care that goes into the meals we all love.



2

Reduce operating costs by £1.5bn

We've identified £1.5bn of potential savings for the years to 2019/20, with particular opportunities to simplify the way we run our stores, modernise our distribution and fulfilment networks, and more efficiently procure goods and services not for resale. This year we have generated £455m of cost savings, of which £226m contributes to our £1.5bn target.



Store operating model – c.£550m

Continuing to improve service in store is our absolute priority, and by recalibrating the way we serve customers we have identified opportunities to increase customer satisfaction while also reducing costs. In our UK stores, we have worked with colleagues to ensure that we schedule hours for when our customers need them most, reducing our night operations and moving replenishment to the daytime.



Logistics and distribution – c.£450m

Improving stock flow and increasing the efficiency of our supply chains reduces our costs, and also helps us get products to customers faster – so they benefit from fresher food too. As part of this work, we're changing our distribution network – announcing the closure of our distribution centres in Welham Green and Chesterfield – to ensure that the way we distribute food and goods within our business is as simple and cost-effective as possible.



Goods not for resale – c.£500m

In our day-to-day operations we purchase a wide range of goods and services not for resale, covering everything from marketing to haulage and consumables. Consolidating our spend with our most important supplier partners has allowed us to make substantial savings – for example by reducing our number of haulage partners in Central Europe from 10 down to three, working across the region.

3

Generate £9bn cash from operations

By improving profitability and optimising working capital, we will generate positive cash from our retail operations.

Cash from operations is the biggest contributor to free cash flow, but working capital is a significant opportunity – with better forecasting, and a tighter assortment of products in our distribution centres, we can reduce stock holding and drive working capital benefits.

We are also focused on capital discipline to improve free cash flow and have set rigorous hurdle rates for capital allocation, with a focus on payback periods and maximising returns, in order to balance longer-term investments with projects that will more quickly deliver cash.



Our world-class store ordering systems have allowed us to simplify back-room procedures in stores – increasing the amount of stock that goes straight from a delivery onto shelves. This ensures great availability for customers, while also reducing the residual stockholding in store and allowing our colleagues to more efficiently manage stock by only handling a product once.

4

Maximise the mix to achieve a 3.5% – 4.0% Group margin



Our 88,000 square feet store in Surat Thani was too large, with an overly-broad range that made the shopping trip harder for customers. We took out around 20% of the retail space, creating room for tenants such as Boots and KFC. These bring new income and attract more customers, with a halo effect on our core retail offer and a resulting increase in retail sales density.

Maximising the mix means looking at the full picture of everything we do to ensure we are delivering great service for our customers, and driving growth in areas which deliver sustainable profits – in order to achieve a 3.5% – 4.0% Group operating margin by our 2019/20 financial year.

We serve shoppers through a wide range of channels and services. To ensure we can deliver these sustainably, we work hard to build long-term profitability – by investing in new areas, and by improving the economics of more recent channels, such as Grocery Home Shopping. We follow this approach in all parts of our business, from choosing how we allocate space in our large stores, to looking at the promotional mix we offer to our online customers.

5.

Maximise value from property

We have a significant property portfolio, combining both freehold and leasehold assets. We look closely at opportunities to insulate the business from future rental increases, by carefully optimising our freehold and leasehold mix.

Repurposing space – in our stores, malls or car parks – allows us to improve sales densities in our larger stores, while also improving our offer for customers. In the UK we have worked with other leading brands to open 49 concessions in our stores this year, with partners including Arcadia Group and Holland & Barrett. We are also exploring opportunities to release value by selling ‘air rights’ above a small number of our stores in urban areas – working with a developer to build residential properties above or alongside our stores, without capital investment from Tesco.



6.

Innovation



We have innovated in our ranges, bringing customers great quality meat and produce at affordable prices through our exclusive fresh food brands. Our innovative Free From range also includes many of the products our customers miss most – like our award-winning Free From Garlic Baguette. In March 2017, we were named Free From Retailer of the Year for the third year running.

By listening to shoppers, and looking at broader customer trends, we can drive innovation in both the products we sell, and the channels through which we sell them.

Innovation touches everything we do, from the launch of our PayQwiq digital wallet, making the checkout process easier for customers, to our work on reformulation – taking hundreds of tonnes of salt, sugar and fat out of our own-label products to help customers live healthier lives.

The strength of the partnerships we have with our suppliers plays an important role in innovation. By building our businesses together, we also give suppliers the confidence to invest in innovative products and solutions for the benefit of our mutual customers.

Our business model

Customers, Product, Channels.

Our business is organised around the three pillars of Customers, Product and Channels. We place customers at the centre of everything we do to deliver our purpose – serving shoppers a little better every day.

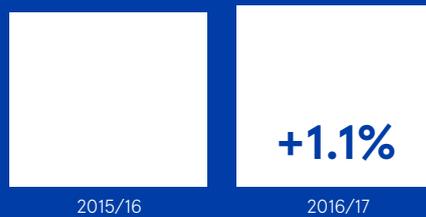


Key performance indicators

Our Big 6 KPIs.

We have six simple key performance measures for the whole business.

Sales



£49.9bn^Δ

Group sales (exc. VAT, exc. fuel)^(a)
(2015/16: £47.9bn)

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

Profit

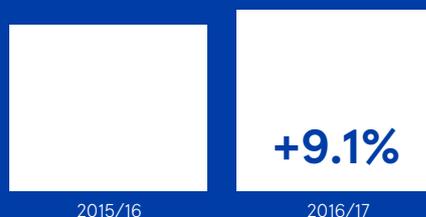


£1,280m^Δ

Group operating profit before exceptional items^(a)
(2015/16: £985m)

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

Cash flow



£2,279m^Δ

Retail cash generated from operations^(b)
(2015/16: £2,088m)

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

Δ Alternative Performance Measures

Measures with this symbol Δ are defined in the Alternative Performance Measures section of the Annual Report on pages 170 to 172.

Customers recommend us and come back time and again



7pts
Group Net Promoter Score^(c)
(2015/16: 2pts)

By putting customers first and making them our main focus, more shoppers are choosing to shop at Tesco. Customer feedback continues to improve, reflecting our work to strengthen our offer.

Colleagues recommend us as a great place to work and shop



83%
Great place to work^(d)
(2015/16: 81%)

48pts
Great place to shop^(e)
(2015/16: 41pts)

Every day our colleagues go the extra mile. Despite changes to the way we serve our customers across our channels, our colleagues remain focused on serving shoppers a little better every day.

We build trusted partnerships



77%
Group supplier satisfaction^(e)
(2015/16: 70%)

We are committed to strong partnerships with our suppliers, built on open, fair and transparent relationships.

^(a) Reported on a continuing operations basis (excludes Turkey and Korea). Growth is at a constant exchange rate, on a comparable days basis.

^(b) Reported on a continuing operations basis (excludes Turkey and Korea). Growth is at an actual exchange rate, on a comparable days basis.

^(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.

Profit recovery continues.



Alan Stewart Chief Financial Officer

“This was a strong performance for Tesco where we delivered results ahead of expectations.”



Visit www.tescopl.com/ar2017 to find PDF and Excel downloads of our financial statements.

Group results 2016/17

52 weeks ended
25 February 2017

	2016/17	2015/16	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
On a continuing operations basis				
Group sales (exc. VAT, exc. fuel)^(a)	£49,867m	£47,859m	1.1%	4.3%
Fuel	£6,050m	£6,074m	(1.0)%	(0.4)%
Revenue (exc. VAT, inc. fuel)	£55,917m	£53,933m	0.8%	3.7%
Group operating profit before exceptional items^(b)	£1,280m	£985m	24.9%	29.9%
UK & ROI ^(c)	£803m	£503m	57.7%	59.6%
International	£320m	£320m	(12.5)%	0.0%
Tesco Bank	£157m	£162m	(3.1)%	(3.1)%
Include exceptional items	£(263)m	£87m		
Group operating profit	£1,017m	£1,072m	(11.8)%	(5.1)%
Group profit before tax before exceptional items and net pension finance costs	£842m	£490m		71.8%
Group statutory profit before tax	£145m	£202m		(28.2)%
Diluted EPS before exceptional items	6.75p	4.05p		
Diluted EPS before exceptional items and net pension finance costs	7.90p	5.61p		
Diluted EPS	0.81p	3.22p		
Basic EPS	0.81p	3.24p		
Capex^(d)	£1.2bn	£1.0bn		
Net debt^{(e),(f)}	£(3.7)bn	£(5.1)bn		
Cash generated from retail operations^(e)	£2.3bn	£2.1bn		

^(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) The elimination of intercompany transactions between continuing operations and the discontinued Turkey operation, as required by IFRS 5 and IFRS 10, has resulted in a reduction to the prior period UK & ROI operating profit of £(2)m.

^(d) Capex is shown excluding property buybacks.

^(e) 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.

^(f) 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 on pages 170 to 172. A detailed analysis of discontinued operations can be found in Note 7.

This was a strong performance for Tesco where we delivered results ahead of expectations. We grew sales, excluding VAT, excluding fuel, by 1.1% at constant rates and we saw positive volume growth in both the UK & ROI and International segments. Group operating profit before exceptional items was £1,280m, up 29.9% on last year as we continue to rebuild profitability whilst investing in the customer offer. Our statutory profit before tax was down (28.2)% to £145m including £(263)m of exceptional costs. We generated retail operating cash flow of £2.3bn, up 9.1% on last year, including a £387m improvement (pre-exceptionals) in working capital, and we also reduced net debt (excluding Tesco Bank) by 27% to £(3.7)bn.

Now that our business has stabilised we have also shared more detail about our clear plans for the coming years. 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 over the next three years.

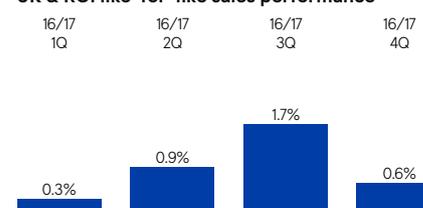
Reflecting our improved performance and confidence in future prospects, the Board has reviewed our dividend policy. We intend to recommence paying dividends in respect of the financial year 2017/18. We expect dividends to grow progressively from that financial year with the aim of achieving a target cover of around two times earnings per share over the medium term.

Segmental results

UK & ROI

	2016/17	2015/16	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
On a continuing operations basis				
Sales (exc. VAT, exc. fuel)	£37,692m	£37,189m	0.6%	1.4%
Like-for-like sales (exc. VAT, exc. fuel)	0.9%	(0.7)%		
Statutory revenue (exc. VAT, inc. fuel)	£43,524m	£43,080m		
Statutory revenue includes: fuel	£5,832m	£5,891m		
Operating profit before exceptional items	£803m	£503m	57.7%	59.6%
Operating profit margin before exceptional items	1.84%	1.17%	67bp	68bp
Operating profit	£519m	£597m		

UK & ROI like-for-like sales performance^(a)



^(a) Exc. VAT, exc. fuel.

In the UK and the Republic of Ireland (ROI), we have now seen five consecutive quarters of like-for-like sales growth. In the UK, volumes grew 1.6% and transactions grew 1.7% as we continued to make fundamental improvements to all aspects of our offer. We saw annual positive like-for-like growth for the first time in seven years and outperformed the market across all categories on a volume basis. Volume outperformance was particularly strong in fresh food, where the exclusive brands we launched in March 2016 have helped to significantly strengthen our value proposition.

Significant product cost deflation in the first half of the year eased in the second half. In collaboration with our supplier partners, we have worked hard to minimise the impact of emerging inflationary cost pressures. Despite some inflation in a number of categories, the price of a typical customer basket remains around 6% cheaper than in September 2014 and promotional participation has fallen to 32% as we made a conscious decision to focus our investments on sustainable improvements rather than on short-term couponing and promotions. We achieved improvements in all key customer metrics, including colleague helpfulness and availability, where performance reached record levels.

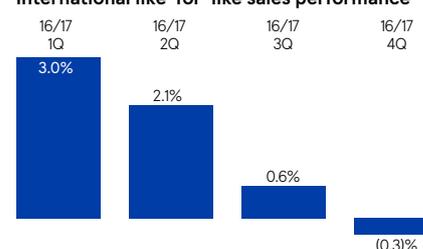
In the Republic of Ireland, like-for-like sales fell by (0.1)% as we continued to invest in lowering prices. We have a leading position in the market in volume terms and have further grown volume share by making improvements across our customer offer, with a focus on fresh produce, meat and bakery.

Our full-year UK & ROI operating profit before exceptional items was £803m, up 60% on last year, with margin growth of 68 basis points year-on-year. This improvement includes the impact of investments we have made in all aspects of our offer, particularly in lowering core prices and in the quality and price of the exclusive fresh food brands which we launched in March 2016. These investments enabled us to drive volume growth, generating positive operational leverage. In addition to managing costs more effectively year-on-year, we are also optimising the mix of our offer across channels and products. For example, within our beers, wines and spirits category we have focused on improving the relevance and profitability of our offer by broadening our range of speciality beers, increasing the prominence of own brand products and maintaining a strong, stable core price position in an extremely promotional market.

International

	2016/17	2015/16	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
On a continuing operations basis				
Sales (exc. VAT, exc. fuel)	£11,163m	£9,715m	2.1%	15.2%
Like-for-like sales (exc. VAT, exc. fuel)	1.3%	2.0%		
Statutory revenue (exc. VAT, inc. fuel)	£11,381m	£9,898m		
Statutory revenue includes: fuel	£218m	£183m		
Operating profit before exceptional items	£320m	£320m	(12.5)%	0.0%
Operating profit margin before exceptional items	2.81%	3.23%	(46)bp	(42)bp
Operating profit	£421m	£314m		

International like-for-like sales performance^(a)



^(a) Exc. VAT, exc. fuel.

International sales grew by 2.1% at constant exchange rates, including a 0.8% new store contribution driven by store openings in Thailand which more than offset the impact of store closures, primarily in Europe. International sales growth weakened in the second half due to an increasingly competitive environment in Europe, particularly Poland, and as we annualised a strong performance last year in Asia.

In the year, we grew like-for-like sales strongly in Thailand as we invested in both lowering prices and improving our fresh food proposition. We grew market share and were pleased to retain our number one position for customers for brand and trust^(a). In Malaysia, top-line sales growth was held back by weak consumer spending across the market and a trend away from large stores towards convenience shopping, where we are currently under-represented.

In Central Europe, like-for-like sales grew in all markets apart from Poland which remains intensely competitive. Positive volume growth in the region was driven by a strong performance in fresh food where we improved quality and inspired customers with new ranges and events.

^(a) According to BASIS Global Brand Image tracker, February 2017.

Financial review continued

Segmental results continued

In a highly competitive environment, international operating profit before exceptional items was £320m, flat year-on-year at actual exchange rates and down by (12.5)% at constant exchange rates. Whilst we continued to invest in our offer in all of our markets, our response to intense competition in Poland weighed on profitability in Central Europe. We continued to focus on improving our store economics across the region, including simplifying management structures, reducing store administration and closing unprofitable store counters. We also opened a new distribution centre at Poznań in Poland, reducing transport costs for the country by 20%. From April 2017, we have separated the management of our international business, creating two new Executive Committee roles leading Asia and Central Europe, giving greater focus to each region.

The introduction of a new retail tax in Poland remains suspended pending the outcome of the European Commission's investigation. We continue to be cautious about potential legislative changes in our European markets.

Tesco Bank

	2016/17	2015/16	Year-on-year change
Revenue	£1,012m	£955m	6.0%
Operating profit before exceptional items	£157m	£162m	(3.1)%
Operating profit	£77m	£161m	(52.2)%
Lending to customers	£9,961m	£8,542m	16.6%
Customer deposits	£8,463m	£7,397m	14.4%
Net interest margin	4.0%	4.2%	(0.2)%
Risk asset ratio	20.0%	20.0%	-

Tesco Bank continues to provide a simple and transparent product offer to serve the banking and insurance needs of Tesco customers. Active customer account numbers grew by 3.5%, with particularly strong growth in current accounts. We have continued to improve our customer offer by introducing a new premium credit card, simplifying the loan application process by introducing digital signatures, giving interest rate guarantees on current accounts for new and existing customers and through a national roll-out of PayQwiq to all large stores, a digital wallet app that allows customers to pay with their phone in our shops.

Operating profit before exceptional items reduced by (3.1)% to £157m. This decline was due to the full year effect of the introduction of European Commission caps on interchange income which first came into effect in December 2015. Adjusting for this impact, we saw strong profit growth driven primarily by lending income. Exceptional items of £(80)m relating to Tesco Bank include an increase in the provision for customer redress and a restructuring charge.

Risk-weighted assets have risen in line with lending and the Core Tier 1 ratio has improved to 16.7%. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective.

Exceptional items in operating profit

	2016/17	2015/16
Net impairment of non-current assets and onerous lease provisions	£(6)m	£(423)m
Net restructuring and redundancy costs	£(199)m	£(126)m
Provision for customer redress	£(45)m	-
Interchange settlement	£57m	-
Property transactions	£165m	£156m
Provision for SFO and FCA obligations	£(235)m	-
Past service credit and associated costs arising on UK defined benefit pension scheme closure	-	£480m
Total exceptional items in operating profit	£(263)m	£87m

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 £(263)m.

Our annual impairment testing resulted in a net charge of £(6)m. This comprises a net £103m provision release relating to property, a net increase of £(56)m in onerous lease provisions and a net £(53)m impairment charge in goodwill and intangible assets, principally relating to dunnhumby subsidiary, Sociomantic.

Net restructuring and redundancy charges of £(199)m relate principally to changes to our distribution network and store colleague structures and working practices in the UK & ROI, and also includes a £(35)m charge relating to Tesco Bank business simplification.

The provision for customer redress of £(45)m was recognised in Tesco Bank in the first half, following updated guidance published by the Financial Conduct Authority, proposing an extension to the Payment Protection Insurance settlement deadline which is now set at August 2019.

Exceptional items include a credit of £57m in relation to a legal settlement in respect of interchange fees.

We generated net profits (pre-tax) of £165m from property transactions in the year, of which £91m related to the sale of the Letňany Shopping Mall and Liberec Forum Shopping Centre in the Czech Republic. We also sold a number of properties and development sites in the UK & ROI business.

An exceptional charge of £(235)m has been recorded as an adjusting post balance sheet event, following judicial approval on 10 April 2017 of a Deferred Prosecution Agreement between Tesco Stores Limited and the UK Serious Fraud Office regarding historic accounting practices and an agreement with the UK Financial Conduct Authority of a finding of market abuse in relation to the Tesco PLC trading statement announced on 29 August 2014.

Joint ventures and associates, interest and tax

Joint ventures and associates

Losses from joint ventures and associates before exceptional items increased by £(9)m to £(30)m, due to lower profits recognised in our UK property joint ventures. After exceptional items, including an impairment of investment property within Gain Land, our associate in China, and an adjustment in insurance reserves in Tesco Underwriting, our share of post-tax losses from joint ventures and associates rose to £(107)m from £(21)m last year.

Finance income and costs

	2016/17	2015/16
Interest receivable and similar income	£48m	£29m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	£61m	–
Finance income	£109m	£29m
Interest payable	£(523)m	£(490)m
Capitalised interest	£6m	£6m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	–	£(19)m
IAS 19 net pension finance costs	£(113)m	£(155)m
Finance costs	£(630)m	£(658)m
Exceptional charge: Translation of Korea proceeds	£(244)m	£(220)m
Statutory finance costs	£(874)m	£(878)m

Finance income rose to £109m, mainly due to the favourable effect of marking-to-market financial instruments. These are non-cash adjustments driven by changes in the market's assessment of credit and debt risk.

Interest payable increased to £(523)m due to debt acquired as part of our February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. The impact of this was partially offset by a £26m reduction in interest following the repayment of debt in the year.

Net pension finance costs of £(113)m reduced in line with the reduction in the opening IAS 19 pension deficit at the start of the 2016/17 financial year. Net pension finance costs are calculated by multiplying the opening net deficit by the opening discount rate each year. For 2017/18, they are expected to increase to c.£(165)m.

An exceptional non-cash loss of £(244)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea which were held in GBP money market funds in a non-Sterling denominated subsidiary. This does not represent any economic cost to the Group.

Group tax

Tax on profit before exceptional items was £(185)m with an effective rate of tax for the Group of 25%. This tax rate is higher than the UK statutory rate primarily due to the impact of the 8% supplementary tax surcharge on bank profits, introduced in January 2016, and depreciation of assets that does not qualify for tax relief. The tax rate benefited from the impact on deferred tax of the expected reduction in the UK corporation tax rate from 18% to 17% in 2020.

On a statutory basis, including an exceptional credit of £98m principally relating to a lower book value than tax value of property disposals and tax relief on exceptional impairment and restructuring costs, the tax charge was £(87)m.

The effective tax rate on profit before exceptional items for the 2017/18 financial year is expected to be similar to this year, at around 25%.

Earnings per share (on a continuing operations basis)

Diluted earnings per share before exceptional items and net pension finance costs were 7.90p, 41% higher year-on-year principally due to our stronger profit performance. Statutory basic earnings per share from continuing operations were 0.81p, lower than last year driven by higher net exceptional costs.

Financial review continued

Summary of total indebtedness

	2016/17	2015/16	Movement
Net debt (excludes Tesco Bank)	£(3,729)m	£(5,110)m	£1,381m
Discounted operating lease commitments	£(7,440)m	£(7,814)m	£374m
Pension deficit, IAS 19 basis (post-tax)	£(5,504)m	£(2,612)m	£(2,892)m
Total indebtedness	£(16,673)m	£(15,536)m	£(1,137)m

Net debt (excluding Tesco Bank) reduced by £1.4bn to £(3.7)bn, as our retail operating cash flow and property and business disposal proceeds were greater than capital expenditure and other charges.

We have a strong funding and liquidity profile underpinned by £4.4bn committed facilities and our key credit metrics (fixed charge cover, net debt/EBITDA and total indebtedness ratio) have improved over the year.

Discounted operating lease commitments

The reduction in discounted operating lease commitments includes a benefit from the buybacks we have completed in the UK. In the year, we regained sole ownership of 16 superstores from a number of different vendors, resulting in an annual rent saving of £22m.

Pension

The IAS 19 pension deficit measure, which relates to our closed UK defined benefit scheme, increased by £(2.9)bn to £(5.5)bn due to the reduction in bond yields. Despite this increase in the IAS 19 measure of our liabilities, the actual pension payments that are payable to members in the future have not changed.

During the year, we completed a de-risking programme which has reduced the future volatility of the scheme's long-term funding.

At the last triennial valuation, the Trustee and the Company agreed a long-term funding plan where the Company is paying contributions of £270m a year to the UK defined benefit scheme. The next triennial actuarial valuation is effective as at 31 March 2017 and work is already underway. The Trustee is aiming to conclude the valuation as soon as is reasonably possible.

Summary retail cash flow

	2016/17	2015/16
Cash flow from continuing operations excluding working capital	£1,695m	£2,033m
(Increase)/decrease in working capital		
underlying decrease in working capital	£387m	£377m
impact from exceptional items	£197m	£(91)m
cash impact of new approach to supplier payments	-	£(231)m
Cash generated from operations – continuing operations	£2,279m	£2,088m
Cash generated from operations – discontinued operations	£(1)m	£493m
Cash generated from operations	£2,278m	£2,581m
Interest paid	£(518)m	£(422)m
Corporation tax (paid)/received	£(64)m	£125m
Net cash generated from retail operating activities	£1,696m	£2,284m
Cash capital expenditure	£(1,328)m	£(1,004)m
Free cash flow	£368m	£1,280m
Other investing activities	£1,620m	£543m
Net cash (used in)/from financing activities and intra-Group funding and intercompany transactions	£(1,342)m	£(854)m
Net increase in cash and cash equivalents	£646m	£969m
Include/(exclude) cash movements in debt items	£1,114m	£4,219m
Fair value and other non-cash movements	£(379)m	£(1,817)m
Movement in net debt	£1,381m	£3,371m

On an underlying basis, working capital improved by £387m driven by growing sales volumes, initiatives to reduce stockholding and the timing effect of a fuel payment. The reported total reduction in working capital also includes the net impact of exceptional items.

Excluding working capital, we generated £1.7bn of cash from continuing retail operations. The decrease of £(0.3)bn on the previous year primarily reflects the payment of a turnaround bonus to colleagues in cash rather than shares and higher net exceptional costs than last year.

Interest paid was £(96)m higher than last year due to the debt acquired as part of our February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. The impact of this was partially offset by £1.2bn of debt we redeemed in September 2016 and a further £0.7bn of debt we redeemed in January 2017.

The cash tax outflow of £(64)m reflects payments by our international businesses which more than offset a refund of taxes already paid in the UK, as we continue to agree and close historic enquiries into tax returns.

Cash movements of £1.1bn in debt items primarily reflect the redemption of three medium-term notes on their maturity.

Capital expenditure

	2016/17	2015/16
UK & ROI	£731m	£676m
International	£403m	£254m
Tesco Bank	£46m	£40m
Group	£1,180m	£970m

Capital expenditure (excluding buybacks) of £1.2bn was £0.2bn higher than last year reflecting our planned increase in spend to refresh more than 200 stores in the UK and to accelerate the store opening programme in Thailand. We now expect Group capital expenditure to be around £1.25bn in 2017/18. This is around £250m below our original estimate, as we continue to focus on capital spend that delivers attractive returns and move more of our planned technology spend to cloud-based services.

There was a net reduction of (2.2)m square feet, which includes (1.7)m square feet related to the disposal of Dobbies garden centres with the balance being net closures of space. In Asia we opened 114 stores, primarily in our convenience format in Thailand. In Europe we closed 23 stores.

This year we repurposed just over 1.0m square feet across the Group, improving the ease and relevance of the shopping trip for customers. This included 0.5m square feet in Thailand repurposed for new and existing partners, including five new branches of Decathlon Sports, exclusive in the market to Tesco Lotus, and four new cinemas. In the UK, we repurposed 0.1m square feet in 14 stores, introducing brands such as Miss Selfridge, Wallis and Holland & Barrett.

Property

	2016/17			2015/16		
	UK & ROI	International	Group	UK & ROI	International	Group
Property^(a) – fully owned						
Estimated market value	£13.1bn	£6.7bn	£19.9bn	£13.3bn	£6.4bn	£19.7bn
Net book value ^(b)	£12.6bn	£5.1bn	£17.8bn	£12.6bn	£5.0bn	£17.6bn
% net selling space owned	52%	74%	63%	52%	71%	61%
% total property owned – by value ^(c)	50%	78%	57%	47%	75%	54%

^(a) Stores, malls, investment property, offices, distribution centres, fixtures and fittings and work-in-progress. Excludes joint ventures.

^(b) Property, plant and equipment excluding vehicles.

^(c) Excludes fixtures and fittings.

The estimated market value of our fully owned property has increased by £0.2bn to £19.9bn, retaining a surplus of £2.1bn over the net book value, as the repurchase of 16 stores in the UK and a foreign exchange translation effect more than offset the impact of the sale of Turkey and Dobbies garden centres. Our Group freehold property ownership percentage, by value, has increased from 54% to 57% year-on-year, driven by both the UK & ROI and International. In International, the effect of the sale of our business in Turkey more than offset the impact of the sale of two large freehold shopping centres in the Czech Republic on the mix of freehold to leasehold.

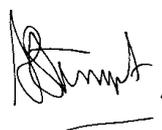
In April 2017, we regained ownership of a further seven large stores in the UK with a freehold valuation of £219m in a transaction with British Land. Including the effect of this transaction, we have now increased our proportion of freehold ownership by value in the UK & ROI to 51%, up by 10% over two years. The repurchase of stores to date has resulted in an annualised saving of £152m rent, predominantly in relation to fixed-uplift and index-linked rental agreements. The Group operating lease charge reduced by 9% in the year to £1.0bn. We continue to seek opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation where the economics are attractive.

Looking ahead

We made good progress over the last year, further strengthening our customer offer and delivering an improvement in profitability a little ahead of expectations.

We are confident in the plans we have shared and in the progress we will make this year, including further steps towards reducing our costs by £1.5bn, generating £9bn retail cash from operations and improving Group operating margin to between 3.5% and 4.0% by 2019/20. With a much more competitive offer and supplier partnerships as strong as they have ever been, we are much better positioned to navigate challenging market conditions.

In January, we announced that we had agreed the terms of a proposed merger with Booker, focused on unlocking new growth, particularly in the faster-growing 'out of home' food market. We are continuing to engage as planned with the Competition and Markets Authority in advance of seeking shareholder approval for the transaction, anticipated in late 2017/early 2018.



Alan Stewart
Chief Financial Officer

Environmental and social review

Every little help makes a big difference.

Our approach

As one of the world's leading food retailers, we are very aware of the impact we can have in society and on the environment. Across the Group our actions are guided by our third value, 'every little help makes a big difference', reminding us of the positive impact we can have on colleagues, suppliers and wider society by making small, incremental changes.

Our Social and Environmental plan naturally puts food at its heart. It serves to make sure we tread lightly when we source, supply and sell food, and use our extensive local presence and strong supply chain network to make a positive difference to the environment and society. Our plan contains a series of little helps to make it easier to eat healthier; grow our suppliers' businesses sustainably; help to halve global food waste by 2030; and add value to local communities.

We are committed to taking the actions we can to address global issues and to make a significant contribution to the communities we serve. We know there is more to do and our plan seeks, together with partners, to make every little help add up to a bigger difference.

Our reporting

Corporate responsibility is a fundamental part of our business, and evidence of the wider impact we can have on society is reflected throughout this report.

In November 2015, we joined the UN Global Compact, an initiative that encourages businesses worldwide to adopt sustainable and socially responsible policies. This year, we recommitted to the Compact and published an update on our progress against the 10 principles covering human rights, labour, environment and anti-corruption.

Our UN Global Compact membership reinforces our commitment to transparency. We publish a set of regularly updated corporate responsibility policies, available to view online. We also share frequent updates, blogs and news on our progress and key achievements.

Our governance

Our Corporate Responsibility Committee is chaired by our Chairman, John Allan. More information on the activities of the Corporate Responsibility Committee this year can be found in the Corporate Governance report.



Visit www.tescopl.com/society for information on our ongoing activities and latest case studies.

Our three values

1. No one tries harder for customers
2. We treat people how they want to be treated
3. Every little help makes a big difference



Our colleagues

Our colleagues are at the heart of our business, serving our shoppers a little better every day. We continue to build trust and transparency with colleagues to create a culture which allows everyone at Tesco to be their best.

This includes working hard to make sure colleagues are the first to know of any changes made to the business. This year we hosted colleague conferences where leadership teams talked about our business priorities – in the UK over 8,000 colleagues attended the event, with further events held for colleagues in Central Europe and Asia. Over the last year we have also refreshed our UK colleague policies, and made them accessible through our dedicated online colleague portal.

Inclusivity, and creating a culture where everyone feels welcome, remain integral to our business. The ratio of male to female colleagues at year-end is outlined in the table, right. We believe

that monitoring the pay gap between men and women is an important step towards ensuring everyone is rewarded fairly for their work and enjoys the same opportunities.

The UK Government has published regulations requiring large employers to report their gender pay gap, which came into force in April 2017. We have monitored gender pay since 2002, and as part of our commitment to transparency, have published data online with an early analysis – using the calculations set out in the regulations, but covering the period from April 2015 – April 2016. We look forward to sharing our formal disclosure, based on data for the 12 months to April 2017, later this financial year.

We want to encourage everyone in our business to reach their potential – whoever they are, wherever they work, whatever they do. After feedback from our annual colleague survey, it became clear that we needed to do more around access to learning opportunities and recognising great performance. We have introduced a new performance management process based on frequent performance and development conversations, inspiring colleagues to be their best.



Visit www.tescopl.com/genderpay for information on our gender pay gap reporting.

Gender diversity	Male		Female	
Board of Directors	8	73%	3	27%
Senior managers – Directors	394	75%	128	25%
Senior managers – Directors and managers	2,852	64%	1,593	36%
All employees	197,154	43%	263,236	57%

Supplier partnerships

Building strong, trusted partnerships with our suppliers is critical for our business. Over the last two and a half years, we have worked hard to change the way we work with our suppliers. A key part of our commitment has been publishing our payment terms.

In the UK, we were the first retailer to publish our payment terms in October 2015. In Central Europe this year, we simplified trade terms and took steps to ensure that we are paying our smallest suppliers quicker.

We also now have a dedicated UK Supplier Engagement team and a Tesco Supplier Network. The Network is an online community of over 5,000 Tesco suppliers, who can share ideas, innovate, and drive sustainability through our supply chain and in the products we sell. In Thailand, we have recently introduced e-newsletters and a supplier website to help communicate more openly with our partners.

For the past 10 years, the Tesco Sustainable Dairy Group (TSDG) has worked directly with over 600 dairy farmers to supply us with fresh milk. We pay guaranteed prices and agree

long-term contracts. In 2016/17 the number of farmers in the group increased to 700 – the largest group of dairy farmers working directly with a retailer in the UK. In June 2016, we unveiled a new ‘Fair for Farmers’ guarantee on all of our fresh milk. This makes clear to customers how every pint of milk sold at Tesco is 100% British, ensures farmers are paid fairly and that every cow is well cared for.

All these actions have been reflected in the positive feedback we’re receiving from our suppliers. In June, the UK Groceries Code Adjudicator reported that Tesco was the most improved retailer in the way it engages with suppliers. In October, the independent Supplier Advantage Survey ranked Tesco the number one UK retailer. Our own Supplier Viewpoint survey shows that now 77% of suppliers are satisfied with their experience of working with Tesco.

Business ethics and anti-bribery

Our Code of Business Conduct sets out our most important legal obligations and helps colleagues follow key policies.

We encourage a ‘speak up’ culture across our supplier base, and amongst

our colleagues. We provide free, independent, and confidential ‘Protector Lines’ that enable our colleagues, suppliers and their staff around the world to raise concerns. Insights from these services are reviewed at Compliance Committee meetings which are chaired by the Group Chief Executive.



Environmental and social review continued

Supplier partnerships continued

Human rights

Our supply chain investments are a positive force internationally, creating jobs and opportunities for people and communities. But we also want those jobs to be good jobs.

We fully support the UN Universal Declaration of Human Rights, the International Labour Organization Core Conventions and the UN Guiding Principles on Business and Human Rights. We are a founding member of the Ethical Trading Initiative and our industry-leading team of labour standards experts work closely with our suppliers, NGOs and other stakeholders to meet the standards set out in its Base Code.

Over the last year we have reviewed our human rights programme with suppliers and external experts, including labour

NGOs and trade unions, to ensure we are addressing the most serious risks to workers and communities. We have moved to an approach based on three core pillars:

- Assurance – our programme to ensure that the facilities we source from are positive places to work
- Improvement – working collaboratively with others to address issues in lower tiers of our supply chain (our suppliers' suppliers, and so on), where our direct leverage is reduced
- Empowerment – a plan to support communities linked to our supply chain that face social challenges.

An example of our Assurance programme in action is in our banana supply chain, where all of our bananas for the UK market are now certified by

the Rainforest Alliance. This milestone is supported by our programme to improve conditions and low wages in the industry.

Examples of our Improvement and Empowerment programmes include our tea supply chain. We are working in Malawi with Oxfam, the Malawian tea industry and some leading tea brands to improve wages across the industry. And in Assam, India, we are working with UNICEF to help prevent the trafficking of children from local communities into domestic slavery and sexual exploitation.



Visit www.tescopl.com/modernslavery for our Modern Slavery Statement and www.tescopl.com/humanrights for further information and case studies.

Healthier eating

Our customers want us to make it easier to make healthier choices. Through innovation, and making continuous small changes, our goal is to help customers do just that.

This year, we began offering free fruit for children in 800 of our UK stores. Our hope is this change will promote healthy eating habits that will stay with children as they grow up. In January 2017, we also held our first UK colleague health month – helping colleagues to make healthier choices every day.

We continue to make significant progress in reformulating our products. We believe that every time we change the recipes for our food and soft drinks, we should try and make them healthier, without compromising on taste.

In November, we reached a significant milestone, as the first retailer to have all its own brand soft drink recipes below the sugar content threshold for the UK soft drinks levy. In addition to our work on soft drinks, we have cut the salt, fat and sugar in over 3,000 of our own products since 2015, and plan

reductions in a further 1,000 products each year for the next three years.

Our role in promoting healthier living across communities also remains a focus. Through our National Charity Partnership with Diabetes UK and the British Heart Foundation, and our support for Cancer Research's Race for Life, we are continuing to encourage healthier lifestyles.



Visit www.tescopl.com/healthyeating for more information about our work on healthier choices.



Environment strategy

Our environment strategy targets the five key areas that we have an impact on, either through our direct operations or through our sourcing activities.



Visit www.tescopl.com/environment for further information on our strategy.



Climate

We are investing in renewable electricity both through on-site generation and procurement. In 2016/17 we invested a further £8m in solar power in Thailand. Our leading performance and disclosure has made us the only retailer included in the 2016 Carbon Disclosure Project Climate A List.



Forests

A key commitment is to achieve zero net deforestation in our supply chain by 2020.

100% of palm oil in our UK own-brand products already comes from sources certified to the Roundtable on Sustainable Palm Oil standards.



Marine

One of our biggest achievements in the last year has been our partnership with the Marine Stewardship Council (MSC). We have significantly increased our range of eco-labelled certified sustainable fish across our UK fresh, frozen and grocery ranges from 16 to 100.



Farmlands

Agriculture accounts for approximately 60% of our supply chain carbon footprint, 97% of our water footprint and the vast majority of our impact on biodiversity. We are working with suppliers and expert NGOs to roll out approaches, such as the Cool Farm Tool, to measure impact and drive improvements.



Freshwater

Lakes, rivers and aquifers are essential for the production of many products. We are mapping our key supply chains to understand their exposure to water risk, and how they overlap with key environmentally-sensitive river basins. We are piloting measures to reduce water use and local environmental impact.

Greenhouse gas emissions

Our carbon footprint is calculated according to the Greenhouse Gas Protocol. Our net carbon footprint in 2016/17 was 3.9 million tonnes of CO₂e.

This year we have reduced our net carbon intensity per square foot of retail and distribution floor space by 10% compared to last year, and 52.2% since 2006/07 through investments in energy efficiency and procuring renewable energy.

	Global tonnes of CO ₂ e		
	2016/17	2015/16	Base year 2006/07
Scope 1	1,236,980*	1,301,746	1,345,507
Scope 2 ^(a)			
Market-based method	1,582,275*	2,004,992	Not Available
Location-based method	2,357,245*	2,528,323	2,259,984
Scope 1 and 2 carbon intensity (kg CO ₂ e/sq ft of stores and DCs)	22.95*	26.33	51.14
Scope 3	1,073,721*	1,097,491	1,064,460
Total gross emissions	3,892,977	4,404,230	4,669,951
CO ₂ e from renewable energy exported to the grid	1,154*	1,513	-
Total net emissions	3,891,822	4,402,717	4,669,951
Overall net carbon intensity (total net emissions kg CO ₂ e/sq ft of stores and DCs)	31.69*	35.06	66.23

* Independent limited assurance for greenhouse gas emissions data has been provided by KPMG LLP using the assurance standards ISAE 3000 and 3410. KPMG has issued an unqualified opinion over the data and the respective full assurance opinion is available at: www.tescopl.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. See www.tescopl.com/carbonfigures.

Environmental and social review continued

Tackling food waste from farm to fork

In 2016/17 0.5%^o of food was wasted in our UK operations^a. It might seem a small number, but it still adds up to 46,684 tonnes^o.

That is why we have 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. Since 2009, we have sent no food waste direct to landfill. And with our chairmanship of the international Champions 12.3 coalition, we are also committed to accelerating progress towards the UN Sustainable Development Goal target to halve per capita global food waste by 2030.

In our own operations, we are rolling out our Community Food Connection programme to all our UK stores and using FoodCloud with FareShare to redistribute edible surplus food to people in need. Since 2015, we have provided over 6 million meals for people in need.

We also have a shared responsibility to reduce waste right across the food chain. We work in partnership with producers and supplier partners to help reduce waste from farm to fork.

We are making links between our growers and our fresh and frozen suppliers to tackle waste. For example, we are supporting our prepared foods supplier to take onions which don't quite meet the grade for fresh packs. They are then used in a wide range of products such as ready meals, salads and soups. As a result, over 6,000 tonnes of onions per year are kept within the human food supply chain, which may have otherwise gone to waste.

We are also helping customers reduce food waste at home. In the last year, we have continued to work on packaging and product innovations to extend product life. We have redeveloped our two portion chicken fillets packaging with a separate compartment for each fillet, so that customers can 'eat one and keep one'. And in January 2017 we were the first retailer to introduce frozen watermelon, beetroot, coconut and pomegranate.

International

Food waste is a global challenge, and our approach reflects this. We are expanding redistribution programmes internationally, and 400 stores across Central Europe are already donating surplus food to charity partners. In Malaysia, we are trialling a new food surplus donation app similar to our FareShare FoodCloud platform in the UK. We have committed to offer surplus for donation from all Central European stores by 2020 and all Malaysian Hypermarkets by the end of 2017/18.

We are also trialling the 'Perfectly Imperfect' range, which uses parts of the crop that previously fell outside our specifications, across 50 stores in Central Europe.

Food waste and surplus data

Transparency and measurement are essential for identifying industry-wide hotspots, and in tackling the root causes of food waste. We need clear, category-specific measures of food waste, rather than the aggregated data currently provided by the wider retail industry.

That is why we have been publishing data on UK food waste in our own

operations since 2013. This year we are changing the way we report our data in order to be even more transparent. As well as continuing to share the product category breakdown of food waste, we are now also sharing a breakdown of our 2016/17 food surplus, the year-on-year increase of surplus donations and a breakdown of our surplus destinations. This enables us to clearly show our progress against our goal, that no food that's safe for human consumption will go to waste from our UK retail operations by the end of 2017.

By breaking out the different types of food surplus, we can see how much food is being wasted that is safe for human consumption. This year, a total of 38,696 tonnes of surplus were safe for human consumption. Of this, 5,700 tonnes were donated to people in need; 16,605 tonnes went to animal feed and 16,391 tonnes went to anaerobic digestion and energy recovery. To achieve our target, we need to ensure that no food safe for human consumption is sent for anaerobic digestion or energy recovery.

For 2016/17, we saw a net increase of 4,004 tonnes in food waste (surplus minus donations and animal feed). This net increase came predominantly from Produce, Bakery and Chilled categories. We are looking at these categories to better understand the reasons for this increase. Overall, the proportion of food wasted against the total weight of food products sold in Tesco's UK stores is 0.5%^o.

Our first priority is to reduce surplus food by working with our supplier partners. Where surplus exists, we look to donate this to people in need. Our donations have increased from 2,303 tonnes last year to 5,700 tonnes in 2016/17 – an increase of 148%. At our current rate of donations, we are on track to donate over 11,700 tonnes next year.

By the end of 2017, Community Food Connection will be rolled out to all of our stores in the UK, reducing our waste and helping to feed even more people in need.



Learn more at [tesco.com/foodwaste](https://www.tesco.com/foodwaste).

2016/17 total UK sales tonnage vs surplus tonnage

Total food sales

9,957,374 tonnes

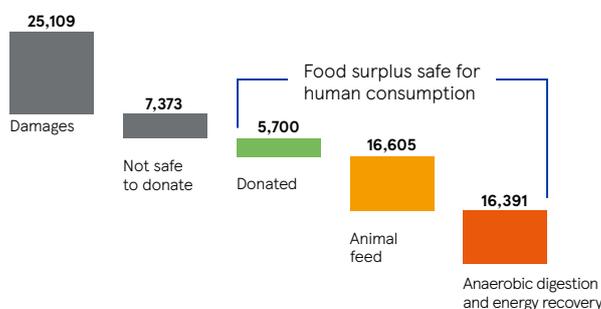
Total food surplus

71,178 tonnes

Approximately to scale

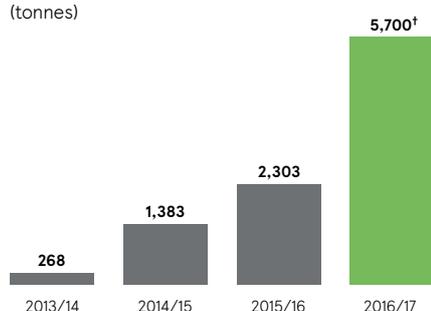
2016/17 food surplus: progress against our target

(tonnes)



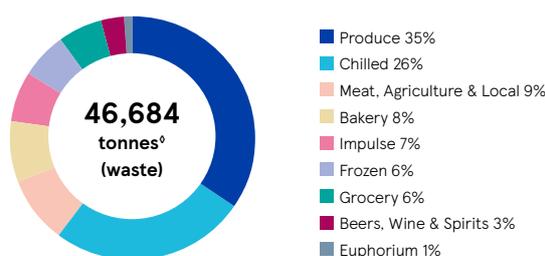
Surplus donations since 2013/14

(tonnes)



[†] During 2016/17 our rate of donation has increased. The projected surplus donations for 2017/18 is 11,700 tonnes.

2016/17 food waste by category

(surplus minus donations and animal feed)^(c)Food waste recalculation^(b)(surplus minus donations and animal feed)^(c)

Year	Food waste (tonnes)
2015/16	42,680
2014/15	42,172
2013/14	48,182

Destination of 2016/17 food surplus

Destination	Surplus tonnes	%*
Donated	5,700	8
Animal feed ^(c)	18,794	26
Anaerobic digestion ^(c)	38,653	54
Energy recovery ^(c)	8,031	11
Landfill	-	0

* % do not total 100% due to rounding.

^o Independent limited assurance for food waste data has been provided by KPMG LLP using the assurance standards ISAE 3000. KPMG has issued an unqualified opinion over the data highlighted in this report with a \diamond and the full assurance opinion is available at: www.tescopl.com/foodwastefigures.

^(a) The proportion of food wasted against the total weight of food products sold in Tesco's UK stores.

^(b) Due to our change in definition, we have restated previous years' waste figures. See www.tescopl.com/foodwastefigures for further details.

^(c) Damaged bakery products contribute to animal feed total. Other food that is damaged or not safe to donate is sent to anaerobic digestion or energy recovery. See www.tescopl.com/foodwastefigures for further details.

A robust and systematic 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 and systematic review of those risks that we believe could seriously affect the Group’s performance, future prospects, reputation or its ability to deliver against its priorities. This review included those risks that we believe would threaten the Group’s business model, future performance, solvency or liquidity.

The risk management process relies on our judgement of the risk likelihood and impact and on the development and monitoring of appropriate internal controls. We maintain a Group Risk Register of the principal risks faced by the Group and this is an important component of our governance framework and of how we manage our business.

Our risk management process is cascaded down the Group. The content of the Group Risk Register is considered and discussed through

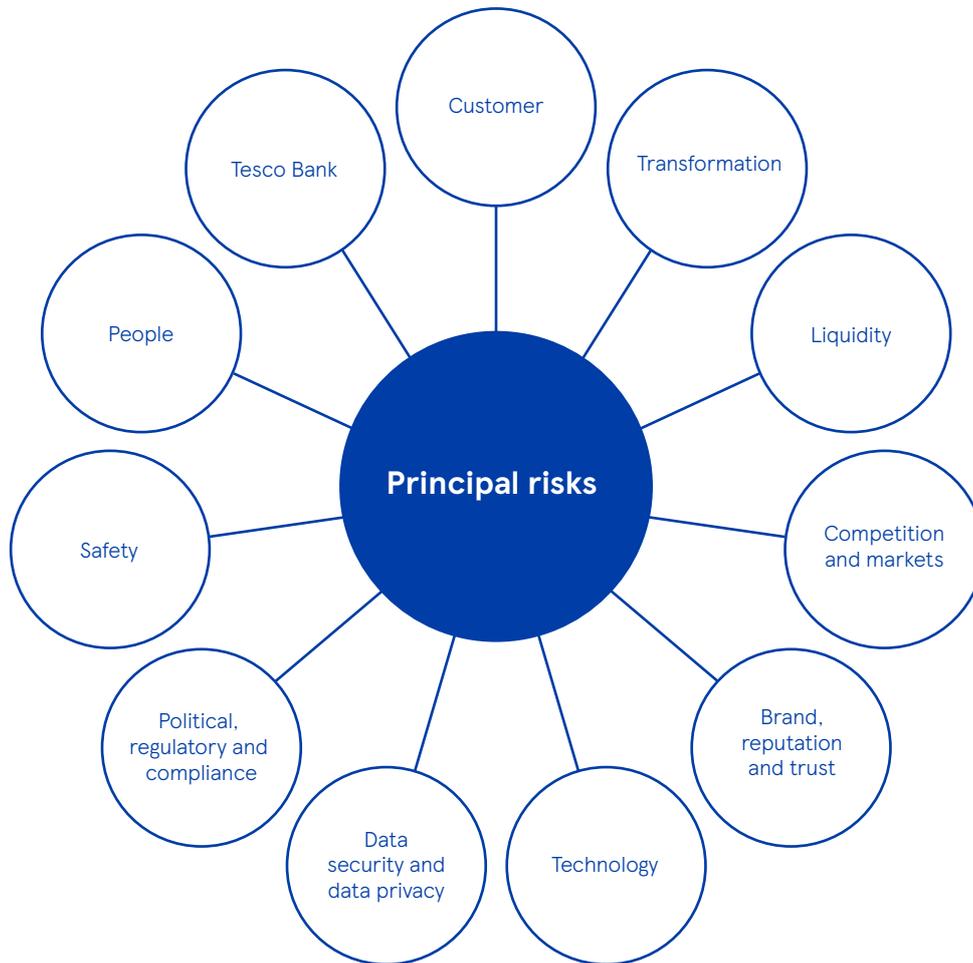
regular meetings with senior management and reviewed by the Executive Committee and the Board. Our process for identifying and managing risk is set out in more detail on page 56 of the Annual Report and Financial Statements 2017.

The table opposite sets out our principal risks, their link with our strategic drivers, their movement during the year and examples of relevant controls and 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 6 to 10. They do not comprise all 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. With respect to the particular risks related to Tesco Bank, in addition to the principal risk described, we also draw attention to the commentary on pages 3 and 30 addressing the incident of November 2016.

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% Group margin
- 5 Maximise value from property
- 6 Innovation

Assessment of risk



Oversight

Board

Overall responsibility for risk management, engages directly with risk assessment, mitigation 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 Compliance Committee

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

Principal risks and uncertainties continued

Key to risk movement

 Risk increasing
  No risk movement
  Risk decreasing

Principal risk	Risk movement	Key controls and mitigating factors
<p>Customer</p> <p>Failure to listen to our customers and to understand the changing marketplace leads to a loss of market share, as customer purchases are made with competitors. We are unable to build and sustain loyalty resulting in an adverse impact on our financial results.</p> <p>1 2 3 4 6</p>	<p>We continue to focus on customer needs and placing our customer at the centre of our decision-making process.</p> <p></p>	<p>Customer insight management is undertaken Group-wide to understand customer behaviours, expectations and experience.</p> <p>We monitor the effectiveness of these processes by regular tracking of our business, and those of our competitors, against measures that customers tell us are important to their shopping experience.</p> <p>We have strategically repositioned our business to focus on customers and are investing further in our customer proposition, reducing prices across our ranges and improving service with additional colleague hours.</p> <p>We have well established product development and quality management processes, which keep the needs of our customers central to our decision making.</p> <p>Ongoing monitoring allows us to react quickly and appropriately.</p>
<p>Transformation</p> <p>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.</p> <p>2 3 4 6</p>	<p>Achieving our transformation goals continues to demand further effort and investment as both internal and external expectations of transformation have increased.</p> <p></p>	<p>The Executive Committee have responsibility and oversight for all transformation activities. The multiple transformation programmes, including Finance, People, IT, UK, Central Europe and new Group structures have been designed to simplify our business and clarify accountability.</p> <p>Transformation programmes are supported by experienced resource from within the business and externally as required reporting directly to the Executive Committee.</p>
<p>Liquidity</p> <p>Business performance does not 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.</p> <p>2 3 4 5</p>	<p>We have imposed increased discipline and strategic planning across all of our Treasury activities.</p> <p></p>	<p>We maintain an infrastructure of policies and reports to ensure discipline over, and oversight around, liquidity matters. There are specific treasury and debt-related policies in place and communicated across the Group. Reporting activity includes the provision of rolling liquidity reports, forecasts and cash flow, and treasury performance reporting of key metrics. These reports are regularly reviewed by the Board, Executive Committee and management.</p> <p>We are managing corporate debt through the implementation of a strategy to reduce our debt level.</p> <p>Updates on the funding strategy are regularly provided to the Pension Trustees, with whom there is regular communication and engagement.</p> <p>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.</p> <p>The Audit Committee reviews and approves annually the going concern and viability statements and reports into the Board.</p>
<p>Competition and markets</p> <p>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.</p> <p>1 2 6</p>	<p>We continue to face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.</p> <p></p>	<p>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.</p> <p>Our Executive Committee and operational management regularly review markets, trading opportunities, competitor strategy and activity and we engage in market scanning and competitor analysis to refine our customer proposition.</p>

Principal risk	Risk movement	Key controls and mitigating factors
<p>Brand, reputation and trust</p> <p>Failure to manage our brand means we are unable to consolidate loyalty and rebuild trust, creating a perception among customers, colleagues, communities and suppliers that result in a loss of market share or unfavourable effects on our ability to do business.</p> <p>1</p>	<p>A broad range of factors impacted our brand, reputation and trust in the year and, on balance, the level of risk remains unchanged.</p> <p>↔</p>	<p>We have developed communication and engagement programmes to listen to our stakeholders and reflect their needs in our plans. The development of new corporate responsibility goals has also been aligned with customer priorities and our brand.</p> <p>We maximise the value and impact of our brand with the advice of specialist external agencies and in-house marketing expertise, including a Digital Marketing team. The Digital Marketing team manages activities and content relating to social media with country teams, to issue considered responses to legitimate customer feedback.</p> <p>Maintaining a differentiated brand is one of our strategic priorities and our Group processes, policies and our Code of Business Conduct, which is refreshed annually, set out how we can make the right decisions for our customers, colleagues, suppliers, communities and investors.</p> <p>There is a Board-level Corporate Responsibility Committee in place to oversee all corporate responsibility activities and initiatives.</p>
<p>Technology</p> <p>A significant failure of IT infrastructure or key IT systems results in loss of information, inability to operate effectively, financial or regulatory penalties and negatively impacts our reputation.</p> <p>Failure to build in resilience capabilities at the time of investing in and implementing new technology.</p> <p>1 6</p>	<p>Our technology landscape continues to require further investment as external threats increase, and the challenges around securing the right capability to deliver change continue.</p> <p>↑</p>	<p>Our technology strategy is becoming fully aligned with the overall Group strategy, directed investment in technology resilience is being evaluated, and greater adoption of cloud computing technologies provides further resilience. We have governance processes in place around new system implementations, including change management controls.</p> <p>Closer alignment of business continuity and technology disaster recovery via the planned establishment of a business continuity forum.</p>
<p>Data security and data privacy</p> <p>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.</p> <p>1 6</p>	<p>In a climate where data risk is increasing globally and regulatory expectations are expanding, we hold personal data in a number of locations. The data security incident experienced at Tesco Bank highlights the rising profile for this risk globally.</p> <p>↑</p>	<p>We have a multi-year data security governance and oversight plan in place, including a Privacy Executive Committee, Group Compliance Committee, Business Unit Compliance Committees and the Senior Data Usage Governance Committee to help ensure focus on relevant laws and regulations. These structures are supported by a Group-wide information security blueprint as well as relevant data security policies across our businesses.</p> <p>Our Cyber Security team investigates and mitigates the risks of cyber-attack. We have established a third party penetration testing plan to enable ongoing identification of assessment of vulnerabilities.</p> <p>A programme of compliance monitoring and review has been rolled out with training across our businesses – we have active monitoring processes to identify and deal with IT security incidents. We also draw attention to the commentary on pages 3 and 30 addressing the Tesco Bank incident of November 2016.</p>
<p>Political, regulatory and compliance</p> <p>This has been renamed to include political risk reflecting the challenges faced in the various markets in which we operate.</p> <p>Failure to comply with requirements as the regulatory environment becomes more restrictive, due to changes in the global political landscape, results in fines, criminal penalties, consequential litigation and an adverse impact on our reputation; financial results or unfavourable effects on our ability to do business.</p> <p>Change in the global political environment means there is a push towards regulation of foreign investors and a favouring of local companies.</p> <p>These changes can have an adverse impact on the Group.</p> <p>1</p>	<p>A changing political environment has resulted in increased regulatory intervention in our markets around the world.</p> <p>↑</p>	<p>Wherever we operate we aim to contribute to important discussions in public policy and engage with Government and regulatory bodies to represent the views of our customers, colleagues and communities; and to ensure that the impact of political and regulatory changes is incorporated into our strategic planning.</p> <p>Group and Country Compliance Committees monitor and guide legal and regulatory compliance with support from our Group Regulatory Ethics and Compliance team, and country developments are monitored by our local management teams. We also have comprehensive guidance across the Group to ensure compliance with the UK Bribery Act (and applicable local legislation).</p> <p>Our Group Code of Business Conduct has been recently updated and relaunched with appropriate training across the Group. This sets out clear behavioural guidance, consistent with our values and is supported by an externally managed whistleblowing service (Protector Line) to allow colleagues to report any instances of inappropriate behaviour.</p> <p>The tax environment in each location is evaluated as part of the regulatory landscape in each location of operations. The Group has tax policies and oversight for each country it operates in.</p> <p>The Tesco Bank Board oversees Tesco Bank's compliance with regulatory requirements.</p>

Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
<p>Safety</p> <p>Failure to meet safety standards in relation to workplace or product, resulting in death, injury or illness to customers, colleagues, or third parties.</p> <p>1</p>	<p>We continue to focus our efforts on controls to ensure workplace and product safety.</p> <p>↔</p>	<p>Our dedicated Quality Standards team undertakes horizon scanning to keep abreast of and inform new product safety legislation. Standards for health and safety are defined for all of our sites. Health and safety monitoring processes are in place and we have created a Group team whose primary objective is to ensure that safety standards are met.</p> <p>Global Product Safety Standards are communicated to our suppliers and tested through our audit programmes.</p>
<p>People</p> <p>Failure to attract, motivate and retain the most talented colleagues and develop the required culture, leadership and behaviours to meet our purpose, resulting in an inability to achieve our business objectives.</p> <p>1 6</p>	<p>Our people are our most valuable asset. We continue to advance diversity and inclusion and see a strong improvement in colleague engagement.</p> <p>↓</p>	<p>The Executive Committee meets regularly to review and monitor people policies and procedures and talent development. Objectives and remuneration arrangements for senior management are approved by this Committee. Objectives and remuneration arrangements form part of a coherent and consistent remuneration framework and have been redesigned to promote appropriate behaviours as well as the delivery of results. Talent planning, training and people development processes are embedded across the Group.</p> <p>We seek to understand and respond to colleagues' needs by listening to their feedback from open conversations, social media, colleague surveys and performance reviews.</p> <p>We have implemented ethical rules, guidelines, policies and procedures in line with our values. Training around our Code of Business Conduct has been recently updated and relaunched across the Group.</p>
<p>Tesco Bank</p> <p>Tesco Bank is exposed to a number of risks, the most significant of which are credit risk, operational risk, liquidity and funding risk, market risk, and legal and regulatory compliance risk.</p> <p>1</p>	<p>The Bank continues to actively manage the risks to which it is exposed.</p> <p>↔</p>	<p>The Bank has a defined risk appetite which is approved and reviewed regularly by both the Bank's Board and the Tesco PLC Board. The risk appetite defines the type and amount of risk that the Group is prepared to accept to achieve its objectives and forms a key link between the day-to-day risk management of the business, its strategic priorities, long-term plan, capital planning, liquidity management and stress testing. Adherence to risk appetite is monitored through a series of ratios and limits.</p> <p>The Bank operates a risk management framework that is underpinned by governance, policies, processes and controls, reporting, assurance and stress testing.</p> <p>There is Bank Board risk reporting throughout the year, with updates to the Tesco PLC Audit Committee by the Bank CFO/Audit Committee Chairman. A member of the Tesco PLC Board is also a member of the Bank's Board.</p> <p>In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group's priority throughout was to ensure customers' accounts were protected and that it communicated with customers immediately and transparently, reassuring customers that there was no data loss or breach of systems. The Group has undertaken immediate remedial action and an independent review of the issue and continues to work closely with the authorities and regulators on this incident.</p>

Booker merger

In January 2017, the boards of Tesco PLC and Booker Group PLC, announced their agreement, subject to regulatory approval, shareholder approval and other conditions to a merger. As well as the risk of conditions to closing not being met, the ability to realise the expected strategic and financial objectives is subject to a successful and timely integration process.

Brexit

The result of the referendum on the United Kingdom's membership of the European Union leading to the departure of the UK from the EU (Brexit), could cause disruptions to and create uncertainty around our business, including affecting our relationships with our existing and future customers, suppliers and colleagues. These disruptions and uncertainties could have an adverse effect on our business, financial results and operations. As further details of the Brexit terms emerge, the management will continue to assess the potential risks and impacts of these on Tesco stakeholders.

Longer term viability statement

1. The context for assessment

The aim of the viability statement is for the Directors to assess 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 page 6). 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 2020. 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.

Three 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.

Scenario	Associated principal risks	Description
Competitive pressure	<ul style="list-style-type: none"> • Brand, reputation and trust • Competition and markets • 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	<ul style="list-style-type: none"> • Brand, reputation and trust • Data security and data privacy • 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	<ul style="list-style-type: none"> • Competition and markets • Political, regulatory and compliance 	Brexit continues to drive high UK domestic inflation and increased import costs from a weaker Sterling, compounded by new import duties and tariffs, with a consequential economic impact.

These scenarios assumed that external debt is repaid as it becomes due and also considered the results with and without the proposed Booker merger (detailed in Note 36) which is still subject to regulatory and shareholder approval and other conditions to a merger.

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. Viability statement

Based on these severe but plausible scenarios, the Directors have a reasonable expectation that the Company will continue in operation 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
11 April 2017



John Allan Non-executive Chairman

“The Board is committed to maintaining the highest standards of corporate governance in its management of the affairs of Tesco and its accountability to shareholders and other stakeholders.”

Dear Shareholder

Good corporate governance is critical in helping us to build a successful business that can be sustained over the longer term. The Board is committed to maintaining the highest standards of corporate governance in its management of the affairs of Tesco and its accountability to shareholders and other stakeholders. However, corporate governance does not exist in isolation and cannot be reduced to compliance with checklists and codes. In order for the Board to be able to review strategy, to determine our approach to risk and to respond to events, we need to have a thorough understanding of our business. During the year, the Board received presentations on a number of areas of the business from senior management to ensure it was fully aware of the Group's performance, the market environment and progress on the six strategic drivers as well as visiting a number of Tesco sites.

Culture

Serving shoppers a little better every day is at the heart of everything we do at Tesco. As a Board we are responsible for ensuring that our activities reflect the culture we wish to instil in our colleagues and other stakeholders and drive the right behaviours. We have a responsibility to ensure that our colleagues do the right things in the right way by setting the tone from the top and leading by example. This means that in every decision we take, and every plan we develop, we ask ourselves one simple question: how will it help serve our shoppers a little better every day?

Our values help our colleagues to understand how to put this into action:

- no one tries harder for customers;
- we treat people how they want to be treated; and
- every little help makes a big difference.

These values are recognised across the Group and have become a vital part of Tesco's culture. They ensure that every colleague at Tesco understands what is important – about how we work together as a team and how customers are at the centre of what we do. The values are supported by our Code of Business Conduct which sets out the standards that are required across the Group and further emphasises the need to do things in the right way. Tesco has taken steps to further incentivise the right behaviours by embedding ethical leadership and behaviour as key measures under the Performance Share Plan (PSP) for both Executive Directors and senior management.

The Board was encouraged by the most recent Group-wide employee engagement survey 'What Matters To You?', which showed significant year-on-year progress in colleagues who would recommend Tesco as a great place to work, increasing by two percentage points to 83%, and as a great place to shop, increasing by 7pts to 48pts.

Succession planning

Proper planning for Board and senior management succession and refreshing and selecting the right individuals from a diverse talent pool are key issues for the Board. These are essential in ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity. During the year, the Board reviewed succession planning for the Board and Executive Committee to ensure we have an appropriate pipeline of talent both now and for the future.

Risk management

The Board remains focused on ensuring that the Group's risk management and internal control systems are effective in underpinning robust decision-making on major activities. The Board has continued to debate and develop its understanding of risk, risk appetite and tolerance, risk testing and how we can maximise our opportunities. As we move forward, the Board's challenge will be to oversee the integration of these systems with the Group's strategic priorities as they continue to evolve.

Protecting the Group from operational and reputational risk is an essential part of the Board's role. Supported by the Audit Committee, we have continued to drive a better understanding of the risks we face, further developed and tested our tolerance on risk and ensured our Group risk map continues to reflect the Group's strategic objectives and opportunities.

Diversity and inclusion

The Board believes it is important to have an appropriate balance of experience, skills, knowledge and backgrounds on the Board and at senior management level. This is vital for bringing both the expertise required and to enable different perspectives to be brought to the Board and Committee discussions. The combination of these factors means that the Board benefits from a diverse range of competencies and thoughts, which promotes a dynamic environment for decision-making. We have discussed the reports from Sir Philip Hampton and Dame Helen Alexander, and from Sir John Parker in the areas of women in leadership positions and ethnic diversity, respectively. We are committed to having a diverse Board and senior management team as this diversity improves our performance.

I am pleased to report that during the year we exceeded our gender diversity target of having 25% of women on the Board. At the end of the year, 27% of the Board were women. We have now moved on to our new gender diversity target of having at least one-third of women on the Board by the end of 2020. Although our overriding principle will continue to be to make appointments on the basis of merit relative to a number of different criteria including diversity of gender, background and personal attributes, alongside the appropriate skill set, experience and expertise, future appointments to the Board must also complement the balance of skills that the Board already possesses.

The Board recognises the need to create the conditions that foster talent and encourage all colleagues to achieve their full career potential in the Group. As part of our overall approach to human resource management we encourage colleague diversity and aspire to be an inclusive organisation. To this end, we are proud to have one of the largest LGBT+ colleague networks in Europe, with the aim of attracting, supporting and developing our LGBT+ colleagues.

Engaging with shareholders

Meaningful engagement with shareholders is one of the key aspects of corporate governance. I and my fellow Directors welcome open, meaningful discussions with shareholders, particularly with regard to governance, strategy, succession planning and remuneration. The Board and management have undertaken a number of activities in this regard during the year, many of which are detailed in this Annual Report.

The Board also receives regular reports on investor relations activities and, in particular, on shareholder sentiment and feedback. The Board continues to believe that ongoing engagement with shareholders and other stakeholders is vital to ensuring their views and perspectives are fully understood and taken into consideration. This will remain a key focus for the Board in 2017/18. At the Company's forthcoming Annual General Meeting (AGM), all Directors who are able to attend will be available, as usual, to meet with shareholders to discuss any issues they may have. I encourage as many shareholders as possible to attend the AGM on 16 June 2017.

Conclusion

During a challenging year, I have greatly valued the diverse and complementary range of skills and experience of my fellow Board members. All of our discussions and debates have taken place within a culture of openness, mutual trust and respect, and that environment has enabled us to integrate successfully those Non-executive Directors who joined the Board in 2016.



John Allan
Non-executive Chairman

Corporate governance report continued

Board of Directors



John Allan CBE
Non-executive Chairman (N) (R) (C)
Appointed 1 March 2015

Skills and experience John brings a wealth of executive management expertise from across 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 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 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 and London First, and a non-executive director of Worldpay Group PLC.



Mark Armour
Independent Non-executive Director (A)
Appointed 2 September 2013

Skills and experience Mark has significant strategic and financial expertise. 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. 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.



Steve Golsby
Independent Non-executive Director (C)
Appointed 1 October 2016

Skills and experience Steve has a wealth of knowledge of operating internationally and a strong background in consumer marketing. He 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 and then President and CEO from 2008 to 2013. He was previously a non-executive director of Beam Inc.

External appointments Non-executive director of Mead Johnson Nutrition Company, advisor to Thai Union Group PLC, a global leader in the seafood industry, and an Honorary Advisor to the Thailand Board of Investment.



Byron Grote
Independent Non-executive Director (N) (A) (R)
Appointed 1 May 2015

Skills and experience Byron brings broad financial and international experience to the Board. 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 and a non-executive director of Anglo American PLC and Standard Chartered PLC.



Dave Lewis
Group Chief Executive
Appointed 1 September 2014

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

Skills and experience Mikael provides the Board with valuable retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment. He worked for IKEA Group for 35 years and was a member of the executive committee from 1995 until 2013, holding the position of CEO and President from 2009 until 2013.

External appointments Non-executive director and vice chairman of Volvo Cars Group, non-executive director of Ikano S.A., Lindengruppen AB and The Schiphol Group.



Deanna Oppenheimer
Senior Independent Director (N) (R) (C)
Appointed 1 March 2012
Appointed Senior Independent Director 3 January 2017

Skills and experience Deanna has significant marketing, brand management and consumer knowledge and experience. She held a number of senior roles at Barclays plc, including Chief Executive of UK Retail and Business Banking and Vice Chair of Global Retail Banking. Prior to Barclays, Deanna held senior positions at Washington Mutual, Inc. She was previously a non-executive director of Catellus and Plum Creek Timber.

External appointments Founder of consumer-focused boutique advisory firm, CameoWorks LLC, a non-executive director of AXA Group, the Joshua Green Corporation, Whitbread PLC, Worldpay Group PLC and Brooks Sports. Additionally, she is a senior advisor to Bain & Company.



Simon Patterson
Independent Non-executive Director (A)
Appointed 1 April 2016

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, a Trustee of the Natural History Museum and a 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

Skills and experience Alison has extensive experience of the property sector and customer service delivery. She has also significant business-to-business and international commercial experience, having held a number of senior positions at Bupa. 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.

External appointments Chief Executive of Countrywide plc.



Lindsey Pownall OBE
Independent Non-executive Director (C)
Appointed 1 April 2016

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.

External appointments Non-executive director of Meadow Foods Limited.



Alan Stewart
Chief Financial Officer
Appointed 23 September 2014

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 and 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.

Committee membership (at 11 April 2017)

- (N) Nominations Committee
- (A) Audit Committee
- (R) Remuneration Committee
- (C) Corporate Responsibility Committee
- Chair of Committee

Corporate governance report continued

Executive Committee

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



Alessandra Bellini
Chief Customer Officer

Alessandra joined the Executive Committee on 1 March 2017.

As Chief Customer Officer, Alessandra is responsible for building the Tesco brand globally and putting the customer at the heart of everything that we do.

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.



Matt Davies
UK & ROI CEO

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

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

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

Matt served as a non-executive director at Dunelm Group PLC from 2012 to 2015.



Benny Higgins
CEO, Tesco Bank and Group Strategy Director

Benny joined the Executive Committee on 28 January 2013.

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

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

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



Tony Hoggett
CEO Asia

Tony joined the Executive Committee on 1 April 2017.

Tony joined Tesco as a 16-year old student in 1990 and managed a number of stores in the north of England. Between 2007 and 2011 he held a number of roles in 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 for Extra in 2012. He was also appointed as a board member of Tesco Mobile at this time. In 2014, he joined the UK Leadership Team as Retail Director UK and then Chief Operating Officer UK in 2016.



Alison Horner
Chief People Officer

Alison joined the Executive Committee on 1 March 2011.

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

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

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



Jane Lawrie
Group Communications Director

Jane joined the Executive Committee on 10 October 2016.

As Group Communications Director, Jane is responsible for rebuilding trust in the Tesco brand and our business.

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, including previous roles at Diageo and Boots the Chemist.



Dave Lewis
Group Chief Executive

Dave joined the Board and the Executive Committee on 1 September 2014. His full biography appears on page 34.



Alan Stewart
Chief Financial Officer

Alan joined the Board and the Executive Committee on 23 September 2014. His full biography appears on page 35.



Adrian Morris
Group General Counsel

Adrian joined the Executive Committee on 6 September 2012.

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

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



Jason Tarry
Chief Product Officer

Jason joined the Executive Committee on 1 January 2015.

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

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



Matt Simister
CEO Central Europe

Matt joined the Executive Committee on 1 April 2017.

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 before returning 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. For the last two years, Matt has integrated these capabilities into the UK business.

Governance framework

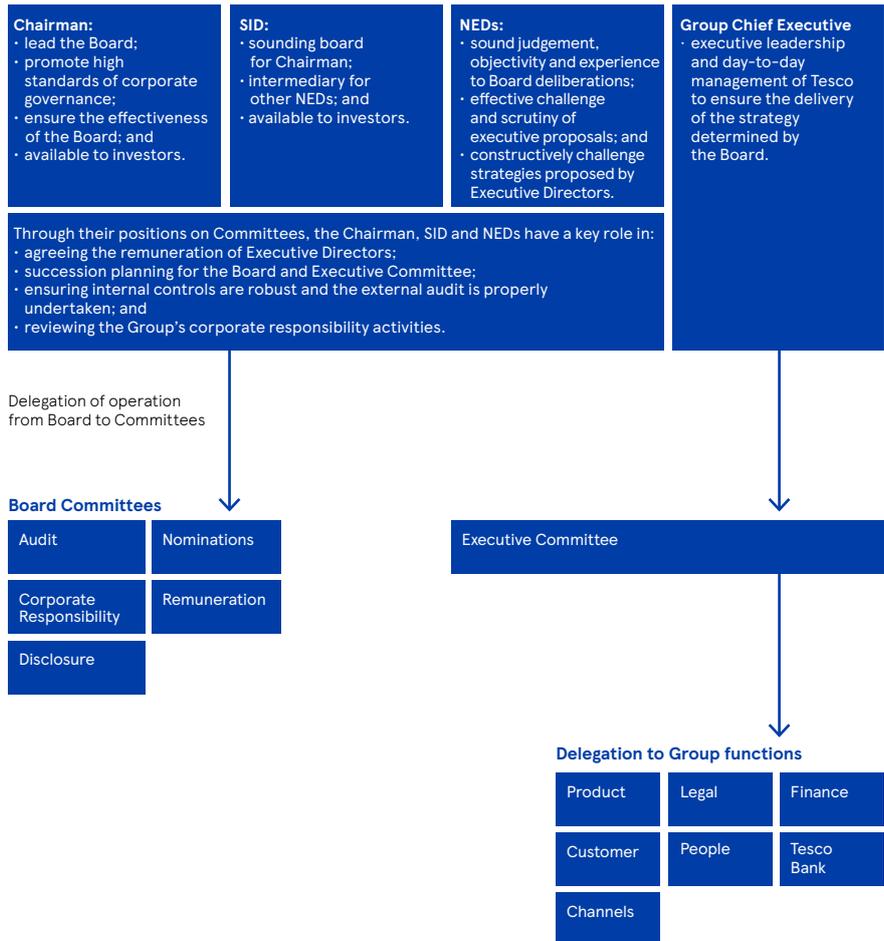
The Board and Executive Committee operate within a wider governance framework at Tesco. This ensures that decisions are taken at the right level of the business by the colleagues best placed to take them. Our framework provides clear direction on decision-making without creating burdensome processes that could impede progress. We retain the agility to get on with running our business whilst maintaining high standards of governance that support our aim of rebuilding trust and transparency.

The governance framework at Tesco provides clear parameters of delegation and responsibilities from the Board down through the Group as illustrated below:

UK Corporate Governance Code compliance

The Board confirms that throughout the year ended 25 February 2017 the Company applied the main principles and complied with the relevant provisions set out in the UK Corporate Governance Code (Code) issued by the Financial Reporting Council (FRC) in September 2014. The Code can be found on the FRC website at: www.frc.org.uk.

In April 2016, the FRC published an updated version of the Code which will apply to the Company for the financial year beginning 26 February 2017, and the Company is preparing to report on the updated Code next year.



1. Leadership

Role of the Board

The Board has a collective responsibility to create and deliver sustainable value for our shareholders, in a way that is supported by the right culture, values and behaviours throughout the Group. We are accountable to shareholders for managing the Company in a manner which promotes the long-term and sustainable success of the Company for the benefit of shareholders as a whole. To support our role in determining the strategic objectives and policies of the Group, we have a well-defined corporate governance framework.

The Board provides entrepreneurial leadership of the Company within a framework of prudent and effective controls for risk assessment and management. The Board is primarily responsible for:

- determining strategic direction and demonstrating leadership;
- focusing on matters that consistently add value for our shareholders and other stakeholders;
- the governance and stewardship of the Group to provide protection and security for the shareholders' assets;
- Board and Committee appointments;
- setting the Group's culture, standards and values, and ensuring that its obligations to shareholders and other stakeholders are understood and met; and
- determining the nature and extent of the principal risks the Group is willing to take to achieve its strategic objectives.

Another key responsibility is to ensure that management maintains a system of internal control that provides assurance of effective and efficient operations, internal financial controls and compliance with laws and regulations.

Matters reserved for the Board

The Board is the decision-making body for those matters that are considered of significance to the Group owing to their strategic, financial or reputational implications or consequences. To retain control of these key decisions, certain matters have been identified that only the Board may approve and there is a formal schedule of powers reserved to the Board. These include approval of:

- the Company's strategic and operating plans;
- risk appetite;
- long-term plans and budgets;
- financial results, viability statement and governance;
- material contracts;
- capital and liquidity matters; and
- major acquisitions, mergers and disposals.

Specific responsibilities have been delegated to the Board Committees, each of which is responsible for reviewing and dealing with matters within its own terms of reference. Each Committee reports to, and has its terms of reference approved by, the Board. The Committee papers and minutes are shared with all Directors. In addition, we have approved a Group Delegated Authorities Schedule which sets out who within the management team has authority to take decisions based on the nature of the decision and the values associated with it.

Board meetings

In order to carry out our work, a planned programme of agendas has been established to ensure all necessary matters are covered and to allow sufficient time for debate and challenge. We also take time to review past decisions where necessary. At Board meetings, we receive and consider papers and presentations from the Executive Directors on relevant topics and senior management are regularly invited to attend meetings for specific items. This enables the Non-executive Directors to engage with colleagues from across the Group. Minutes of meetings record any material concerns expressed by Directors and on resignation, any Non-executive Director having such concerns provides a written statement to the Chairman which is circulated to the Board. Effective review and decision-making is supported by providing the Board with high-quality, accurate, clear and timely information, including input from advisers where necessary.

Board meetings are structured around the following areas:

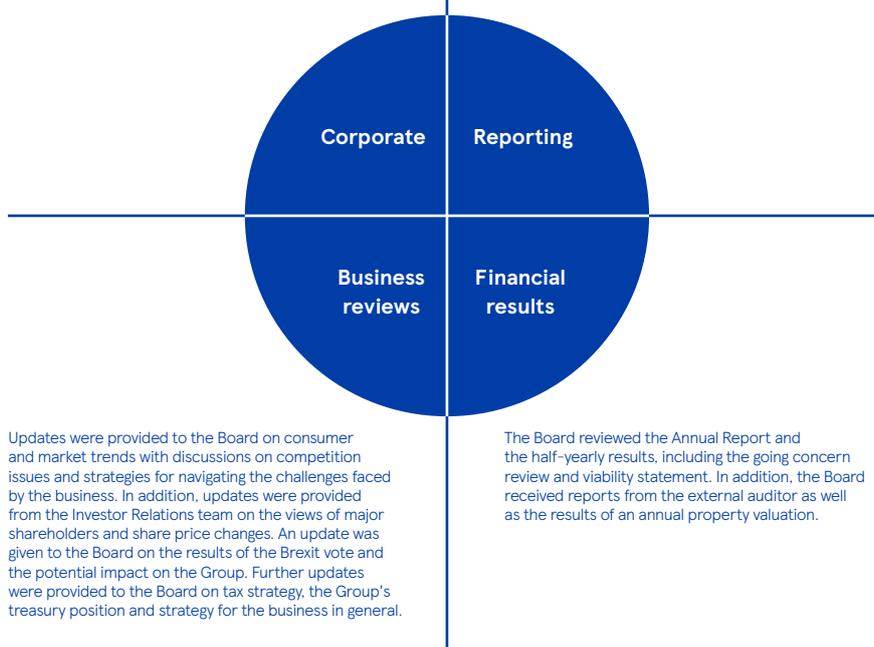
- financial results;
- business reviews;
- reporting; and
- corporate activities.

During the year, the Board and its Committees continued to focus on delivering the Company's strategy. We held a strategy day in November which included in-depth discussions of strategic matters and a number of presentations by senior management. In addition, the Board also held a number of in-depth strategy sessions throughout the year focused on the six strategic drivers and risk management.

A forward agenda for the Board is maintained, setting out items for consideration periodically in the future. This provides context for the current meeting agenda, setting out when items will be tabled for consideration through the annual cycle of events.

The Board received reports from each of the Audit, Corporate Responsibility, Nominations and Remuneration Committees following each Committee meeting. The Company Secretary also provided regular reports on corporate and regulatory updates and also routine corporate approvals. The Board received updates on litigation and compliance-related matters. A number of meetings were held on the proposed merger with Booker Group PLC and other transactions, often with advisers in attendance.

The Group Chief Executive provided updates to the Board during the year on business performance, investor engagement, business priorities and operations, as well as regulatory and corporate responsibility, colleague matters and key stakeholder metrics. Reports were also provided to the Board by the Chief Financial Officer setting out progress on the six strategic drivers.



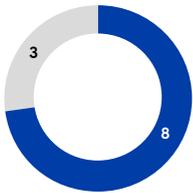
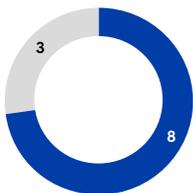
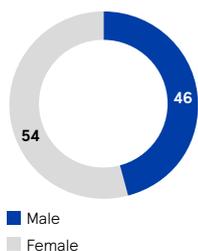
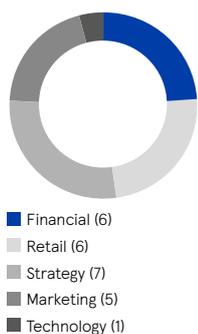
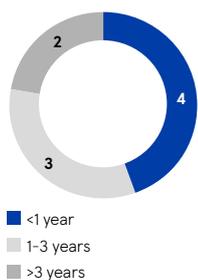
Updates were provided to the Board on consumer and market trends with discussions on competition issues and strategies for navigating the challenges faced by the business. In addition, updates were provided from the Investor Relations team on the views of major shareholders and share price changes. An update was given to the Board on the results of the Brexit vote and the potential impact on the Group. Further updates were provided to the Board on tax strategy, the Group's treasury position and strategy for the business in general.

The Board reviewed the Annual Report and the half-yearly results, including the going concern review and viability statement. In addition, the Board received reports from the external auditor as well as the results of an annual property valuation.

Division of responsibilities

The Board has agreed a clear division of responsibilities between the running of the Board and running the business of the Group. The Chairman is responsible for the leadership of the Board and to ensure that it operates effectively, while the responsibility for the day-to-day management of Tesco has been delegated to the Group Chief Executive. The responsibilities of the Chairman, Group Chief Executive, Senior Independent Director and other Directors are clearly defined so that no individual has unrestricted powers of decision.

The Group Chief Executive is supported by the Executive Committee, which is responsible for making and implementing operational decisions while running Tesco's day-to-day business, and for making recommendations to the Board. The Group's senior management structure has been designed to support management's decision-making responsibilities, aligned to personal accountability and delegated authority, while embedding risk and control in business decision-making.

Gender split at Board level**Gender split at Executive Committee level****Gender split at all employee level (%)****Board members' expertise****Tenure of Non-executive Directors****Non-executive Directors**

The Non-executive Directors provide a strong independent element to the Board and a solid foundation for good corporate governance. Although all Directors are equally accountable under the law for the stewardship of the Company's affairs, the Non-executive Directors fulfil a vital role in corporate accountability. They have responsibility for constructively challenging the strategies proposed by the Executive Directors, scrutinising the performance of management in achieving agreed goals and objectives, as well as playing a leading role in the functioning of the Board Committees. Between them, the current Non-executive Directors have the appropriate balance of skills, experience, knowledge and independent judgement gained through experience in a variety of business sectors. See pages 34 and 35 for a description of the skills and experience of each Non-executive Director.

Diversity and inclusion

The Board continues to recognise that diversity is key for introducing different perspectives into Board debate and for better anticipating the risks and opportunities in building a long-term sustainable business. As set out on pages 34 to 37, each member of the Board and Executive Committee offers core skills and experience that are relevant to the successful operation of the Group. Whilst relevance of skills is key, a balance between the skills represented is sought to ensure that there is an appropriate mix of members with diverse backgrounds. This contributes to minimising the risk of 'group-think' as different viewpoints on key issues support work to regain commercial competitiveness through promoting a healthy culture of challenge and scrutiny.

Board Committees

The four principal Committees of the Board are: Audit; Corporate Responsibility; Nominations; and Remuneration. Board Committee members are appointed by the Board upon the recommendation of the Nominations Committee, which reviews the composition of each Committee regularly. The Committee memberships are spread between the Non-executive Directors, drawing on each of their relevant skills and experience. Committee members are expected to attend each Committee meeting, unless there are exceptional circumstances which prevent them from doing so. Only members of the Committees are entitled to attend their meetings, but others may attend at the Committee's discretion.

The terms of reference of each Committee are available to view on the Company's website and on request from the Group Company Secretary at the Company's registered office. The terms of reference are normally reviewed annually.

The current membership of the Board's Committees is shown in the table below:

	Audit Committee	Corporate Responsibility Committee	Nominations Committee	Remuneration Committee
John Allan	-	C	C	M
Mark Armour	M	-	-	-
Steve Golsby	-	M	-	-
Byron Grote	C	-	M	M
Mikael Olsson	-	M	-	M
Deanna Oppenheimer	-	M	M	C
Simon Patterson	M	-	-	-
Alison Platt	-	-	-	M
Lindsey Pownall	-	M	-	-

M: Member C: Chair

2. Effectiveness**Board balance**

Effective management and good stewardship are led by the Board. The Board is currently composed of the Chairman, who was independent on appointment, two Executive Directors and eight Non-executive Directors. The balance of Directors on the Board ensures that no individual or small group of Directors can dominate the decision-making process and that the interests of shareholders are protected. Biographies of all current Directors are set out on pages 34 and 35. Simon Patterson, Alison Platt and Lindsey Pownall joined the Board on 1 April 2016 and Steve Golsby joined on 1 October 2016. Richard Cousins stood down from the Board and as Senior Independent Director on 3 January 2017 and was succeeded by Deanna Oppenheimer as Senior Independent Director.

Board independence

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

	Date of appointment	Full years in role at 2017 AGM	Considered independent by the Board
Mark Armour	02/09/2013	3	✓
Steve Golsby	01/10/2016	<1	✓
Byron Grote	01/05/2015	2	✓
Mikael Olsson	01/11/2014	2	✓
Deanna Oppenheimer	01/03/2012	5	✓
Simon Patterson	01/04/2016	1	✓
Alison Platt	01/04/2016	1	✓
Lindsey Pownall	01/04/2016	1	✓

Commitment

In order to effectively discharge their responsibilities, Non-executive Directors are expected to commit sufficient time to their role and all Directors are expected to attend each Board meeting and each Committee meeting for which they are members, save for in exceptional circumstances. To help enable this, scheduled Board and Committee meetings are arranged at least a year in advance to allow Directors to manage other commitments. If a Director is unable to attend a meeting because of exceptional circumstances, he or she still receives the papers and other relevant information in advance of the meeting and has the opportunity to discuss with the relevant Chair or the Group Company Secretary any matters he or she wishes to raise and to follow up on the decisions taken at the meeting. The Chairman, Group Chief Executive and Group Company Secretary are always available to discuss issues relating to meetings or other matters with the Directors. Reasons for non-attendance are generally prior business and personal commitments or illness. The Board is satisfied that the Chairman and each of the Non-executive Directors are able to devote sufficient time to the Company's business. Non-executive Directors are advised on appointment of the time required to fulfil their role and are asked to confirm that they can make the required commitment.

Attendance at Board meetings

The Nominations Committee assesses the external commitments of Board members to ensure that they each have sufficient time and energy to devote to their role with Tesco. The Board is currently satisfied that the number of appointments held by each Director in addition to their position with Tesco is appropriate to allow them to fulfil their obligations to the Group. This is reflected in the attendance by Directors at scheduled Board meetings in 2016/17:

	Number of scheduled meetings eligible to attend	Number of scheduled meetings attended
John Allan	6	6
Mark Armour	6	6
Richard Cousins (stood down 03/01/17)	5	5
Steve Golsby	3	3
Byron Grote	6	6
Dave Lewis	6	6
Mikael Olsson	6	6
Deanna Oppenheimer	6	5
Simon Patterson	6	6
Alison Platt	6	5
Lindsey Pownall	6	6
Alan Stewart	6	6

In addition to the six scheduled meetings of the Board during the year, there were seven further meetings held mainly in respect of transactions, including the proposed Booker Group PLC merger.

During the year, the Chairman met with Non-executive Directors without Executive Directors being present. Among the issues discussed at these meetings were strategy, Board composition, performance of the Group, the proposed Booker Group PLC merger and management performance.

Induction

Led by the Chairman, a comprehensive induction programme is tailored for each new Director prior to their appointment to the Board. The programme is designed for each individual, taking account of their existing knowledge of the business, specific areas of expertise and proposed Committee appointments. The programme is designed to facilitate their understanding of Tesco, the six strategic drivers, the role of the Board and its Committees, the Company's corporate governance practices and procedures, as well as providing them with appropriate training and guidance as to their duties, responsibilities and liabilities as a director of a public limited company.

During the year, the Group provided tailored induction programmes for Simon Patterson, Alison Platt, Lindsey Pownall and Steve Golsby, all Non-executive Directors. Meetings were arranged with the Chairman, Group Chief Executive and Senior Independent Director, as well as senior members of management to ensure they gained a thorough overview and understanding of the key business channels. In addition, they visited various stores and sites.

Each new Director is provided with a wealth of information via our online Board portal, including:

- history, values and 'Every Little Helps' culture of Tesco;
- Group strategy, including progress on the six strategic drivers;
- consumer and industry trends;
- governance framework;
- operational and management structure (including succession plans);
- key relationships with investors and other stakeholders;
- internal control framework and Group risk profile, including key areas of focus for internal audit;
- remuneration policy; and
- corporate responsibility activities.

Members of the Board have access to all Board and Committee papers and minutes.

Development

The Chairman regularly discusses training requirements with the Board and arranges meetings or asks for information to be provided, as appropriate. As part of the ongoing development of Directors, key site visits are arranged during the year. In addition, all Directors are provided with the opportunity for, and encouraged to attend, training to ensure they are kept up to date on relevant legal, regulatory and financial developments or changes in best practice. Typical training for Directors includes attendance at seminars, forums, conferences and working groups, as well as receiving updates from relevant bodies on various legal, regulatory and corporate governance matters. Directors also receive the benefit of teach-ins and technical updates provided at Board and Committee meetings, which aim to ensure that Directors remain up to date with key developments on the business environment in which Tesco operates.

To ensure the Board as a whole remains fully informed of the views of shareholders, the members receive regular reports on shareholder sentiment at Board meetings. Although not part of their induction programme, all Non-executive Directors can attend shareholder meetings and analyst presentations, and shareholders may meet informally with Directors at the AGM.

Information and support

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

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

All Directors receive detailed papers and other relevant information on the business to be conducted at each Board or Committee meeting well in advance and all Directors have direct access to senior management should they wish to receive additional information on any of the items for discussion. Directors are provided between meetings with relevant information on matters affecting the business.

Conflicts of interest

The Directors have a statutory duty under the Companies Act 2006 to avoid situations in which they have or can have a direct or indirect interest that conflicts or may conflict with the interests of the Company. This duty is in addition to the existing duty that a Director owes to the Company to disclose to the Board any transaction or arrangement under consideration by the Company. The Company's conflict of interest procedures are reflected in the Articles of Association and the Code of Business Conduct. In line with that Act, the Company's Articles of Association allow the Directors to authorise conflicts and potential conflicts of interest where appropriate. The decision to authorise a conflict can only be made by non-conflicted Directors. Directors do not participate in decisions concerning their own remuneration or interests.

The Group Company Secretary minutes the consideration of any conflict or potential conflict of interest and authorisations granted by the Board. On an ongoing basis, the Directors inform the Group Company Secretary of any new, actual or potential conflict of interest that may arise or if there are any changes in circumstances that may affect an authorisation previously given. Even when authorisation is given, a Director is not absolved from his or her duty to promote the success of the Company.

Furthermore, the Company's Articles of Association include provisions relating to confidential information, attendance at Board meetings and availability of Board papers to protect a Director from breaching his or her duty if a conflict of interest arises. These provisions will only apply where the circumstance giving rise to the potential conflict of interest has previously been authorised by the Directors.

Performance evaluation

The Board undertakes an annual evaluation of its own performance as well as that of its Committees and individual Directors. This provides an opportunity to consider ways of identifying greater efficiencies, maximising strengths and highlighting areas for further development, as well as checking that each Director continues to demonstrate commitment to his or her role and each has sufficient time to meet his or her commitments to the Company.

Following an external review in 2015 by Independent Board Evaluation, who has no connection to the Group, the Board conducted an internal review in 2016 led by the Chairman with the support of the Group Company Secretary and Lintstock Ltd. The 2016 evaluation was carefully structured but pragmatic, designed to bring about a genuine debate on issues that were relevant, check on progress against matters identified in the previous evaluation and assist in identifying any potential for improvement in the Company's processes. It entailed completion of a detailed questionnaire to assess the effectiveness of the Board, its Committee and individual Directors and the preparation of a composite report. The questionnaire focused on the operation of the Board and its Committees, key areas of Board focus, composition and capability, risk management and internal control, leadership and accountability, effectiveness of Board meetings and strategy. The results of the performance evaluation were presented and discussed at Board and Committee meetings in February 2017.

Relations with our investors

Having assessed the findings of the evaluation, the Directors were satisfied that the Board and each of its Committees operated effectively in 2016. Key areas of focus arising from the report to be addressed in the year ahead included strategy planning, Board dynamics and succession planning.

Details of the main areas identified for improvement in the 2015 external evaluation report and the actions taken during 2016/17 are set out below:

Areas identified	Action taken
Enhancing and strengthening risk management procedures	Approval of new risk, controls and assurance framework
Greater alignment of Board development with strategy	Board receives regular deep dives and 'master classes' on the six strategic drivers and risk management
Standardising the principal information provided to new Directors as part of their induction programme	Revised induction programme developed, including standard list of information to be provided to new Directors
Continuing to allocate sufficient time to visit stores, distribution centres and other Tesco sites	Board calendar includes annual site visits. Non-executive Directors invited to join the Chairman on visits to stores both in the UK and internationally

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

Election and re-election of Directors

Directors newly appointed by the Board are required to submit themselves for election by shareholders at the AGM following their appointment. Steve Golsby, having been appointed as a Director on 1 October 2016, will retire and submit himself for election at the forthcoming AGM. In accordance with best practice and the UK Corporate Governance Code, all other Directors will submit themselves for re-election at the forthcoming AGM.

Code of Business Conduct

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

3. Relations with our investors

Shareholder engagement

The Board welcomes the opportunity to openly and purposefully engage with shareholders as it recognises the importance of a continuing effective and meaningful dialogue, whether with institutional, private or employee shareholders. The Board takes responsibility for ensuring that such dialogue takes place.

Institutional shareholders

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

- the Chairman, Group Chief Executive and Chief Financial Officer held regular meetings throughout the year with institutional shareholders and updated the Board on the outcome of those meetings;
- roundtable events and investor roadshows were organised and conferences attended in the UK and North America, as well as other stand-alone meetings and calls with investors based in Europe, Asia and Australia;
- the Investor Relations team held further investor meetings throughout the year and attended a number of store tours and conferences;
- institutional shareholders were invited to attend the Company's full-year and half-year results presentations. The presentation slides and a webcast of the full-year and half-year results presentations were made available at www.tescopl.com along with transcripts of all the results presentations and trading statement conference calls;
- in November, investors, analysts and supplier partners, including shareholders representing over 40% of our issued share capital, attended an Investor and Analyst Seminar at Tesco's offices in Welwyn Garden City to meet our management team and learn about the six strategic drivers;

- a presentation was held for investors and analysts following the announcement of our recommended merger with Booker Group PLC in January and subsequent meetings were held between the Chairman, Group Chief Executive, Chief Financial Officer and institutional investors to discuss the proposed merger; and
- we also engaged socially responsible investors by holding calls to discuss various issues and responding to queries.

The outcome of shareholder interactions are reported to the Board by the Investor Relations team in order to ensure that all Non-executive Directors develop an understanding of the views of major shareholders. All Non-executive Directors are able to attend scheduled meetings with major shareholders.

Retail shareholders

Corporate website

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

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

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

Debt investors

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

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

Annual General Meeting

The AGM was held on Thursday 23 June 2016 at the ExCel Centre in London. At the meeting, all shareholders were given an opportunity to question the Board on the business being proposed. All Directors attended and were available to answer questions.

Voting on all resolutions was by way of a poll, which allowed shareholders to vote by proxy if they could not attend. Shareholders were given the option to vote for or against the resolutions or to withhold their vote. The proxy form and results made it clear that a vote withheld was not a vote in law and would not be counted. The results of voting at the AGM were published on our website at www.tescopl.com.

The AGM for this year will be held on Friday 16 June 2017 at 2.00 p.m. at the ExCel Centre in London. Full details will be included in the Notice of Meeting.

Nominations Committee



John Allan Non-executive Chairman

“We recognise that good succession planning contributes to the delivery of the Group’s strategy.”

Nominations Committee attendance

Member	Number of scheduled meetings eligible to attend	Meetings attended
John Allan	1	1
Deanna Oppenheimer	1	1
Byron Grote	1	1

Nominations Committee responsibilities

The responsibilities of the Nominations Committee include:

- review of the structure, size and composition (including skills, knowledge, experience, and diversity) of the Board and its Committees and making recommendations to the Board regarding any changes;
- identification and nomination of candidates for appointment to the Board;
- review of succession over the longer term for Directors and senior management;
- keeping under review the time commitment expected from the Chairman and Non-executive Directors; and
- ensuring an effectiveness review is conducted annually of the Board, its Committees and Directors.



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

Dear Shareholder

Following two years of significant change in the composition of the Board, 2016/17 was quieter and this was reflected in the activity of the Committee during the year. Although we held only one scheduled meeting during the year, there were a number of ad hoc meetings which allowed us to fulfil our responsibilities.

The main issues considered by the Committee during the year were the appointment of Steve Golsby as a new Non-executive Director in October 2016 and the effective management succession of senior management.

The Committee instructed executive search firm, Egon Zehnder, who do not have any connection to the Company and are a signatory to the Voluntary Code of Conduct of Executive Search Firms, to compile a gender-balanced long list of candidates for the new Non-executive Director role. The Committee concluded that Steve’s broad international expertise and significant management experience in South East Asia, having lived and worked there for many years, made him the ideal candidate to bolster the capabilities and effectiveness of the Board.

The Committee has continued to scrutinise the robustness of succession planning arrangements for the Executive Directors and the Executive Committee, together with the adequacy of the pipeline of leadership talent below the Executive Committee. We recognise that good succession planning contributes to the delivery of the Group’s strategy by ensuring the desired mix of skills and experience of Board members and senior management now and in the future. An in-depth review was conducted during the year of the Group’s talent management approach and succession pipeline and this will continue to be a focus during 2017/18.

Richard Cousins stood down from the Board and as Senior Independent Director in January 2017. During his time on the Board, Richard discharged his responsibilities with great diligence, including being part of the committee which led to my appointment as Chairman. The Committee was pleased to recommend the appointment of Deanna Oppenheimer as his successor. Deanna joined the Board in March 2012 and was appointed as Chair of the Remuneration Committee in January 2015. She brings continuity to the Board’s composition, given her knowledge and experience of Tesco’s business.

John Allan
Nominations Committee Chair

Nominations Committee activities

During 2016/17, the Committee considered, amongst other matters, the following:

- selecting and recommending Steve Golsby as a new Non-executive Director and a member of the Corporate Responsibility Committee;
- succession planning for Executive Directors, Non-executive Directors and the Executive Committee;
- in accordance with Non-executive Directors' letters of appointment, the extension of Mark Armour's appointment following three years of service on the Board;
- making a recommendation to the Board regarding the re-election of Directors at the 2017 AGM;
- reviewing the results of the annual performance evaluation of the Committee; and
- reviewing the Committee's terms of reference.

Board appointments process

When considering the recruitment of a new Director, the Committee adopts a formal, rigorous and transparent procedure with due regard to diversity, including gender. Prior to making an appointment, the Committee will evaluate the balance of skills, knowledge, independence, experience and diversity on the Board and, in light of this evaluation, will prepare a full description of the role and capabilities required. In identifying suitable candidates, the Committee:

- uses open advertising or the services of external advisers to facilitate the search;
- considers candidates from different genders and a wide range of backgrounds;
- considers candidates on merit and against objective criteria ensuring that appointees have sufficient time to devote to the position, in light of other potential significant positions; and
- engages from time-to-time with the Group's major shareholders on future skills requirements and ideas for potential candidates.

Where the Committee appoints external advisers to facilitate the search, it ensures that the firm selected has signed up to the relevant industry codes (for example, on diversity) and has no connection with the Company.

Corporate Responsibility Committee



John Allan Non-executive Chairman

“Our new approach to corporate responsibility is aligned with Tesco’s core value of ‘serving shoppers a little better every day’.”

Corporate Responsibility Committee attendance

Member	Number of scheduled meetings eligible to attend	Meetings attended
John Allan	2	2
Steve Golsby	1	1
Deanna Oppenheimer	2	1
Mikael Olsson	2	2
Lindsey Pownall	2	2

Corporate Responsibility Committee responsibilities

The responsibilities of the Corporate Responsibility Committee include:

- approving the Group’s corporate and social obligations as a responsible citizen and overseeing its conduct in the context of those obligations;
- approving a strategy for discharging the Group’s corporate and social responsibilities in such a way as to command respect and confidence;
- identifying and monitoring those external developments that are likely to have a significant influence on the Group’s reputation and/or its ability to conduct its business appropriately as a good citizen and review how best to protect that reputation or that ability;
- overseeing the creation of appropriate policies and supporting measures;
- monitoring the Group’s engagement with external stakeholders and other interested parties; and
- ensuring that appropriate communications policies are in place and working effectively to build and protect the Group’s reputation both internally and externally.



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

Dear Shareholder

As set out in last year’s Annual Report, during the year the Committee undertook a root and branch review of its role and activities, and of Tesco’s corporate responsibility activities and their impact across the Group. Supported by Jane Lawrie, our new Group Communications Director, the Committee facilitated the development of a new corporate responsibility strategy.

The new corporate responsibility strategy recognises that responsible behaviour within Tesco will drive trust and add value to our business. The new approach to corporate responsibility is aligned with our ‘Product, Channel, Customer and People’ business model and with Tesco’s core value of ‘serving shoppers a little better every day’. The new approach will enable us to focus our resources on activities that recognise the impact we can have on the environment, health, our local communities and our other stakeholders.

The Committee’s role in the governance of the new corporate responsibility strategy has also been evaluated. Going forward we will meet three times a year. This will better enable the Committee to monitor performance of the new strategy to ensure it is meeting its objectives.

During the year, Steve Golsby was appointed to the Committee, bringing an additional perspective given his knowledge of international business.

John Allan
Corporate Responsibility Committee Chair

Key activities

In February 2017, the Committee approved a new corporate responsibility strategy, which includes the following key components:

- alignment with Tesco’s existing ‘Product, Channel, Customer and People’ business model and a focus on three main priorities:
 - fresh affordable food that is fair to farmers and suppliers;
 - food waste and the environment; and
 - Tesco’s role in health and local society.
- creation of a clear ownership structure for corporate responsibility from Executive Committee level down through the value chain;
- increasing the number of Committee meetings to three per year; and
- implementing a communications plan, with specific focus on empowering colleagues to influence change in their local communities.

Terms of reference

The Committee’s terms of reference will be thoroughly reviewed in 2017/18 to ensure they are aligned to the new corporate responsibility strategy. Details of the revised terms of reference will be set out in next year’s Annual Report.



Byron Grote Audit Committee Chair

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

Dear Shareholder

On behalf of the Board, I am pleased to present this year’s Audit Committee report. The Committee has continued to play a key role within the Tesco PLC governance framework to support the Board in matters relating to financial reporting, internal control and risk management. We have had another busy year undertaking our principal responsibilities which are set out in this report. Some of this year’s highlights include the following:

- overseeing the continued development of the Group’s risk management and internal controls framework, including the creation of a new risk, controls and assurance model aiming to align the approach to risk and further embed the risk management culture across the Group;
- in-depth review of specific principal risk areas, and potential impacts arising from Brexit;
- regular review of the Group’s IT general controls and information security risks and the ongoing implementation of the technology transformation project which continues to strengthen controls in these areas;
- monitoring key compliance activities in the Group, including in the areas of data privacy, anti-bribery and fraud and in respect of the Group’s whistleblowing arrangements;
- review of the ongoing development of the Group’s finance transformation programme;
- review and consideration of tax regulations, disclosures and new reporting requirements;
- assessment of the going concern and viability statements and the underlying models and assumptions, prior to consideration by the Board; and
- oversight of a corporate simplification programme to simplify our corporate structure and intra-group financing arrangements, and to drive greater efficiencies in the Group.

During the year, the Committee also monitored the significant work carried out to develop and strengthen our supplier systems and processes, including in response to the findings of the Groceries Code Adjudicator (GCA) following her January 2016 report into historic supplier issues at Tesco. Further details can be found on pages 75 to 76.

Looking ahead, these areas will remain a key focus in 2017/18. We will also continue to oversee preparations for the implementation of some new and significant accounting standards, namely IFRS 9 ‘Financial Instruments’; IFRS 15 ‘Revenue from contracts with customers’; and IFRS 16 ‘Leases’, as further described in Note 1 to the financial statements on page 98.

Audit Committee responsibilities

The Committee’s terms of reference, which were updated in April 2017, can be found at www.tescopl.com. Responsibilities include:

- monitoring the Group’s financial reporting processes;
- review, and challenge where necessary, of the actions and judgements of management in relation to the interim and annual financial statements before submission to the Board;
- review of the interim and annual financial statements and announcements relating to the financial performance of the Group;
- consideration of the appointment of the external auditor, their reports to the Committee and their independence, including an assessment of their appropriateness to conduct any non-audit work in accordance with the Group’s non-audit services policy;
- review and agreement with the external auditor as to the nature and scope of the external audit and approving the audit fee;
- review and monitoring of the internal controls and risk management processes of the Group, including key financial, operational and compliance controls, and their effectiveness;
- review of the internal audit programme and ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the Group;
- review of the Group’s arrangements by which employees and contractors may, in confidence, raise concerns about possible improprieties in financial reporting or other matters;
- consideration of management’s response to any major external or internal audit recommendations; and
- review of business continuity plans and processes for the prevention of fraud, bribery and corruption.

A handwritten signature in black ink, appearing to read 'Byron Grote', written in a cursive style.

Byron Grote
Audit Committee Chair

Audit Committee Membership

The Committee comprises Byron Grote, as Chairman, Mark Armour and Simon Patterson. Richard Cousins stepped down from the Board and Audit Committee with effect from 3 January 2017. All of the Committee members are independent Non-executive Directors and the Board is satisfied that a majority of members have significant, recent and relevant financial experience for the purposes of the Code and are competent in accounting and auditing.

In addition, and as required by the revised Code which was issued in April 2016 and applies to the Company from its 2017/18 financial year, the Board considers that the Committee members as a whole have competence relevant to the Company's sector, in addition to general management and commercial experience. The expertise and experience of the members of the Committee is set out in each of their biographies on pages 34 to 35.

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

Audit Committee attendance

Member	Number of scheduled meetings eligible to attend	Meetings attended
Byron Grote	6	6
Mark Armour	6	6
Richard Cousins ^(a)	5	5
Simon Patterson ^(b)	6	6

^(a) Richard Cousins attended all possible meetings in the year, prior to his resignation effective 3 January 2017.

^(b) Appointed 1 April 2016.

Audit Committee meetings

The Committee met six times in the 2016/17 financial year, with each meeting having a distinct agenda to reflect the annual financial reporting cycle of the Group and particular matters for the Committee's consideration. The Committee has a forward-looking planner, which is designed to ensure that its responsibilities are discharged in full during the year. This planner is regularly reviewed and developed to meet the changing needs of the Group.

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

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

Corporate governance report continued

Audit Committee report continued

Key activities

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

Meeting	Key matters considered
March 2016	<ul style="list-style-type: none"> Key accounting judgements relating to the 2015/16 financial results Risk, control and assurance framework, risk appetite and internal control effectiveness Viability statement and going concern review Group compliance update, including anti-fraud and bribery, privacy and implementation of GCA recommendations Code compliance External audit update on 2015/16 audit Internal audit update and plan for 2016/17
April 2016	<ul style="list-style-type: none"> Preliminary results and Annual Report 2015/16 Report from Disclosure Committee, including fair, balanced and understandable reviews Tesco Bank update Whistleblowing review Tax update, disclosures and transparency publication External audit – Deloitte year-end final report and non-audit services
July 2016	<ul style="list-style-type: none"> Risk, control and assurance framework and risk appetite Technology – IT and information security controls update Insurable risk review GSCOP compliance update Treasury, funding and corporate simplification update Key accounting matters, including Brexit impacts External audit – audit plan, approval of audit fee, non-audit services, management letter observations from 2015/16 audit Internal audit update
September 2016	<ul style="list-style-type: none"> Interim results statement and going concern review Group compliance update, including whistleblowing, anti-bribery and fraud, gifts and entertainment, privacy transformation plans and GSCOP UK & ROI and International Finance Director reports and key financial controls update Treasury risk management framework External audit – Deloitte interim report and non-audit services Internal audit update
November 2016	<ul style="list-style-type: none"> Risk, control and assurance update, including principal risk review process, risk management roadmap and risk culture Risk reviews – pensions, technology and IT controls, transformation Treasury risk management framework Tesco Bank Personal Current Account incident Viability statement – modelling and assumptions Internal and external audit updates including Deloitte non-audit services Non-audit fees policy update Internal audit charter and 2017/18 plan Corporate simplification
February 2017	<ul style="list-style-type: none"> Risk, control and assurance update, principal risks and internal control effectiveness Group tax matters, risks and reporting Treasury – funding plan and liquidity review Tesco Bank Personal Current Account incident update Key accounting judgements relating to the 2016/17 financial results Corporate simplification Internal audit update External audit – Deloitte early warning report and non-audit services Committee effectiveness review and terms of reference
April 2017	<ul style="list-style-type: none"> Preliminary results and Annual Report 2016/17 Report from Disclosure Committee, including fair, balanced and understandable reviews Tesco Bank update Group compliance update, including whistleblowing, anti-bribery and fraud, gifts and entertainment, privacy transformation plans and GSCOP Going concern and viability statement reviews Code compliance External audit – Deloitte year-end final report, external audit effectiveness review, Deloitte non-audit services Internal audit effectiveness review Review of executive expenses

The Committee is responsible for assisting the Board's oversight of the quality and integrity of the Company's financial reporting and the Company's accounting policies and practices. During the year, the Committee has continued to receive updates regarding the Group's ongoing finance transformation programme and the actions taken to address observations raised by Deloitte in its letter to management following completion of the 2015/16 audit. Recommendations have been implemented to further enhance the Group's financial reporting systems and controls environment. The Committee has also received regular updates, including from Group Audit & Advisory and the UK & ROI and International Finance Directors, on the development and effectiveness of the Group's key internal financial controls.

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

Fair, balanced and understandable statement

The Committee advised the Board on whether the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the necessary information to assess the Company's position and performance, business model and strategy. The Committee concluded that the disclosures, and the processes and controls underlying their production, were appropriate and recommended to the Board that the Annual Report and Financial Statements are fair, balanced and understandable.

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

The Committee also reviewed the disclosures regarding the Company's alternative performance measures (APMs) having regard, in particular, to the Guidelines on Alternative Performance Measures issued by the European Securities and Markets Authority in October 2015. The Company has been notified that the Annual Report and Financial Statements have been selected for review as part of the Financial Reporting Council's (FRC) second thematic review into the use of APMs in annual reports and accounts. This will represent the FRC's first review of the Company's APM reporting and the Company will use any feedback from the process to further improve the quality of its disclosures.

The Committee carried out a number of in-depth reviews of specific principal risk areas this year and reported its findings and recommendations to the Board. The Committee received updates from management in relation to the Group's transformation, technology, information security, data privacy, treasury, tax, pensions, insurance and key compliance risks and the controls and mitigating actions employed in each of these areas. The Committee has assessed the effectiveness of the Group's whistleblowing arrangements and reviewed compliance with the Groceries Supply Code of Practice.

The Committee received update reports during the year from the Tesco Bank Audit Committee, the Disclosure Committee and the Group Compliance Committee. Group Audit & Advisory provided regular updates on its work, including findings from its internal audit programme and the status of management actions to address such findings. Reports from Deloitte, as external auditor, were also presented and considered at each Committee meeting.

Reports were also requested on ad hoc matters as they arose. One key matter this year has been the Committee's review of the fraud attack on Tesco Bank Personal Current Accounts which occurred in November 2016. The Committee has considered the implications for Tesco Bank and the Group, and the remediation plans developed in response to the incident. Further details regarding the incident can be found in the Principal risks and uncertainties section on page 30.

The Committee also considered a payroll systems error, which had been discovered as a result of an internal review. The error resulted in the pay of some UK colleagues, after salary sacrifice, not reaching National Living Wage levels. The Committee reviewed the actions taken by management to understand the root cause of the issue, to review historic payments in order to reimburse affected colleagues (total reimbursement costs are expected to be £9.7m), and to implement a payroll system solution to remedy the error and prevent a future breach.

Significant financial statement reporting issues

The Committee considered a number of significant issues in the year, taking into account in all instances the views of the Company's external auditor. The issues and how they were addressed by the Committee are detailed below:

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and viability statement	The Committee reviewed management's assessment of going concern and long-term viability with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, and recommended the approval of the viability statement.

Issue	How the issue was addressed by the Committee
Fixed asset impairment and onerous lease provisions	<p>The Committee reviewed and challenged management's impairment testing of property and technology assets and estimate of onerous lease provisions. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging projected cash flows, growth rates, discount rates and the use of independent third party valuations and considering any impacts of the uncertainties arising from Brexit.</p> <p>The Group has recognised a £112m release of impaired PPE assets, together with an onerous lease provision of £56m in the year and a £7m charge for Software and other intangible assets. See Note 11 to the financial statements for fixed assets impairment, and Note 25 for property provisions.</p>
Goodwill impairment	<p>The Committee reviewed management's process for testing goodwill for potential impairment and ensuring appropriate sensitivity disclosure. This included challenging the key assumptions: principally cash flow projections, growth rates and discount rates. The Group has recognised a goodwill impairment of £46m. See Note 10 to the financial statements.</p>
Valuation of China associate	<p>The Committee reviewed management's assessment of the valuation of the Group's China associate, Gain Land, covering the methodology and assumptions used by management, including latest market information and the use of independent valuation experts, in determining the fair value of the investment. This included review of Gain Land's projected cash flows, growth rates and discount rates used and the external market indicators to include in the valuation. The carrying value was supported by the valuation. See Note 13 to the financial statements.</p>
Pensions	<p>The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, principally the discount rate. See Notes 4 and 27 to the financial statements.</p>
Business combinations and disposals	<p>The Committee considered the key judgements made by management in accounting for a number of property transactions and the disposal of the Kipa business in Turkey. See Notes 7 and 31 to the financial statements.</p>
Contingent liabilities	<p>The Committee further considered management's assessment of the status of the ongoing regulatory investigations and litigation relating to prior periods. In respect of the announcement of 28 March relating to matters regarding the SFO and FCA, the booking of a provision was considered appropriate as an adjusting post balance sheet event. In respect of remaining matters and uncertainties regarding the outcomes, no provision was required and disclosure as contingent liabilities at year-end was appropriate. See Notes 4, 25, 32 and 35 to the financial statements.</p>
Recognition and disclosure of commercial income	<p>The Committee reviewed management's assessment of the controls that exist over the recognition of commercial income. Disclosure of commercial income was reviewed and challenged with respect to FRC publications and market practice. See Notes 1 and 20 of the financial statements.</p>
Exceptional items	<p>The Committee considered the presentation of the Group financial statements and, in particular, the appropriateness of the presentation of exceptional items. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed and consistently applied across years and appropriately presented. Consideration was also given to the quality of earnings within underlying results. See Note 4 to the financial statements.</p>
Alternative performance measures	<p>The Committee considered the disclosure of the Company's alternative performance measures with respect to applicable guidelines. See Note 1 and the Glossary to the financial statements.</p>

Committee effectiveness review

The effectiveness of the Audit Committee was evaluated this year as part of the Board evaluation process. Further details can be found on pages 44 to 45. The review found that the Committee was operating effectively and that its broad role and remit remained appropriate for the current needs of the business. In order to identify opportunities for further improvement, members discuss how the Committee is functioning in the private sessions that follow each meeting.

Internal and external audit

Internal audit – Group Audit & Advisory (GAA)

GAA is an independent assurance function within Tesco as a service to the Board and all levels of management. Its remit is to provide independent and objective advice to facilitate, influence and help the organisation to achieve its priorities. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.

GAA's responsibilities include supporting management in the assessment and mitigation of risks, as well as reporting on the effectiveness of the systems of internal control. Management are responsible for establishing and maintaining an appropriate system of risk identification and internal control, and for the prevention and detection of irregularities and fraud. GAA facilitate the Group's risk management processes with the Audit Committee and Board.

In April 2017, the Committee considered an assessment of the effectiveness and independence of the GAA function, facilitated by Independent Audit, which included consideration of the GAA's role, remit, positioning and performance. The review examined the quality of reporting to the Committee and other stakeholders, the composition and resources of GAA, its collaboration with other teams and its impact on the organisation. The Committee discussed the approach and findings of the assessment and was satisfied that GAA remains effective and is adequately resourced. The Committee approved updates to the GAA charter and the 2016/17 audit plan which was developed by GAA. The Committee regularly met in private with the Chief Audit & Risk Officer during the year and discussed the work of GAA and the findings of audits performed.

Internal control

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

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

The Group continues to implement transformation programmes, including the implementation of a roadmap setting out a staged process to achieve a more advanced level of risk management maturity. Transformation programmes are intended to increase the overall level of control environment maturity and improve consistency across the Group. The ongoing implementation of the technology transformation programme will further strengthen IT general controls.

The key elements of the Company's risk management process are set out on page 26.

External audit

Deloitte were appointed as our external auditors during the 2015/16 financial year with Panos Kakoullis as lead partner. The Group intends to put the external audit out to tender every 10 years and rotate the lead partner every five years.

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

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

This year, the Committee also considered the findings of the FRC's Audit Quality Review of Deloitte and the actions being taken by Deloitte to address the matters raised. The Committee considered an internal effectiveness review of Deloitte in April 2017, which was facilitated by Independent Audit. The review concluded that the external auditor was effective and the Committee recommended to the Board the reappointment of Deloitte at the 2017 AGM.

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

The process for approving all non-audit work provided by our external auditor is overseen by the Committee in order to safeguard the objectivity and independence of the auditor. Prior to approval, consideration is given to whether it is in the interests of the Group that the services are purchased from Deloitte rather than another supplier. Where Deloitte have been chosen, this is as a result of their demonstrating that they have the relevant skills and experience to make them an appropriate supplier to undertake the work in a cost-effective manner.

Corporate governance report continued

Audit Committee report continued

The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014

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

EU regulations that became effective from 17 June 2016 prohibit the provision of certain non-audit services by the external auditor and introduce a cap on non-audit fees. The regulations require the Group to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years. The 70% cap will first apply to the Group for the period ending February 2021. A non-audit services policy was approved in 2016/17, reflecting the changes.

In 2016/17, Deloitte received total fees of £11.8m (2015/16: £16.5m), consisting of £5.5m of audit fees (2015/16: £5.9m) and £6.3m for non-audit and audit-related services (2015/16: £10.6m), which is a decrease of £3.7m versus the previous period. The total of Deloitte's non-audit and audit-related fees in the year equated to 115% of the audit fees. Fees paid to Deloitte are set out in Note 3 to the financial statements and details of the significant non-audit work undertaken this year are set out below.

With the exception of the appointment of Deloitte to provide services in relation to the Company's proposed merger with Booker Group PLC, Deloitte were not instructed to provide any significant new non-audit services for the Group in 2016/17. Aside from the Booker transaction-related services, the non-audit fees incurred in 2016/17 principally related to the completion of certain key activities that were continuing from the previous financial year. Steps are being taken to reduce the level of non-audit fees going forward to ensure compliance with the applicable regulations.

The Committee determined that it was appropriate for the external auditor to provide the required due diligence and reporting accountant services in respect of the Booker transaction. The appointment was also subject to an ethics review by Deloitte, which concluded that the proposed services were consistent with the FRC's Revised Ethical Standards 2016 and that there were appropriate safeguards in place to preserve Deloitte's independence as external auditor.

Nature of service	Safeguards to preserve independence	Level of fees in 2016/17 (£m)	Level of fees in 2015/16 (£m)
Transactional Services – Due diligence and other services on the proposed merger with Booker Group PLC	Engagement team separate to the audit team with independent reviews.	1.9	Nil
Retail Consultancy – Markdown price optimisation	Advisory team separate to the audit team. The service is limited to the provision of administrative support. Decision-making accountability remained with management.	1.5	4.6
Forensic services	Careful consideration of the scope of services has been completed to ensure the advocacy and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established.	1.2	2.3
Tax advisory/compliance	All tax teams separate to the audit team. In March 2017, all tax services had been transitioned to a new provider.	0.3	1.1

Key elements of the risk management process

The risk management process facilitates the identification of risks through workshops and discussions with business leaders which are facilitated by GAA. In the year, the Group has also subjected its risks to review to ensure relevance and completeness. A risk that can seriously affect the performance, future prospects or reputation of the Group is termed a principal risk and they are aligned to the Group's strategic drivers. Risks are maintained in Group or business risk registers.

Risks are assessed to determine the potential impact and likelihood of occurrence, after taking into account key controls and mitigating factors. Additional mitigating actions are identified and agreed with relevant business owners.

Risks are managed at the Group and business level on an ongoing basis with follow up by GAA throughout the year. At the Group level each principal risk has an Executive owner. The Group Chief Executive has overall accountability for the control and management of risk. The Board has overall responsibility for risk management. All principal risks are reviewed by either the Board or a Board Committee on an annual basis. The principal risks are detailed on pages 26 to 30, showing the risk movement and examples of relevant key controls and mitigating factors.

Directors' remuneration report

Annual statement from the Remuneration Committee Chair



Deanna Oppenheimer
Remuneration Committee Chair

“The Group’s reward principles directly align with the way Tesco is implementing its business plans to become more competitive for customers, simpler for colleagues and an even better partner for its suppliers, whilst continuing to create long-term value for shareholders.”

Dear Shareholder

I am pleased to present the Directors' remuneration report for 2016/17. Executive Directors' pay continues to be implemented in accordance with the Remuneration Policy approved by shareholders at the 2015 Annual General Meeting (AGM). The full Policy can be found on the Company's website at www.tescopl.com or in the 2015/16 Directors' remuneration report.

Tesco's over arching reward framework, which underpins the business' core purpose of 'Serving shoppers a little better every day' enables it to attract, retain and motivate the best, most service focused people by applying consistent reward principles across the organisation. The Group's reward principles directly align with the way Tesco is implementing its business plans to become more competitive for customers, simpler for colleagues and an even better partner for its suppliers, whilst continuing to create long-term value for shareholders.

Overview of performance in 2016/17

Tesco has had a year of strong progress, delivering against the three turnaround priorities of improving competitiveness in the UK, a more secure balance sheet and rebuilding trust, which were set in 2014. A stable platform has been established and a strong performance delivered in spite of significant external challenges, which made 2016/17 another challenging year for retailers. In the UK, Tesco recorded annual positive like-for-like growth for the first time since 2009/10, and the UK and Republic of Ireland has had five consecutive quarters of like-for-like sales growth. The portfolio review was completed, including the sale of a number of businesses. Trust in the Tesco brand continues to be rebuilt, which is at its highest level for five years, and Tesco is the most improved food retailer in terms of quality perception. Details of how our remuneration policy aligns with Tesco's strategy and supports the Big 6 KPIs on which Tesco regularly reports to shareholders are set out below and in the At a glance section of this report.

Big 6 KPIs	2016/17	2015/16	Year-on-year change	Annual bonus performance measure	PSP performance measure
Group sales ^(a)	£49.9bn	£47.9bn	1.1%	✓	
Group operating profit ^(b) (before exceptional items)	£1,280m	£985m	24.9%	✓	
Retail cash flow generated from operations ^(b)	£2,279m	£2,088m	9.1%		✓
Customers recommend us and come back time and again	7pts	2pts	+5pts		✓
Colleagues recommend us as a:					
Great place to work	83%	81%	+2%		✓
Great place to shop	48pts	41pts	+7pts		✓
Supplier satisfaction	77%	70%	+7%		✓

^(a) reported on a continuing operations basis at actual exchange rates, excluding fuel.

^(b) reported on a continuing operations basis at actual exchange rates.

Incentive outcomes

The annual bonus for 2016/17 has been determined based on Tesco's performance over the year in sales growth (50% weighting), Group operating profit (before exceptional items) (30% weighting) and Individual Objectives (20% weighting). For consistency with the annual bonus targets set at the beginning of 2016/17, sales and operating profit are translated at constant exchange rates and exclude UK businesses sold during 2016/17, resulting in sales of £48.2bn and operating profit of £1,219m. Both of these outcomes are positioned between the target and stretch performance levels, which the Committee set at the beginning of the year. This was a strong performance in a deflationary retail market and against a background of intense competition. Alongside these outcomes, the Committee reviewed the performance of each of the Executive Directors against the Individual Objectives which were set at the start of the year. As a result, the Committee determined that 75.6% and 74.2% of the maximum bonus opportunity should pay out for the Group Chief Executive and Chief Financial Officer, respectively. A break-down of the targets and performance assessments is provided in the At a glance section of this report and the Annual Report on Remuneration.

The first Performance Share Plan (PSP) in which the Executive Directors participate is due to vest based on the performance period ending in 2017/18. Any payments from these awards will, therefore, be set out in next year's Directors' remuneration report. Details of the PSP awards which were granted to the Group Chief Executive and Chief Financial Officer in 2016 are set out on page 63. As reported previously, buyout awards were made to the Group Chief Executive and Chief Financial Officer to compensate them for awards forfeited on leaving their previous employers. The final tranche of these buyout awards vested in February 2017 for the Group Chief Executive and will vest in July 2018 for the Chief Financial Officer.

Implementation of remuneration in 2017/18

For 2017/18 the Committee does not intend to make any changes to remuneration arrangements for the Executive Directors, in particular:

- No salary increases will be made to the Executive Directors in 2017/18.
- The maximum annual bonus opportunity will continue to be 250% of base salary for the Group Chief Executive and 225% of base salary for the Chief Financial Officer, with 50% of any bonus awarded deferred into shares for three years. Performance measures will continue to be sales growth (50% weighting), Group operating profit (30%) and Individual Objectives (20%). The Committee has set challenging targets across all incentive schemes, which support the business' ambition to deliver 3.5-4.0% Group operating margin by 2019/20. 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 salary for the Group Chief Executive and 250% of salary for the Chief Financial Officer. The performance measures will continue to be relative total shareholder return (TSR) (50% weighting), retail cash generation from operations (30%) and key stakeholder measures (customer, supplier and colleague – total 20%).
- Malus and clawback will continue to apply to both the annual bonus and PSP awards.

As reported last year, the TSR methodology for the PSP awards was amended, with this measure requiring outperformance of a combined FTSE350 Food & Drug and General Retailer index. Shareholders may recall that for the purpose of the 2016 awards made last year, the Committee wished to signal Tesco's intention to grow returns to shareholders. Accordingly, an additional 2% p.a. outperformance stretch was applied to the normal 6% such that the TSR outperformance required for stretch vesting for these awards was 8%. Based on a review of FTSE100 outperformance hurdles in use, analysis of the historic performance of key retail peers and forward-looking modelling, the level of TSR outperformance of the index equivalent to above upper quartile performance required for stretch vesting for the 2017 awards has been determined to be 6% p.a. relative to the index.

Building increased trust in the key stakeholder constituencies (customer, supplier and colleague) continues to be critical to delivering Tesco's strategy. The approach to the calibration of these metrics for the 2017 PSP award reflects Tesco's ongoing evolution in how it measures and assesses performance. The resulting targets continue to require stretching improvements to achieve maximum vesting reflective of the ambitions of the Board.

Agenda for 2017/18

The current Remuneration Policy was approved by shareholders at the 2015 AGM, with a 96% vote in favour. This policy is effective for three years and a new Remuneration Policy will be presented to shareholders for approval at the 2018 AGM. The Committee will therefore conduct a full review of the Remuneration Policy during 2017/18 to ensure that it continues to align with Tesco's strategy, motivate management, reflect market best practice and support the delivery of sustainable long-term returns to shareholders.

As part of the review process I will be reaching out formally over the course of the next year to engage major shareholders in the review process. As ever, I welcome the views of all stakeholders and I look forward to these meetings.



Deanna Oppenheimer
Remuneration Committee Chair

Approach to reward

At Tesco we want to attract, retain and motivate the very best colleagues in the market across our business. To do that we need to be very clear and committed to three things: our purpose, our values and the reward and opportunity we offer our colleagues.

Our core purpose is serving shoppers a little better every day and one of our core values is we treat people how they want to be treated. We know that looking after our colleagues in a culture of trust and transparency is essential to the success of Tesco. Where colleagues feel recognised and rewarded for the work they do together, where they have the opportunity to get on and where they are supported in their development as they move through their careers in the business – they in turn try their hardest for customers.

To attract and retain talented colleagues to support this purpose and live those values, we believe that we should offer a total reward opportunity that is in the top quartile of the market. We set this principle for our colleagues at all levels of the business and aim to move towards this position over time. The vast majority of our UK retail colleagues are already realising the opportunity to earn top quartile reward, with over 88% of the Executive Committee and UK retail colleagues at Work Levels 1–5 having the potential to earn upper quartile reward. The chart below shows the elements of the total reward package for our colleagues at all levels of our UK retail business.

Participation in pay structures

Grade	PSP	Annual bonus	Pension	Benefits	Salary
Group Chief Executive	✓	✓	✓	✓	✓
Chief Financial Officer	✓	✓	✓	✓	✓
Executive Committee	✓	✓	✓	✓	✓
Work Levels 4–5	✓	✓	✓	✓	✓
Work Levels 1–3		✓	✓	✓	✓

Our International businesses provide benefits aligned to local practice.

We will continue to embed our core values across the organisation, to offer a package that is truly competitive and attracts top talent to drive results so that when the business does well, the result of our collective hard work is shared by all colleagues.

At a glance

Link to strategy

The Committee believes it is important for Executive Directors that a significant proportion of the remuneration package is performance-related and the performance conditions applying to incentive arrangements support the delivery of the Company's strategy. Incentive arrangements are designed to enable Executive Directors and senior managers to share in the long-term success of the Group, without delivering over-generous benefits or encouraging excessive risk taking. The Committee considers performance against a range of measures to ensure that the assessment is rounded, taking into account both qualitative and quantitative factors.

The success of Tesco is driven by continuing to deliver on the Big 6 KPIs and creating sustainable value for all our stakeholders. The table below sets out how each of the performance measures within the annual bonus and PSP link to Tesco's strategy.

Variable pay element	Performance measure	Link to strategy
Short-term incentive – Annual bonus	Sales	• Incentivises the delivery of top-line revenue growth, which is the foundation to ensuring sustainable levels of profit in the future.
	Group operating profit	• Incentivises the delivery of Tesco's strategy by encouraging the creation of shareholder value through delivery of a strong financial position.
	Individual Objectives	• Focuses on the delivery of critical operational and strategic goals of the business for the year.
Long-term incentive – PSP	Relative TSR vs a retail sector index	• Directly aligns Executive Directors' interests with those of shareholders in delivering share price growth and returns.
	Cash from operations	• Continues to be a key measure and reflects the need to protect and strengthen the Group's financial position so that we can maintain the flexibility to make returns to shareholders and invest in a better shopping experience for customers.
	Key stakeholder measures (customer, supplier and colleague)	• These measures are critical to delivering Tesco's long-term strategy and the importance of this focus is reflected in the Big 6 KPIs, on which Tesco regularly reports to shareholders. Alongside improving the Group's financial performance, we need to continue to improve stakeholder alignment, particularly in relation to the customer, supplier and colleague measures.

Directors' remuneration report continued

At a glance

	Dave Lewis	Alan Stewart
Year-end decisions made		
Changes to remuneration framework since appointment	No change since 1 September 2014	No change since 23 September 2014
Change in base salary since appointment	Nil	Nil
2016/17 annual bonus outturn	75.6%	74.2%
PSP vesting	n/a	n/a
Policy element		
Base salary from 26 February 2017	£1,250,000	£750,000
Pension	Cash allowance in lieu of pension of 25% of salary	
Annual bonus	Maximum of 250% of salary	Maximum of 225% of salary
Annual bonus measures	Sales growth (50%). Group operating profit (30%). Individual Objectives (20%)	
Annual bonus deferral	50% of bonus awarded deferred into Tesco shares for three years	
Performance Share Plan (PSP)	Maximum of 275% of salary	Maximum of 250% of salary
PSP measures	Relative TSR (50%). Retail cash generation from operations (30%). Key stakeholder measures (20%)	
Payment for threshold performance	20%	20%
Malus and clawback	Clawback will apply to cash payments up to the third anniversary of payment and to PSP awards up to the fifth anniversary of grant. Malus will apply to the annual bonus deferred shares and the PSP awards in the three-year period prior to vesting	
Shareholding guidelines	400% of salary	300% of salary

For the 2016/17 annual bonus, the financial and non-financial performance outcomes were as follows:

Performance measure	Performance outcome	Threshold	Target	Stretch	Performance outcome as a percentage of maximum bonus	
					Group Chief Executive	Chief Financial Officer
Sales growth ^(a) (50%)	Between target and stretch	£47.6bn	£48.1bn	£48.6bn	32.6%	32.6%
			£48.2bn			
Group operating profit ^(a) (30%)	Between target and stretch	£944m	£1,101m	£1,258m	26.3%	26.3%
			£1,219m			
Individual Objectives (20%)	Between target and stretch				16.7%	15.3%
		Group Chief Executive	84%			
		Chief Financial Officer	77%			
Overall performance (100%)	Between target and stretch				75.6%	74.2%
		Group Chief Executive	75.6%			
		Chief Financial Officer	74.2%			

^(a) Reported on a continuing operations basis, excluding UK businesses sold during 2016/17, at constant exchange rates.

This part of the report has been prepared in accordance with Part 3 of The Large and Medium-sized Companies and Groups (Accounts and Reports) (Amendment) Regulations 2013 and Rule 9.8.6 of the Listing Rules. The Annual Report on Remuneration and the Annual Statement will be put to an advisory shareholder vote at the Annual General Meeting on 16 June 2017.

Single total figure of remuneration – Executive Directors (audited)

The table below provides a summary 'single total figure' of remuneration for 2016/17 and 2015/16. Where necessary, further explanations of the values provided are included below.

	Year	Salary (£'000)	Benefits (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Pension (£'000)	Total (£'000)
Dave Lewis	2016/17	1,250	223	2,361	–	313	4,147
	2015/16	1,250	80	2,989	–	313	4,632
Alan Stewart	2016/17	750	46	1,252	–	188	2,236
	2015/16	750	40	1,614	–	188	2,592

Salary

Salaries are normally reviewed annually, with changes being effective from 1 July. The Committee considered the Group Chief Executive's and Chief Financial Officer's salaries during 2016 taking into account pay review budgets across the Group. As a result, the Committee determined that the salaries for the Group Chief Executive and the Chief Financial Officer would remain unchanged in 2016/17. In line with the position taken in 2016, no increases to the salaries of the Group Chief Executive and the Chief Financial Officer are planned for 2017/18.

Salary	Directors	
	Dave Lewis	Alan Stewart
Increase in year (%)	Nil	Nil
Annual salary (£'000)	1,250	750
Salary received in year (£'000)	1,250	750

Benefits (audited)

The following table shows a breakdown of the grossed up cash value of the benefits received by the Executive Directors in 2016/17.

Benefit	Description	Directors	
		Dave Lewis	Alan Stewart
Car benefits (£'000)	Company car or cash alternative, fuel and driver	71	45
Healthcare benefits (£'000)	Disability and health insurance	1	1
Security (£'000)	Installation of security measures to meet business standards	9	–
Relocation fees (£'000)	Relocation costs: stamp duty and legal fees	142	–
Total (£'000)		223	46

Pension

Dave Lewis and Alan Stewart receive a cash allowance in lieu of pension of 25% of salary.

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

Annual bonus performance against targets in 2016/17 (audited)

Stretching, relevant and measurable financial and non-financial annual bonus targets were set at the start of the performance period by the Committee. The Committee assessed each discrete element of the annual bonus separately to form a rounded assessment of performance of the Executive Directors at the end of the financial year.

The table below sets out performance against the financial measures applicable for the 2016/17 annual bonus outcomes.

Measures	Performance targets				Actual performance	Payout (% maximum)
	Underpin	Threshold	Target	Stretch		
Sales ^(a) (50%)	n/a	£47.6bn	£48.1bn	£48.6bn	£48.2bn	65%
Group operating profit ^(a) (30%)	£944m	£944m	£1,101m	£1,258m	£1,219m	88%

^(a) Reported on a continuing operations basis, excluding UK businesses sold during 2016/17, at constant exchange rates.

Performance for the formulaic financial elements of the plan (sales and Group operating profit) has been strong with both sales and Group operating profit performance being between target and stretch. A Group operating profit underpin of £944m, set at the beginning of the year, below which no portion of the annual bonus pays out, was exceeded.

Directors' remuneration report continued

Annual report on remuneration

The Committee carefully reviewed the performance of the Group Chief Executive and Chief Financial Officer against Individual Objectives set at the beginning of the financial year. Details of how their performance was assessed against the Individual Objectives are set out in the table below.

	Individual Objective	Weighting	Actual achievement	Payout
Dave Lewis	Complete portfolio reshaping	6.66%	Stretch performance – completed in Q3 2016/17	16.7%
	3-year corporate strategy	6.66%	Stretch performance – strategy agreed by the Board and presented to the market in Q4 2016/17	
	Technology Transformation Plan (including Data Privacy and Security)	6.66%	Target performance – good progress made, but further work on some aspects still to be completed	
Alan Stewart	Complete portfolio reshaping	6.66%	Stretch performance – completed in Q3 2016/17	15.3%
	Conduct full review of existing on and off balance sheet debt and achieve savings in annualised interest cost	6.66%	Between target and stretch performance – achieved annualised interest cost savings of £28m	
	Develop long-term succession planning for Finance team	6.66%	Target performance – plans in place and implementation underway in Q2 2016/17	

In determining the final level of bonus payable, the Committee considered the wider performance of the Group and noted that management were continuing to make fundamental improvements to the way we serve customers as well as making significant progress in building profitability. In particular, the Group has achieved increased volumes and positive like-for-like sales, reduced costs, and increased operating profit and cash flow. On the basis of the above, the annual bonus will pay out at 75.6% of the maximum for Dave Lewis and 74.2% of the maximum for Alan Stewart. In line with the approved Remuneration Policy, 50% of payouts will be deferred into Tesco shares for three years.

2016/17 payouts were as follows:

Annual bonus 2016/17 (audited)	Directors	
	Dave Lewis	Alan Stewart
Maximum bonus opportunity (% of salary)	250%	225%
Actual bonus (% of maximum)	75.6%	74.2%
Actual bonus (% of salary)	189%	167%
Actual bonus (£'000)	2,361	1,252
Deferred into shares (50% of actual bonus) (£'000)	1,180.5	626

2017/18 annual bonus

The structure of the annual bonus awards to be granted in 2017/18 will be the same as for 2016/17 awards, with performance being assessed against three measures.

Performance measure	Weighting
Sales growth	50%
Group operating profit	30%
Individual Objectives	20%

The annual bonus performance measures have been selected to provide an appropriate balance between incentivising Executive Directors to meet key objectives and financial targets for the year and incentivising them to achieve specific strategic and operational objectives.

The targets set are considered to be appropriately stretching taking into account the internal budget and external forecasts, and were subject to a rigorous process of challenge by the Committee. In relation to exchange rates, the 2017/18 targets were set based on 2016/17 average actual foreign exchange rates. Performance against these targets will be measured based on the same rates in order to ensure consistent treatment of foreign exchange in both targets and actual performance. To ensure that Executive Directors are not incentivised to grow sales at the expense of satisfactory profitability, a Group operating profit underpin will continue to be applied to the annual bonus below which no portion of the bonus will be paid. The effect of any corporate activity on targets and actual performance will be assessed around the time of completion of a transaction.

Executive bonus targets are considered by the Board to be commercially sensitive as they could inform Tesco's competitors of its budgeting. Therefore, we do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time that the bonus outcome is reported.

2016/17 PSP vesting

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

2016 PSP award grant

The following summarises the PSP awards made to Dave Lewis and Alan Stewart in 2016.

	Plan	Type of award	Date of awards	Gross number of shares	Face value ^(a) (£)	Threshold vesting (% of face value)	Stretch vesting (% of face value)	End of vesting period
Dave Lewis	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment	12/05/16	2,161,405	3,437,499	20%	100%	12/05/19
Alan Stewart	Tesco Performance Share Plan	Nil cost options subject to performance conditions and continued employment	12/05/16	1,178,948	1,874,999	20%	100%	12/05/19

^(a) The face value has been calculated using the market price on grant of 159.04p (12 May 2016). The range of the Company's share price for the year was 147.4p to 218.7p.

^(b) Details of the performance conditions applying to the awards were set out in last year's Annual Report.

^(c) The table shows the maximum number of shares that could be released if awards were to vest in full.

2017 PSP awards

As set out in last year's Annual Report, the performance measures for the PSP awards will be aligned with three key strategic priorities:

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

Performance measures for the PSP are selected to ensure that they incentivise Executive Directors to deliver long-term sustainable returns for shareholders. Performance targets are set taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

2017 PSP measures

The PSP awards to be granted in 2017 will be made on the following basis:

Performance measure	Weighting	Definition of measure
Relative TSR vs index comprising companies from FTSE350 Food & Drug Retailers (adjusted to exclude Tesco) and FTSE350 General Retailers indices	50%	Growth in share price plus dividends reinvested. These incorporate Tesco's key competitors within the FTSE350 Food & Drug Retailers and FTSE350 General Retailers indices, weighted 85% and 15%, respectively. The index weightings were selected to reflect Tesco's long-term business split between food and general retail
Retail cash generated from operations	30%	Cumulative retail cash generated from operations +/- movement in working capital, excluding Tesco Bank and pension deficit repayments
Key stakeholder measures	20%	Three stakeholder measures: customers, suppliers and colleagues

Relative TSR will be determined over a three-year performance period commencing on 26 February 2017 using a three-month average TSR at the beginning and end of the performance period by reference to the Company's performance against the indices shown in the table above.

The effect of any corporate activity on targets and actual performance will be assessed around the time of completion of a transaction.

2017 PSP targets

Performance measure	Definition	Weighting	Threshold			Stretch	
			Vesting level	Performance required	Performance description	Vesting level	Performance required
TSR	Relative TSR vs a retail sector index	50%	25%	Performance equal to index	Performance equal to index of FTSE350 Food & Drug and General Retailers	100%	6% p.a. outperformance of the index
Cash Generation	Cumulative retail cash generated from operations	30%	25%	£9.2bn	Cumulative retail cash generated from operations +/- movement in working capital excluding Tesco Bank and pension deficit payments	100%	£10.2bn
Stakeholder measure ^(a)							
i) Customers	The proportion of customers recommending Tesco as a place to shop	6.66%	0%	7pts	Performance equal to that achieved in 2016/17	100%	20pts
ii) Suppliers	The proportion of suppliers scoring satisfaction at 7 or above (on a 10 point scale)	6.66%	0%	77%	Performance equal to that achieved in 2016/17	100%	81%
iii) Colleagues	The proportion of colleagues endorsing Tesco as a great place to work	3.33%	0%	81% ^(b)	Performance equal to that achieved in 2016/17	100%	84%
iv) Colleagues	The proportion of colleagues recommending Tesco as a great place to shop	3.33%	0%	45pts ^(b)	Performance equal to that achieved in 2016/17	100%	50pts

^(a) As set out in the Annual Statement from the Committee Chair the approach to the calibration of the 2017 PSP stakeholder measures compared with the prior year reflects Tesco's ongoing evolution in how it measures and assesses performance.

^(b) Average of full- and half-year 'What Matters To You' survey results.

Directors' remuneration report continued

Annual report on remuneration continued

Based on a review of FTSE100 outperformance hurdles in use, analysis of the historic performance of key retail peers, and forward-looking modelling, the level of TSR outperformance of the index equivalent to above upper quartile performance required for stretch vesting was determined to be 6% p.a. relative to the index. In relation to the stakeholder measures, the base line at commencement is shown on page 63.

2017 PSP award grant

Awards will be made to Dave Lewis and Alan Stewart in May 2017 and reported in next year's Annual Report.

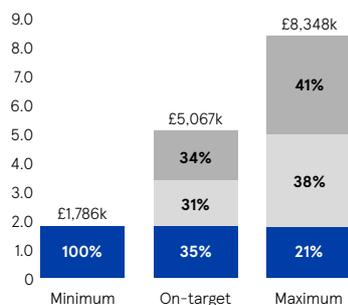
Dividend equivalents

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

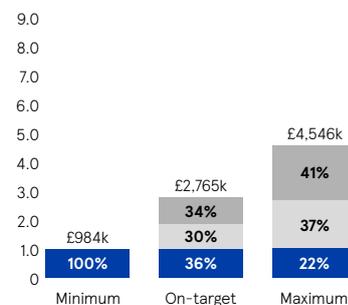
Remuneration scenarios

The composition and value of the Executive Directors' remuneration packages in three performance scenarios is set out in the charts below. These show that the proportion of long-term incentives supports the long-term nature of the business and changes significantly across the performance scenarios. The Committee considers the level of remuneration that may pay out in different performance scenarios to ensure that this is considered appropriate in the context of the performance delivered and the value added for shareholders. The level of remuneration is in accordance with the Remuneration Policy.

Group Chief Executive – Dave Lewis
(£million)



Chief Financial Officer – Alan Stewart
(£million)



■ Fixed pay ■ Annual bonus ■ Long-term incentive

■ Fixed pay ■ Annual bonus ■ Long-term incentive

	Minimum	On-target	Maximum
Fixed pay	Fixed pay comprises: · 2017/18 annualised salary (on which other elements of the remuneration package are calculated) · benefits as set out in the Single total figure of remuneration table of this report · pension benefits which represent 25% of base salary		
Annual bonus	0%	50% payout	100% payout
Long-term incentive – PSP	0%	50% vesting	100% vesting

Executive Directors' interests in share awards

Director	Plan	Date of grant	Number of options held as at 27/2/16	Options granted	Number of options held as at 25/2/17	Exercise price (p)	Date on which option vests/ becomes exercisable	Expiry date
Dave Lewis	Listing Rule 9.4.2 arrangement	24/10/14	452,265	-	452,265	-	17/02/15	24/10/24
	Listing Rule 9.4.2 arrangement	24/10/14	607,940	-	607,940	-	18/02/16	24/10/24
	Listing Rule 9.4.2 arrangement	24/10/14	610,089	-	610,089	-	14/02/17	24/10/24
	Performance Share Plan 2011	24/07/15	1,566,987	-	1,566,987	-	24/07/18	24/07/25
	Performance Share Plan 2011	12/05/16	-	2,161,405	2,161,405	-	12/05/19	12/05/26
	Executive Incentive Plan 2014	12/05/16	-	939,720	939,720	-	12/05/19	12/05/26
	Executive Incentive Plan 2014	12/05/16	-	469,860	469,860	-	On the earlier of 12 May 2019 or the resumption of dividend payments to the Company's shareholders	12/05/26
	Savings Related Share Option Scheme	18/11/15	11,920	-	11,920	151	01/02/19	01/08/19
	Alan Stewart	Listing Rule 9.4.2 arrangement	24/10/14	252,873	-	252,873	-	18/06/15
Listing Rule 9.4.2 arrangement		24/10/14	327,085	-	327,085	-	24/06/16	24/10/24
Listing Rule 9.4.2 arrangement		24/10/14	308,543	-	308,543	-	23/06/17	24/10/24
Listing Rule 9.4.2 arrangement		06/07/15	56,950	-	56,950	-	06/07/18	06/07/25
Performance Share Plan 2011		24/07/15	854,720	-	854,720	-	24/07/18	24/07/25
Performance Share Plan 2011		12/05/16	-	1,178,948	1,178,948	-	12/05/19	12/05/26
Executive Incentive Plan 2014		12/05/16	-	507,449	507,449	-	12/05/19	12/05/26
Executive Incentive Plan 2014		12/05/16	-	253,724	253,724	-	On the earlier of 12 May 2019 or the resumption of dividend payments to the Company's shareholders	12/05/26
Savings Related Share Option Scheme		18/11/15	11,920	-	11,920	151	01/02/19	01/08/19

^(a) No options lapsed or were exercised by Executive Directors in 2016/17.

Directors' remuneration report continued

Annual report on remuneration continued

Shareholding guidelines

The Committee believes that a significant shareholding by Executive Directors creates greater alignment with the interests of shareholders and demonstrates their ongoing commitment to the business. This requirement is at the upper end of typical market practice for similar-size companies.

The shareholding guidelines are based on:

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

Given the importance of owning shares, the Executive Committee and a number of other senior managers are also required to build a holding of Tesco shares. Executive Committee members are required to hold 200% of salary in Tesco shares within five full financial years of appointment to the Executive Committee. As at the date of this report, this had been met by all Executive Committee members, except Jane Lawrie and Alessandra Bellini who were appointed on 10 October 2016 and 1 March 2017, respectively.

The table below sets out shares held by the Executive Directors and their connected persons (including beneficial interests) and a summary of outstanding and unvested share awards as at 25 February 2017.

Executive Director	Ordinary shares beneficially owned at 27/2/16	Ordinary shares beneficially owned at 25/2/17	Unvested deferred annual bonus shares subject to continued employment	Unvested PSP awards subject to performance conditions	Vested but unexercised nil cost options	Unvested nil cost options, not subject to performance conditions	Current shareholding (% of salary)	Shareholding requirement (% of salary)
Dave Lewis	100,893	101,870	1,409,580	3,728,392	1,670,294	–	280%	400%
Alan Stewart	50,837	51,813	761,173	2,033,668	579,958	365,493	258%	300%

^(a) Executive Directors' shareholdings based on the three-month average share price to 25 February 2017 of 201.95p per share.

^(b) Between 26 February and 11 April 2017, Dave Lewis and Alan Stewart both acquired 73 partnership shares under the all-employee Share Incentive Plan. No other changes in Executive Director interests occurred in the period.

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

Policy for new hires

The Committee will seek to align the remuneration package offered to new Executive Directors with the policy but may offer variable remuneration appropriate and necessary to recruit and retain the individual. A summary of the policy is set out below.

Provision	Policy for new hires
Variable remuneration	· Awards are limited to the current aggregate annual bonus and PSP award policy of 600% of base salary
Buyout awards	· The limit above excludes awards made to compensate the Executive Director for awards forfeited from their previous employer. Any buyout award will be made taking into account relevant factors, including performance conditions attached to awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested · The Committee's key principle is that buyout awards will generally be made on a comparable basis to those forfeited
Legal fees	· The Company will pay legal fees incurred by any new Executive Directors in respect of their appointment
Internal promotions	· In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards
Non-executive Directors	· Arrangements will normally reflect the approach outlined on pages 69 and 70 for the Chairman and Non-executive Directors

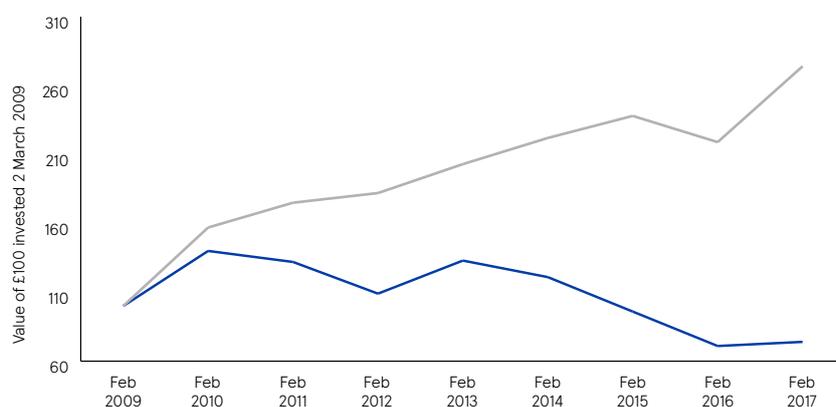
Service agreements and Leavers Policy

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual. The following table summarises the Leavers Policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	· 12 months' notice by the Company and six months' notice by the Executive Director
Expiry date	· Dave Lewis and Alan Stewart entered into service agreements with Tesco PLC on 19 July 2014 and 9 July 2014 respectively · These are rolling service agreements with no fixed expiry date
Termination payments	· If the Company terminates a Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company then the Executive Director has the right to a termination payment to reflect the unexpired term of the notice · Any termination payment in lieu of notice will be based on base salary and benefits only. Benefits comprise car-related benefits, healthcare and health insurance and colleague discount. No account will be taken of pension when determining termination payments · Payment in full on termination on change of control arises if the Company terminates or gives notice within 12 months after a change of control · Where an Executive Director retires from the business, they will not normally receive a termination payment
Annual bonus entitlement	· The Committee may determine that an Executive Director may remain eligible to receive a pro rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance. Where an Executive Director leaves by reason of death, disability or ill-health, they, or in the case of death their personal representatives, are entitled to a pro rata performance-based bonus for the year of leaving
Statutory pay entitlements	· Under the service agreements, while in employment Executive Directors are also entitled to sick pay, paid holiday and maternity or paternity leave
Legal fees	· Where appropriate, the Company will meet an Executive Director's reasonable legal fees in connection with the termination of their employment and/or the reasonable cost of outplacement services
Malus and clawback	· The Committee has the discretion to scale back deferred share awards and performance share awards prior to the satisfaction of awards in the event that results are materially misstated or the participant has contributed to serious reputational damage of the Company or one of its business units or their conduct has amounted to serious misconduct or fraud · Where PSP awards are settled prior to the fifth anniversary of the grant of the award, the Committee has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances above · Cash bonus payments can also be clawed back up to the third anniversary of payment in the circumstances described above

For a full version of the new hire and leaver policies, please refer to the 2015/16 Directors' remuneration report or the Company's website at www.tescopl.com. The service agreements are available to shareholders to view at the Company's registered office.

Share price performance graph



■ Tesco ■ FTSE100

Source: Datastream

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

Remuneration of the Group Chief Executive

The table on the next page lays out the historical single figure data for the role of Group Chief Executive as well as annual bonus and PSP payout levels as a percentage of stretch opportunity for the Group Chief Executive. In each year, the award is shown based on the final year of the performance period, i.e. the year in which it is included in the single figure.

Directors' remuneration report continued

Annual report on remuneration continued

Group Chief Executive remuneration history

	2010/11	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17
	Sir Terry Leahy	Phillip Clarke	Phillip Clarke	Phillip Clarke	Phillip Clarke	Dave Lewis ^(b)	Dave Lewis	Dave Lewis
Group Chief Executive single figure of remuneration (£'000)	7,150	4,595	1,280	1,634	764	4,133	4,632	4,147
Annual bonus vesting (% of maximum award)	75%	0%	0%	0%	0%	n/a	96%	76%
PSP vesting (% of stretch award)	75%	46.5%	0%	0%	0%	n/a	n/a	n/a
Share option vesting (% of maximum award)	100%	100%	0%	n/a	n/a	n/a	n/a	n/a

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

^(b) The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis to compensate him for awards forfeited from his previous employer. The awards were made based on the expected value of the awards forfeited, taking into account performance at his previous employer and delivered in restricted shares which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards had no impact on the single figure for 2015/16 or any future years.

Payments to former Directors (audited)

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

Risk management

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

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

Where PSP awards are settled prior to the fifth anniversary of the grant of the award, the Committee has the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstances described above. Cash bonus payments can also be clawed back in the circumstances described above up to the third anniversary of payment.

Outside appointments

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

Subject to approval by the Board, Executive Directors are allowed to accept non-executive appointments, provided that these appointments are not likely to lead to conflicts of interest, and they may retain the fees received. Alan Stewart is a non-executive director of Diageo PLC and received fees of £92,000 in the year plus a product allowance of £1,250. He does not receive any fees as a director of Tesco Personal Finance Group Limited (Tesco Bank). Dave Lewis stood down as a non-executive director of Sky plc on 13 October 2016 and received fees of £54,500 in the period.

Funding of equity awards

Executive Director incentive arrangements are funded by a mix of newly issued shares and shares purchased in the market. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of discretionary plans is 2.7% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees' Share Scheme Trustees Limited or Tesco International Employee Benefit Trust in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 25 February 2017, the Trusts held 13,006,919 shares.

Change in Group Chief Executive remuneration compared with changes in employee remuneration

The following table illustrates the change in Group Chief Executive salary, benefits and bonus between 2015/16 and 2016/17 compared with other UK colleagues. The Committee decided to use other UK colleagues for the purpose of this disclosure as over half of Tesco's colleagues are based in the UK and the Group Chief Executive is also predominantly based in the UK, albeit with a global role and responsibilities. The Committee therefore considered that this is an appropriate comparator group given that pay changes across the Group depend on local market conditions.

In the UK, the total reward package for a typical customer assistant is ahead of the voluntary Living Wage on a national basis and the same hourly rate is paid to all colleagues regardless of age. The Company is committed to rewarding colleagues with a total reward package that provides them with choice and that they really value.

	Salary	Benefits	Bonus
Group Chief Executive	0%	179% ^(a)	(21)%
UK colleagues	1.5%	0%	(12)% ^(b)

^(a) Increase in Group Chief Executive benefits reflects payment of relocation fees to Dave Lewis, details of which are set out on page 61.

^(b) Includes 2015/16 Turnaround Bonus for year-on-year comparison.

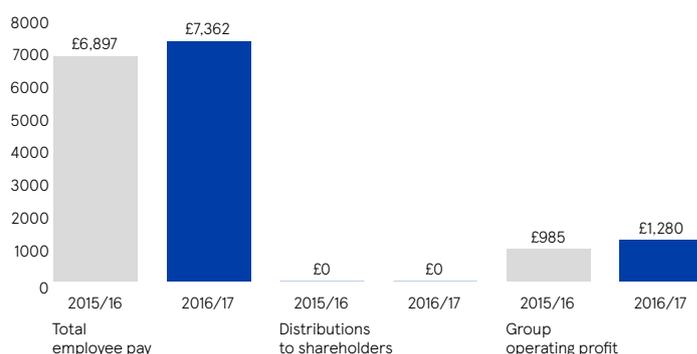
For 2016/17, a new Colleague Bonus Plan was launched to all UK colleagues below manager level, with a maximum opportunity of 3.5% of earnings to be taken as cash or shares. The payout was an average of 3.1% of earnings. For 2015/16, colleagues at Work Levels 1–4 received a one-off Turnaround Bonus of 5% of earnings.

Bonuses for 2016/17 for UK eligible colleagues paid out on average at 82% of the maximum bonus opportunity (2015/16: 94% of the maximum bonus opportunity).

Relative importance of spend on pay

The chart shows total colleague pay compared with distributions to shareholders and for further context, Group operating profit. Tesco's colleagues are essential to how the Company does business and meets the needs of its customers. In 2016/17, we employed, on average, 464,520 colleagues across the Group (compared with 475,399 excluding Turkey in 2015/16).

(£m)



Total employee pay includes wages and salaries, social security, pension and share-based costs at actual exchange rates (£7,362m in 2016/17 and £6,897m excluding Turkey in 2015/16 – see Note 3 of the financial statements). Distributions to shareholders include interim and final dividends paid in respect of each financial year (£nil in respect of 2015/16 and 2016/17) (see Note 8 of the financial statements). Reflecting Tesco's improved performance and the Board's confidence in its future prospects, Tesco announced on 27 January 2017 that the Company intends to recommence paying dividends in respect of the financial year 2017/18. There were no share buy-backs in 2015/16 or 2016/17.

Chairman and other Non-executive Directors' dates of appointment

The Chairman and other Non-executive Directors do not have service contracts, but each has a letter of appointment with the Company. Appointments are for an initial period of three years after which they are reviewed. In line with the UK Corporate Governance Code, all Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors' and the Chairman's appointments can be terminated by either party without notice. Non-executive Directors and the Chairman have no entitlement to compensation on termination.

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

Director	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment
John Allan	1 March 2015	None	AGM 2017
Mark Armour	2 September 2013	None	AGM 2017
Steve Golsby	1 October 2016	None	AGM 2017
Byron Grote	1 May 2015	None	AGM 2017
Mikael Olsson	1 November 2014	None	AGM 2017
Deanna Oppenheimer	1 March 2012	None	AGM 2017
Simon Patterson	1 April 2016	None	AGM 2017
Alison Platt	1 April 2016	None	AGM 2017
Lindsey Pownall	1 April 2016	None	AGM 2017

Directors' remuneration report continued

Annual report on remuneration continued

Non-executive Director fees

Following a review of independently sourced data, it was deemed appropriate to increase Non-executive Director fees in accordance with the levels set out below effective from 1 March 2017. Non-executive Director fees are normally reviewed biennially.

	2016/17	From 1 March 2017
Basic fee	£70,000 p.a.	£72,000 p.a.
Additional fees:		
Senior Independent Director	£26,000 p.a.	£27,000 p.a.
Chairs of the Audit and Remuneration Committees	£30,000 p.a.	£31,000 p.a.
Membership of Audit, Corporate Responsibility, Nominations and Remuneration Committees	£12,000 p.a. for each Committee	£12,500 p.a. for each Committee

The Company reimburses the Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these. The Company will pay reasonable legal fees for advice in relation to terms of engagement. For Non-executive Directors based overseas the Company would meet travel and accommodation expenditure as required to fulfil their duties.

Chairman's fee

John Allan was appointed as Non-executive Chairman with effect from 1 March 2015. He receives a fee of £650,000 p.a. inclusive of all Board fees, which is fixed for a period of three years. He may have the benefit of home security, colleague discount and healthcare for himself and his partner. The Committee may introduce additional benefits for the Chairman if it is considered appropriate to do so. The Company reimburses the Chairman for reasonable expenses in performing his duties and may settle any tax incurred in relation to these expenses.

Fees paid during 2016/17 (audited)

The following table sets out the fees paid to the Non-executive Directors for the year ended 25 February 2017. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

Director	Date	Fees (£'000)		Taxable expenses (£'000)		Benefits (£'000)	Total (£'000)
		Tesco PLC	Tesco Bank	Tesco PLC	Tesco Bank		
John Allan	2016/17	650	-	13	-	3	666
	2015/16	650	-	-	-	10	660
Mark Armour	2016/17	82	-	-	-	-	82
	2015/16	82	-	-	-	-	82
Steve Golsby	2016/17	28	-	6	-	-	34
	2015/16	n/a	n/a	n/a	n/a	n/a	n/a
Byron Grote	2016/17	124	-	-	-	-	124
	2015/16	85	-	1	-	-	86
Mikael Olsson	2016/17	94	-	5	-	-	99
	2015/16	94	-	4	-	-	98
Deanna	2016/17	127	69	13	9	-	218
Oppenheimer	2015/16	119	82	25	7	-	233
Simon Patterson	2016/17	71	-	-	-	-	71
	2015/16	n/a	n/a	n/a	n/a	n/a	n/a
Alison Platt	2016/17	71	-	3	-	-	74
	2015/16	n/a	n/a	n/a	n/a	n/a	n/a
Lindsey Pownall	2016/17	71	-	15	-	-	86
	2015/16	n/a	n/a	n/a	n/a	n/a	n/a
Former Director							
Richard Cousins	2016/17	107	-	-	-	-	107
	2015/16	115	-	-	-	-	115

^(a) The figures in this table show the amount receivable in the year and are from the date of appointment or until the date that a Director ceased to be a Director of Tesco PLC. Simon Patterson, Alison Platt and Lindsey Pownall joined the Board on 1 April 2016 and Steve Golsby joined on 1 October 2016. Richard Cousins stood down from the Board on 3 January 2017.

^(b) Deanna Oppenheimer was appointed to the Board of Tesco Personal Finance Group Limited (Tesco Bank) in July 2012 and stood down on 31 December 2016. She was paid a basic fee of £70,000 p.a. for this role and an additional fee for Committee membership of £12,000 p.a. in line with other members of the Board of Tesco Personal Finance Group Limited.

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

Beneficial share ownership (audited)

The table below outlines the current share interests of the Non-executive Directors. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors and no shares were acquired between 25 February and 11 April 2017.

Director	Ordinary shares held at 25 February 2017	Ordinary shares held at 27 February 2016
John Allan ^(a)	224,349	194,349
Mark Armour	25,000	25,000
Steve Golsby	–	n/a
Byron Grote ^(b)	173,700	143,700
Mikael Olsson	5,000	5,000
Deanna Oppenheimer ^(b)	103,500	103,500
Simon Patterson	–	n/a
Alison Platt	–	n/a
Lindsey Pownall	–	n/a

^(a) John Allan also held 298,000 bonds in the Company as at 25 February 2017 (198,000 as at 27 February 2016).

^(b) Byron Grote and Deanna Oppenheimer held their shares in the form of American Depositary Receipts (ADR). Each ADR is equivalent to three Ordinary Shares of 5 pence each in the Company.

The Committee

Role of the Remuneration Committee

The Committee's key responsibilities are:

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

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

As required by the Financial Conduct Authority (FCA), Tesco Bank has a separate independent remuneration committee. The Committee is consulted on, and makes recommendations in relation to, the remuneration arrangements for Tesco Bank colleagues, with the aim of encouraging consistency with Group remuneration policy, but it does not make decisions in relation to, or direct, how remuneration is managed within Tesco Bank.

Membership of the Remuneration Committee and attendance at meetings

	Number of scheduled meetings eligible to attend	Meetings attended
Deanna Oppenheimer (Chair)	6	6
John Allan	6	6
Byron Grote	6	6
Mikael Olsson	6	6
Alison Platt	6	5

Alison Platt was appointed to the Board and joined the Committee on 1 April 2016. She missed one Committee meeting due to an unavoidable prior business commitment arranged prior to joining the Committee.

The Committee schedules meetings two years in advance with five scheduled meetings typically in a year. The Committee also convenes on an ad hoc basis between scheduled meetings when necessary. The Directors' biographies can be found on pages 34 and 35. No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco.

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

Directors' remuneration report continued

Annual report on remuneration continued

Remuneration Committee activities 2016/17

The following provides a summary of the key areas of focus of the Committee during the year:

Strategy and policy	Reviewed market trends Considered executive remuneration at Tesco over the longer term Considered BEIS' and BIS Select Committee's corporate governance inquiries
Salary review	Approved Executive Director and Executive Committee salaries
Short-term incentives	Reviewed performance against targets and determined annual bonus outturn Approved 2017/18 performance measures and targets Reviewed turnaround bonus Reviewed annual bonus design for Tesco Bank colleagues
Long-term incentives	Determined vesting percentage for 2013 PSP award Approved measures and targets for 2016 PSP award Monitored performance of outstanding awards against targets Approved annual offering of Sharesave
Governance and other matters	Considered trends in remuneration practice and corporate governance developments Reviewed shareholder feedback and AGM votes, giving consideration to the implications for future remuneration policy and its implementation Reviewed shareholding guidelines and progress of Executive Directors Approved the Directors' remuneration report Received report from Tesco Bank remuneration committee Reviewed dilution limits under Tesco's share plans Reviewed the Committee's performance and terms of reference

Committee advisers

The Committee has authority to obtain the advice of external independent remuneration consultants. It is solely responsible for their appointment, retention and termination and for approval of the basis of their fees and other terms. Over the course of the year, the Committee was supported by its appointed adviser, PwC. PwC was appointed adviser to the Committee in 2015 following a comprehensive selection process. The Chair of the Committee agrees the protocols under which PwC provides advice.

PwC is one of the founding members of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by PwC is objective and independent. The Committee is comfortable that the PwC engagement partner and team that provide remuneration advice to the Committee do not have connections with Tesco PLC that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts. Willis Towers Watson also provided the Committee with benchmarking data and assessments during the year and fees for this were £49,000 (2015/16: £9,000).

During the year, PwC provided independent advice and commentary on a range of topics including remuneration trends, corporate governance and consulting with shareholders. PwC fees for advice provided to the Committee were £155,000 (2015/16: £148,000). Fees are charged on a time and materials basis. PwC also provided general consultancy services to management during the year. Separate teams within PwC provided unrelated advisory services in respect of corporate tax planning, transfer pricing, technology consulting and internal audit services to the Group during the year. However, the Committee is satisfied that these activities do not compromise the independence of the advice it has received from PwC.

Payments outside Remuneration Policy

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

Compliance

In carrying out its duties, the Committee gives full consideration to best practice including investor guidelines. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority. The auditor's report, set out on pages 79 to 85, covers the disclosures referred to in this report that are specified for audit by the Financial Conduct Authority.

Considering colleagues' views

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

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

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

Considering shareholders' views

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

Shareholder voting

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

The following table sets out the voting results in respect of remuneration at the 2016 AGM.

AGM resolution % of votes	For	Against
To approve the Directors' remuneration report ^(a)	96.6%	3.4%

^(a) 5,894,320 votes were withheld. Votes withheld are not counted in the votes for or against a resolution but would be considered by the Committee in the event of a significant number of votes being withheld.

Approved by the Board
11 April 2017



Deanna Oppenheimer
Remuneration Committee Chair

The Directors present their report, together with the audited accounts for the year ended 25 February 2017.

Group results

Group revenue (exc. VAT) increased by £2bn to £55.9bn, representing an increase of 3.7% (at actual rates). Group profit before tax was £145m from a profit before tax of £202m in 2015/16. The loss for the year including discontinued operations was £(54)m. £(40)m was attributable to equity holders of the parent company.

Dividends

The Board has decided not to recommend the payment of a final dividend in respect of the year ended 25 February 2017. As we announced in January 2017, the Board has reviewed its dividend policy and intends to recommence paying dividends in respect of the 2017/18 financial year. The Board expects dividends to grow progressively from that financial year with the aim of achieving a target cover of around two times earnings per share over the medium term.

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

Share capital and control of the Company and significant agreements

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's Ordinary shares are set out in Note 28 on page 143. No shareholder holds securities carrying special rights with regards to control of the Company. There are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2016 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-Emption Group.

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

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

Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service and are available on the Company's website. The Company had been notified under Rule 5 of the DTR of the following interests in voting rights in its shares as at 25 February 2017 and as at the date of this report:

	% of total voting rights as at 25 February 2017	% of total voting rights as at the date of this report
Norges Bank	5.96	5.96
BlackRock Inc	5.01	5.01
Schroders plc	4.991	4.991
GIC Private Limited	3.0788	3.0788

Articles of Association

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

Directors and their interests

The biographical details of the current serving Directors are set out on pages 34 and 35. The Directors who served during the year were: John Allan; Mark Armour; Richard Cousins (stood down from the Board on 3 January 2017); Steve Golsby; Byron Grote; Dave Lewis; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; and Alan Stewart. The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 57 to 73.

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

Employment policies

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

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

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

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

Political donations

The Group did not make any political donations (2015/16: £nil) or incur any political expenditure during the year (2015/16: £nil).

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

The Code regulates aspects of the commercial relationship between the largest grocery retailers in the UK and their suppliers of grocery products, establishing an overarching principle that retailers must deal with their suppliers fairly and lawfully. Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA), Christine Tacon. Specific supplier protections under the Code include the obligation for retailers to give reasonable notice of changes or reduction in the volume of purchases, and a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

At Tesco, we have made fundamental changes to the way we operate to ensure we build transparent, long-term partnerships with our suppliers, consistent with the principle of fair dealing under the Code. These changes are having a positive effect on our relationships with suppliers. In the GCA's annual supplier survey in 2016, Tesco ranked as the most improved retailer, with 65% of suppliers reporting an improvement in how we operate. The results of our own supplier survey, conducted twice each year, also show a marked improvement in how our suppliers view their relationship with Tesco. Suppliers to our UK grocery business rated their 'overall satisfaction' with Tesco at 78.3% in February 2017, an improvement of 10.6% since February 2016.

In the last financial year, part of our change programme has focused on implementing the recommendations made by the GCA, in her report into historic supplier issues at Tesco, published in January 2016. The GCA confirmed on 19 September 2016 that we had complied with her requirements, which she continues to monitor at six-monthly intervals.

Retailers are required to train all members of their buying teams on their obligations under the Code, both when colleagues join the business and annually thereafter. In addition to our buying teams, we train a wider set of colleagues across our Product and other functions in the UK and in Tesco Bengaluru. For the 2016/17 financial year, we trained 1,188 new starters and 2,690 colleagues received annual refresher training.

We continue to engage positively with the GCA and her office on other matters. We meet with the GCA each quarter, and were pleased to host members of the GCA's office team for a visit to our head office in Welwyn Garden City in October 2016.

This year, 18 Code-related complaints were raised by suppliers. As at 25 February 2017, we had resolved 11 of the concerns following further discussion between the buying team and the relevant supplier, or between the Code Compliance Officer and the supplier; we had also closed a further four issues due to the supplier not responding to our follow-up communications post-resolution. The three remaining concerns have all been resolved since the end of the reporting period, two following further discussion with the relevant supplier and one due to the supplier not responding to our follow up communications; however, we have also reopened one of the concerns resolved prior to the end of the reporting period at the request of the supplier involved, and we are working with that supplier to resolve the matter. In eight instances, the complaints were referred to our Code Compliance Officer, and seven of those eight cases were raised simultaneously with the supplier's buying contact. A formal dispute was only raised in one matter and was referred to the GCA for arbitration, but the GCA determined that she was not able to accept appointment as arbitrator and the supplier is no longer pursuing the dispute.

Going concern and longer term viability statement

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

The UK Corporate Governance Code requires the Directors to assess and report on the prospects of the Group over a longer period. This longer term viability statement is set out on page 31.

Events after the balance sheet date

On 1 March 2017, the Group announced the completion of the disposal of its 95.5% controlling stake in the Kipa business in Turkey following the receipt of all local regulatory approvals.

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco Ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

On 6 April 2017, the Group unwound its joint venture with British Land Company PLC (British Land). The Group obtained sole control of BLT Properties Limited through the acquisition of British Land's 50% interest in the joint venture. The acquisition increased the Group's owned property portfolio by £0.2bn, comprising seven stores. British Land obtained sole control of one store and one retail centre, previously held in the joint venture.

Directors' statement of disclosure of information to auditor

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

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Annual Report and Financial Statements. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under Principal risks and uncertainties on pages 26 to 30.

Neither the Group, nor any of the Directors, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this document will actually occur. Undue reliance should not be placed on these forward-looking statements. The Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Additional disclosures

Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Future developments	1 to 31
Research and development	10
Greenhouse gas emissions	23
Financial instruments and financial risk management	125 to 135
Corporate governance report	32 to 56

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

	Pages
Statement of capitalised interest	107 and 116
Allotment for cash of equity securities	143
Waiver of dividends	74

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 1 to 31.

By order of the Board



Robert Welch
Group Company Secretary
11 April 2017

Statement of Directors' responsibilities

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

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

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

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

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

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

Each of the Directors, whose names and functions are set out on pages 34 and 35 confirm that, to the best of their knowledge:

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

Financial statements

Statement of Directors' responsibilities	78
Independent auditor's report to the members of Tesco PLC	79
Group income statement	86
Group statement of comprehensive income (loss)	87
Group balance sheet	88
Group statement of changes in equity	89
Group cash flow statement	90
Notes to the Group financial statements	91
Tesco PLC – Parent Company balance sheet	150
Tesco PLC – Parent Company statement of changes in equity	151
Notes to the Parent Company financial statements	152
Related undertakings of the Tesco Group	158

Independent auditor's report to the members of Tesco PLC

Opinion on financial statements of Tesco PLC

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 25 February 2017 and of the Group's loss for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

The financial statements that we have audited comprise the:

- Group income statement;
- Group statement of comprehensive income;
- Group and Parent Company balance sheets;
- Group and Parent Company statements of changes in equity;
- Group cash flow statement; and
- related Notes 1 to 36 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

Key risks

The key risks we identified which had the greatest impact on our audit scope are:

- store impairment review;
- recognition of commercial income;
- inventory valuation;
- pension obligation valuation;
- contingent liabilities;
- management override of controls;
- Tesco Bank payment fraud; and
- retail technology environment, including IT security.

Within this report, any new risks are identified with  and any risks which are the same as the prior year, updated where required, are identified with .

Materiality

The materiality that we used was £50m (2015/16: £50m), based on 5% of a normalised profit before tax. Refer to page 83 for further details.

Scoping

Our audit scoping provides full scope audit coverage of 97% (2015/16: 97%) of revenue and 91% (2015/16: 88%) of net assets.

Significant changes in our approach

In our 2016/17 report the following changes to the risks identified have been made compared to our 2015/16 report:

- we have included a new risk relating to the Bank's November 2016 external payment fraud;
- provisions and reserves relating to the Bank are identified as a significant risk for the audit, however it has not required the same level of focus as those matters included in our report and therefore we no longer report on this risk here;
- we continue to report on the pension obligation valuation risk, however accounting for the pension curtailment was only applicable to 2015/16;
- the inventory valuation risk has been revised and does not include the capitalisation of directly attributable costs due to the reduced level of judgement exercised by management; and
- the risk relating to compliance with laws and regulations has been refined to only relate to contingent liabilities since this is where the key risk lies.

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

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 31.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 27 to 30 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

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

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

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

Our assessment of risks of material misstatement

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

The description of the risks below should be read in conjunction with the significant matters considered by the Audit Committee discussed on pages 53 to 54.

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

Risk description	How the scope of our audit responded to the risk	Key observations
<p>Store impairment review </p> <p>As described in Note 1 (Accounting policies) and Note 11 (Property, plant and equipment), the Group held £18,108m (2015/16: £17,900m) of property, plant and equipment at 25 February 2017.</p> <p>Under IFRS, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal.</p> <p>There continues to be judgement required in identifying indicators of impairment and determining the fair value of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods.</p> <p>In light of the continued competitive environment in which the Group operates and changes in the macro environment, there is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value in use' and 'fair value less costs of disposal':</p> <ul style="list-style-type: none"> · value in use is calculated from cash flow projections and relies upon the Directors' assumptions and estimates of future trading performance, longer-term growth rates and discount rates utilised; and · fair value less costs of disposal is determined by reference to a sample of valuations completed by independent valuation specialists where applicable. <p>As a result of the Group's impairment review completed during the year, an impairment release of £6m (2015/16: charge of £18m) was recognised.</p> <p>Refer to page 54 for the Audit Committee's discussion of this risk.</p>	<p>Our audit procedures included assessing the design and implementation of key controls around the impairment review processes, assessing the appropriateness of the methodology applied by the Directors in calculating the impairment charges and reversals, and the judgements applied in determining the cash-generating units (CGUs) of the business, which the Group has determined as being individual stores and, in the United Kingdom (UK), the general merchandising online business. As part of our procedures we have used data analytics to assist us in determining the completeness of the impairment indicator assessment.</p> <p>In relation to the completeness of the Group's impairment review process, we have assessed the completeness of the Group's impairment charges and impairment reversals with reference to CGU performance.</p> <p>In relation to the Group's 'value in use' valuations, we have assessed the review completed by the Group by:</p> <ul style="list-style-type: none"> · assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 Impairment of Assets and checking the integrity of the impairment model utilised by the Group; · challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and our understanding of the Group's strategic initiatives; · assessing the long-term growth rates and discount rates applied to the impairment review for each country, comparing the rates utilised to third party evidence and in relation to the discount rate, our independently estimated discount rates; and · completing sensitivity analysis in relation to key assumptions that either individually or collectively would be required for the assets to be impaired, in particular property fair values, long-term growth rates and discount rates applied. <p>In relation to the Group's 'fair value less costs of disposal', we have challenged the assumptions used by the Group in determining the fair market value of the assets, including those completed by external valuers, using internal property valuation specialists and assessing whether appropriate valuation methodologies have been applied.</p> <p>Additionally, we assess the adequacy of the store impairment related disclosures.</p>	<p>Whilst we note actions are required by the Group to achieve these forecasts over the medium term, we concluded that the assumptions in the impairment models were within an acceptable range, and that the overall level of net reversal of impairment was reasonable.</p> <p>We also agree that the disclosure of the net impairment as an exceptional item is in accordance with the Group's policy on exceptional items.</p>

Risk description	How the scope of our audit responded to the risk	Key observations
<p>Recognition of commercial income </p> <p>As described in Note 1 (Accounting policies) and Note 20 (Commercial income), the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers.</p> <p>In accordance with IFRS, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held.</p> <p>The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement and scope for error in accounting for such income. As such we have identified this as a key risk.</p> <p>Refer to page 54 for the Audit Committee's discussion of this risk.</p>	<p>We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to commercial income.</p> <p>In addition, our substantive audit procedures across the Group's retail operations included a combination of the following:</p> <ul style="list-style-type: none"> • we tested whether amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample of individual supplier agreements; • commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables have been tested via balance sheet reconciliation procedures; • we circularised a sample of suppliers to test whether the arrangements recorded were complete and held discussions with a sample of buyers to further understand the buying processes where required. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; • we used data analytics to profile commercial income, identifying deals which exhibited characteristics of audit interest upon which we completed detailed testing; • we reviewed the steps taken by the Group to address the recommendations made by the Groceries Code Adjudicator (GCA) and reviewed the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, we reviewed the reporting and correspondence to the supplier hotline in order to help identify any areas where further investigation was required; and • we also considered the adequacy of the commercial income related disclosure within the Group's financial statements. 	<p>The results of our testing were satisfactory.</p> <p>We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and impact on the Group's balance sheet as at 25 February 2017.</p>
<p>Pension obligation valuation </p> <p>As described in Note 1 (Accounting policies) and Note 27 (Post-employment benefits), the Group has a defined benefit pension plan in the UK. At 25 February 2017, the Group recorded a net retirement obligation before deferred tax of £6,621m (2015/16: £3,175m), comprising scheme assets of £13,196m (2015/16: £10,302m) and scheme liabilities of £19,817m (2015/16: £13,477m).</p> <p>The pension valuation is dependent on market conditions and assumptions made. The risk specifically relates to the following key assumptions: discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries.</p> <p>Refer to page 54 for the Audit Committee's discussion of this risk.</p>	<p>We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to the pension obligation valuation process.</p> <p>In testing the pension valuation, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.</p>	<p>We are satisfied that the methodology and assumptions applied in relation to determining the pension valuation are within an acceptable range.</p>
<p>Contingent liabilities </p> <p>The Group has been under investigation by the Serious Fraud Office (SFO) in the UK following the commercial income misstatements identified in 2014/15. On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had reached a Deferred Prosecution Agreement (DPA) with the SFO. In addition, Tesco PLC and Tesco Stores Limited accepted a finding of market abuse from the FCA, arising from the same circumstances and as a result will implement a compensation scheme, as described in Note 35. This brings greater certainty to the Group's exposure and a £235m liability has been recognised accordingly. Additionally, in 2016/17 UK shareholder actions were initiated against the Group linked to the commercial income misstatements identified in 2014/15 which may result in legal exposures.</p> <p>Separately, the Group has other ongoing legal matters relating to previous corporate transactions which require management judgement to be applied in order to determine the likely outcome.</p> <p>As a result, judgement is required in assessing the nature of these exposures and their accounting and disclosure requirements.</p> <p>Refer to page 54 for the Audit Committee's discussion of this risk.</p>	<p>In assessing the potential exposures to the Group, we have completed a range of procedures including:</p> <ul style="list-style-type: none"> • assessing the design and implementation of controls in relation to the monitoring of known exposures; • reading Board and other meeting minutes to identify areas subject to Group consideration; • meeting with the Group's internal legal advisors in understanding ongoing and potential legal matters impacting the Group; • reviewing third party correspondence and reports; and • reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters. 	<p>We concur that the liability recognised by management in respect of the DPA and FCA compensation scheme and the disclosures in relation to the ongoing UK shareholder actions are appropriate.</p> <p>In relation to other ongoing legal matters in respect of previous corporate transactions, we are satisfied no specific disclosure is required.</p>

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

Risk description	How the scope of our audit responded to the risk	Key observations
<p>Inventory valuation ↻</p> <p>As described in Note 1 (Accounting policies) and Note 15 (Inventories), the Group carries inventory at the lower of cost and net realisable value. As at 25 February 2017, the Group held inventories of £2,301m (2015/16: £2,430m).</p> <p>The Group provides for obsolescence based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate provisioning percentages to estimates of future sales.</p>	<p>We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation.</p> <p>We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by:</p> <ul style="list-style-type: none"> · critically assessing the Group's inventory provisioning policy, with specific consideration given to aged inventory (especially for non-food and general merchandising products) as well as stock turn calculations, including the impact of seasonality; · verifying the value of a sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices; · within the UK business, using data analytics to identify unusual inventory usage characteristics, completing assumption tolerance testing and recalculating the provision in totality based on the Group's policy; and · reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year in relation to stock loss or other inventory adjustments. 	<p>We concur that the total level of provision is within an acceptable range.</p>
<p>Management override of controls ↻</p> <p>There are a number of areas within the Group financial statements which comprise accounting estimates by management and accordingly there is a risk that the Group's results are influenced through management bias in determining such estimates. Additionally, the Group's processes continue to be complex and reliant on legacy IT systems which lead to an increased risk of management override of controls.</p> <p>Specifically this risk lies in those areas with high levels of judgement such as commercial income, value in use calculations within the impairment reviews, inventory accounting and provisioning, which are included in Note 1.</p> <p>Management also exercises judgement in the presentation of the Group's income statement and the quality of the Group's earnings.</p> <p>A risk exists that invalid journal entries are recorded to influence the results and/or the financial position as desired through the override of controls implemented to prevent the recording of inappropriate journals.</p>	<p>In order to address this risk, in addition to the procedures set out in the commercial income, impairment and inventory risks above, we have completed audit procedures including:</p> <ul style="list-style-type: none"> · assessing the design and implementation of controls which address the risk of management override, such as the 'entity level' controls which underpin the overall control environment for the Group; · auditing key areas of management estimate and judgement, including consideration of exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures; · using data analytics, testing journal entries for fraud characteristics by testing the completeness of the journal population reviewed and risk profiling the population to focus our work on journals of interest; · assessing transactions completed outside of the normal course of business; and · obtaining an understanding of the work of internal audit so as to assist us in directing our audit effort and obtaining greater understanding of the controls in place across the Group. 	<p>We have no matters to highlight in these areas.</p> <p>However, we note that consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items which do not meet the Group's definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items.</p>
<p>Tesco Bank payment fraud ↻</p> <p>In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack.</p> <p>The Group continues to work closely with the authorities and regulators on this incident. There is a risk that the Group has not identified and accounted for any liabilities which may arise from the incident.</p> <p>Refer to page 53 for the Audit Committee's discussion of this risk.</p>	<p>In assessing the potential exposures to the Bank, we have completed a range of procedures including:</p> <ul style="list-style-type: none"> · understanding the cause of the issue, reviewing the incident reports prepared by external consultants and understanding management's response to findings; · understanding the status of discussions with authorities and regulators; · assessing the fraud losses and the treatment of associated recoveries from merchants; and · assessing whether the Group has appropriately identified and accounted for any other liabilities related to the payment fraud. 	<p>We are satisfied that the Group has appropriately accounted for liabilities associated with the incident.</p>

Risk description**Retail technology environment, including IT security** ↻

The Group's retail operations utilise a range of information systems where in 2015/16 we identified deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.

As described on page 50 within the Audit Committee report, the Group is undergoing the replacement of a number of the Group's key systems and changes to key elements of the Group's IT infrastructure.

How the scope of our audit responded to the risk

We have understood the Group's replacement programme and the planned enhancements to the retail technology environment, including IT security.

During the year we have assessed the design and implementation of the Group's controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme.

Where we noted deficiencies which affected applications and databases within the scope of our audit, we extended the scope of our substantive audit procedures.

Key observations

Although we note progress has been made during the year in enhancing the Group's controls over the information systems described above, given the complexity of the underlying systems the remediation process is not yet complete and therefore weaknesses remain in the control environment.

The historical weaknesses we noted last year in relation to user access and change management controls linked to the Group's financial reporting systems are in the process of being remediated.

Our application of materiality

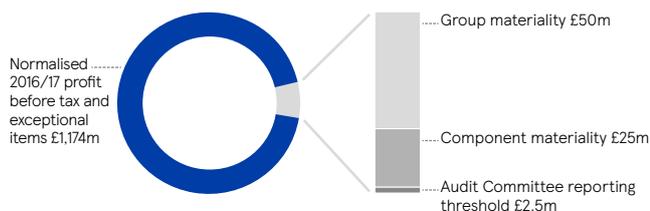
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our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

We determined materiality for the Group to be £50m (2015/16: £50m).

We have concluded it to be appropriate to determine materiality with reference to the Group's historical and projected profitability as we consider the Group's most recent profitability is not reflective of normal profitability as the Group continues to undergo a transformation process.

Materiality has therefore been determined as 5% of a normalised profit before tax and capped at £50m so not to exceed the 2015/16 materiality. The materiality applied by the component auditors was £25m.

In our professional judgement, we believe that the use of an adjusted profit measure as set out above is acceptable, as the basis on which the materiality has been determined may otherwise skew the level of materiality determined in a manner not reflective of the Group's long-term trading activity. In making this judgement, we considered a number of profit based and other measures with reference to the Group's performance. The materiality selected represents 0.8% (2015/16: 0.6%) of the Group's net assets.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.5m (2015/16: £2.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

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

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on eight retail locations (UK, Republic of Ireland, Czech Republic, Hungary, Poland, Slovakia, Malaysia and Thailand) and Tesco Bank. All of these were subject to a full audit and represent 97% (2015/16: 97%) of the Group's revenue and 91% (2015/16: 88%) of net assets.

In addition, four other businesses were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The four locations accounted for 2% (2015/16: 2%) of the Group's revenue and 6% (2015/16: 4%) of net assets. In the current year, Turkey and dunnhumby were subject to specific audit procedures on certain financial statement lines, whilst in 2015/16 were full scope audits. The change in scope is due to only certain financial statement lines being considered to be significant context of the Group in 2016/17.

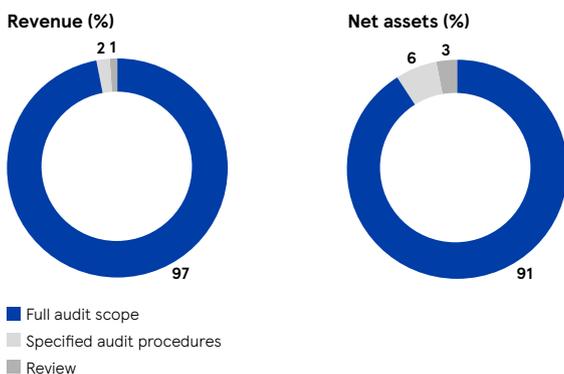
Independent auditor's report to the members of Tesco PLC continued

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

The most significant component of the Group is its retail business in the UK. As such, there is extensive overlap between the Group and UK audit team to ensure an appropriate level of involvement in this audit work. During the course of our audit, we visited 50 (2015/6: 75) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 6 (2015/16: 7) distribution centre inventory counts.

We visited 7 (2015/16: 10) of the 9 (2015/16: 11) significant locations set out above, in addition to the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting 4 (2015/16: 4) of these locations. We also had a dedicated audit partner focused on overseeing the role of the component audit teams located outside of the UK and the Republic of Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's international business. The audit visits by the Group audit team were timed to enable us to be involved during the planning and risk assessment process in addition to during the completion of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

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



Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

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

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance statement

Under the Listing Rules we are also required to review part of the Corporate Governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the annual report

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

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

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

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

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

Scope of the audit of the financial statements

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

Panos Kakoullis (Senior statutory auditor)

for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
11 April, 2017

Group income statement

	Notes	52 weeks ended 25 February 2017			52 weeks ended 27 February 2016		
		Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Continuing operations							
Revenue	2	55,917	–	55,917	53,933	–	53,933
Cost of sales		(52,899)	(116)	(53,015)	(51,124)	35	(51,089)
Gross profit/(loss)		3,018	(116)	2,902	2,809	35	2,844
Administrative expenses		(1,734)	(261)	(1,995)	(1,836)	22	(1,814)
Profits/(losses) arising on property-related items		(4)	114	110	12	30	42
Operating profit/(loss)		1,280	(263)	1,017	985	87	1,072
Share of post-tax profits/(losses) of joint ventures and associates	13	(30)	(77)	(107)	(21)	–	(21)
Finance income	5	109	–	109	29	–	29
Finance costs	5	(630)	(244)	(874)	(658)	(220)	(878)
Profit/(loss) before tax		729	(584)	145	335	(133)	202
Taxation	6	(185)	98	(87)	(8)	62	54
Profit/(loss) for the year from continuing operations		544	(486)	58	327	(71)	256
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	(37)	(75)	(112)	26	(153)	(127)
Profit/(loss) for the year		507	(561)	(54)	353	(224)	129
Attributable to:							
Owners of the parent		515	(555)	(40)	359	(221)	138
Non-controlling interests		(8)	(6)	(14)	(6)	(3)	(9)
		507	(561)	(54)	353	(224)	129

Earnings/(losses) per share from continuing and discontinued operations

Basic	9	6.32p	(0.49)p	4.42p	1.70p
Diluted	9	6.31p	(0.49)p	4.40p	1.69p

Earnings/(losses) per share from continuing operations

Basic	9	6.76p	0.81p	4.06p	3.24p
Diluted	9	6.75p	0.81p	4.05p	3.22p

The notes on pages 91 to 149 form part of these financial statements.

Group statement of comprehensive income/(loss)

	Notes	52 weeks 2017 £m	52 weeks 2016 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	27	(3,567)	1,164
Tax on items that will not be reclassified	6	579	(300)
		(2,988)	864
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		80	5
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		764	168
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement		-	(88)
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		385	318
Reclassified and reported in the Group income statement		(384)	(292)
Change in hedge relationship		-	186
Tax on items that may be reclassified	6	(23)	(30)
		822	267
Total other comprehensive income/(loss) for the year		(2,166)	1,131
Profit/(loss) for the year		(54)	129
Total comprehensive income/(loss) for the year		(2,220)	1,260
Attributable to:			
Owners of the parent		(2,206)	1,270
Non-controlling interests		(14)	(10)
Total comprehensive income/(loss) for the year		(2,220)	1,260
Total comprehensive income/(loss) attributable to owners of the parent arises from:			
Continuing operations		(2,096)	1,485
Discontinued operations		(110)	(215)
		(2,206)	1,270

The notes on pages 91 to 149 form part of these financial statements.

Group balance sheet

	Notes	25 February 2017 £m	27 February 2016 £m
Non-current assets			
Goodwill, software and other intangible assets	10	2,717	2,874
Property, plant and equipment	11	18,108	17,900
Investment property	12	64	78
Investments in joint ventures and associates	13	739	785
Other investments	14	823	1,078
Trade and other receivables	16	180	201
Loans and advances to customers	17	5,795	4,723
Derivative financial instruments	22	1,303	1,532
Deferred tax assets	6	707	49
		30,436	29,220
Current assets			
Other investments	14	284	57
Inventories	15	2,301	2,430
Trade and other receivables	16	1,475	1,406
Loans and advances to customers	17	4,166	3,819
Derivative financial instruments	22	286	176
Current tax assets		13	15
Short-term investments	18	2,727	3,463
Cash and cash equivalents	18	3,821	3,082
		15,073	14,448
Assets of the disposal group and non-current assets classified as held for sale	7	344	236
		15,417	14,684
Current liabilities			
Trade and other payables	19	(8,875)	(8,293)
Borrowings	21	(2,560)	(2,826)
Derivative financial instruments and other liabilities	22	(61)	(62)
Customer deposits and deposits from banks	24	(6,687)	(5,906)
Current tax liabilities	6	(613)	(419)
Provisions	25	(438)	(360)
		(19,234)	(17,866)
Liabilities of the disposal group classified as held for sale	7	(171)	-
		(3,988)	(3,182)
Net current liabilities			
Non-current liabilities			
Trade and other payables	19	(324)	(275)
Borrowings	21	(9,433)	(10,711)
Derivative financial instruments and other liabilities	22	(607)	(889)
Customer deposits and deposits from banks	24	(2,276)	(1,573)
Post-employment benefit obligations	27	(6,621)	(3,175)
Deferred tax liabilities	6	(88)	(135)
Provisions	25	(685)	(664)
		(20,034)	(17,422)
Net assets			
Equity			
Share capital	28	409	407
Share premium		5,096	5,095
All other reserves		601	(141)
Retained earnings		332	3,265
Equity attributable to owners of the parent		6,438	8,626
Non-controlling interests		(24)	(10)
Total equity		6,414	8,616

The notes on pages 91 to 149 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors

The financial statements on pages 86 to 149 were authorised for issue by the Directors on 11 April 2017 and are subject to the approval of the shareholders at the Annual General Meeting on 16 June 2017.

Group statement of changes in equity

	All other reserves								Total £m	Non- controlling interests £m	Total equity £m
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m			
At 27 February 2016	407	5,095	40	16	211	(401)	(7)	3,265	8,626	(10)	8,616
Profit/(loss) for the year	-	-	-	-	-	-	-	(40)	(40)	(14)	(54)
Other comprehensive income/(loss)											
Change in fair value of available-for-sale financial assets and investments	-	-	-	-	-	-	-	80	80	-	80
Currency translation differences	-	-	-	-	-	764	-	-	764	-	764
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	(3,567)	(3,567)	-	(3,567)
Gains/(losses) on cash flow hedges	-	-	-	-	1	-	-	-	1	-	1
Tax relating to components of other comprehensive income	-	-	-	-	5	(13)	-	564	556	-	556
Total other comprehensive income/(loss)	-	-	-	-	6	751	-	(2,923)	(2,166)	-	(2,166)
Total comprehensive income/(loss)	-	-	-	-	6	751	-	(2,963)	(2,206)	(14)	(2,220)
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(24)	-	(24)	-	(24)
Share-based payments	-	-	-	-	-	-	9	28	37	-	37
Issue of shares	2	1	-	-	-	-	-	-	3	-	3
Dividends	-	-	-	-	-	-	-	-	-	-	-
Tax on items charged to equity	-	-	-	-	-	-	-	2	2	-	2
Total transactions with owners	2	1	-	-	-	-	(15)	30	18	-	18
At 25 February 2017	409	5,096	40	16	217	350	(22)	332	6,438	(24)	6,414

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

The notes on pages 91 to 149 form part of these financial statements.

Group cash flow statement

	Notes	52 weeks 2017 £m	52 weeks 2016 £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		1,017	1,072
Operating profit/(loss) of discontinued operations		(117)	102
Depreciation and amortisation		1,304	1,334
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(78)	164
(Profit)/loss arising on sale of subsidiaries and other investments		3	–
(Profit)/loss arising on sale of joint ventures and associates		(5)	(1)
Impairment loss on goodwill		46	18
Net impairment loss/(reversal) on other investments		(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates		–	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property		(5)	182
Adjustment for non-cash element of pensions charge	27	7	(395)
Additional contribution into pension schemes	27	(248)	(223)
Share-based payments		15	283
Tesco Bank fair value movements included in operating profit		98	72
Retail (increase)/decrease in inventories		124	251
Retail (increase)/decrease in development stock		16	99
Retail (increase)/decrease in trade and other receivables		(74)	20
Retail increase/(decrease) in trade and other payables		510	260
Retail increase/(decrease) in provisions		11	(280)
Tesco Bank (increase)/decrease in loans and advances to customers		(1,529)	(868)
Tesco Bank (increase)/decrease in trade and other receivables		(24)	(78)
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		1,474	463
Tesco Bank increase/(decrease) in provisions		25	(35)
(Increase)/decrease in working capital		533	(168)
Cash generated from/(used in) operations		2,558	2,434
Interest received/(paid)		(522)	(426)
Corporation tax received/(paid)		(47)	118
Net cash generated from/(used in) operating activities		1,989	2,126
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		(1,205)	(871)
Purchase of intangible assets		(169)	(167)
Disposal of subsidiaries, net of cash disposed	31	205	3,237
Acquisition of subsidiaries, net of cash acquired	31	(25)	(325)
Proceeds from sale of joint ventures and associates		–	192
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		512	350
Net (increase)/decrease in loans to joint ventures and associates		15	(1)
Investments in joint ventures and associates		–	(77)
Net (investments in)/proceeds from sale of short-term investments		736	(2,894)
Net (investments in)/proceeds from sale of other investments		141	(103)
Dividends received from joint ventures and associates		28	41
Interest received/(paid)		41	3
Net cash generated from/(used in) investing activities		279	(615)
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital	28	1	1
Increase in borrowings		185	586
Repayment of borrowings		(2,036)	(1,328)
Net cash flows from derivative financial instruments		475	154
Repayments of obligations under finance leases		(12)	(17)
Dividends paid to equity owners	8	–	–
Net cash generated from/(used in) financing activities		(1,387)	(604)
Net increase/(decrease) in cash and cash equivalents		881	907
Cash and cash equivalents at beginning of the year		3,082	2,174
Effect of foreign exchange rate changes		(131)	1
Cash and cash equivalents including cash held in disposal group at the end of the year		3,832	3,082
Cash held in disposal group	7	(11)	–
Cash and cash equivalents at the end of the year	18	3,821	3,082

The notes on pages 91 to 149 form part of these financial statements.

Notes to the Group financial statements

Note 1 Accounting policies, judgements and estimates

General information

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

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

Basis of preparation

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

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Directors' report on page 76.

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

Presentation changes to the Group balance sheet

The Group balance sheet includes additional line items to better reflect the current and non-current categorisation of trade and other receivables, trade and other payables, other investments and customer deposits and deposits from banks. In the prior year, each of these balances was presented on one line in the balance sheet, with additional information on the current and non-current categorisation included within the notes.

Basis of consolidation

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

The financial year represents the 52 weeks ended 25 February 2017 (prior financial year 52 weeks ended 27 February 2016). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 25 February 2017 (prior financial year 52 weeks ended 27 February 2016). For all other operations, the results are for the calendar year ended 28 February 2017 (prior calendar year ended 29 February 2016).

Subsidiaries

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

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

Joint ventures and associates

The Group's share of the results of joint ventures and associates is included in the Group income statement and Group statement of other comprehensive income/(loss) using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Dividends received from joint ventures or associates with nil carrying value are recognised in the income statement as part of the Group's share of post-tax profits/(losses) of joint ventures and associates.

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

Revenue

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

Sale of goods

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

Provision of services

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

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

Financial services

Revenue consists of interest, fees and income from the provision of retail banking and insurance.

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

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

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

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

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Clubcard, loyalty and other initiatives

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

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

Rental income

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

Commercial income

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

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

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

Finance income

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

Finance costs

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

Business combinations and goodwill

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

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

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

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

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

Cloud software licence agreements

Licence agreements to use cloud software are treated as service contracts and expensed in the income statement, unless the Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor. In such cases the licence agreement is capitalised as software within intangible assets.

Intangible assets

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

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

Property, plant and equipment

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life.

Note 1 Accounting policies, judgements and estimates continued

The following depreciation rates are applied for the Group:

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

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

Impairment of non-financial assets

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

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

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

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

Investment property

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

Short-term and other investments

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

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

Refer to the financial instruments accounting policy for further detail.

Inventories

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

Cash and cash equivalents

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

Non-current assets held for sale and discontinued operations

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

Discontinued operations

In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated) and the assets and liabilities of these operations are presented separately in the Group balance sheet. Refer to Note 7 for further details.

Leases

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as a lessor

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

The Group as a lessee

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

Sale and leaseback

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

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

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Post-employment obligations

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

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

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

Share-based payments

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

Taxation

The tax expense included in the Group income statement consists of current and deferred tax.

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

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

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

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

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

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

Foreign currencies

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

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

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

Financial instruments

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

Trade receivables

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

Investments

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

Loans and advances to customers

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

Impairment of loans and advances to customers

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. At each balance sheet date, management reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss.

Note 1 Accounting policies, judgements and estimates continued

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

Loan impairment provisions are established on a portfolio basis using statistical methodology taking into account the level of arrears, security, past loss experience, credit quality and defaults based on portfolio trends.

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

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

Interest-bearing borrowings

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

Trade payables

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

Equity instruments

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

Derivative financial instruments and hedge accounting

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

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any

gains or losses on remeasurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument.

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

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

Fair value hedging

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

Cash flow hedging

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

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

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

Net investment hedging

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

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Offsetting financial instruments

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

Provisions

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

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

Judgements and sources of estimation uncertainty

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

Judgements

Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Discontinued operations

Management has applied judgement in presenting the Group's retail operations in Turkey as a discontinued operation. Management consider the retail operations in Turkey as an operating segment, one level below the reportable Retail International segment. Management further considered previous treatment of similar disposals in China and Korea as discontinued operations. Refer to Note 7.

Business combinations

The Group is an equity partner in several property joint ventures. Management has applied judgement in accounting for the acquisition of the partner's interests in the joint ventures as business acquisitions instead of asset acquisitions, due to the property management services provided within the joint venture being viewed as significant processes which, together with the property assets, constitute a business. The Group has further applied judgement in determining that where the Group leases properties in the joint venture, any increase in valuation of those properties above vacant possession value is attributed to the value of the lease contract, and does not create goodwill on acquisition.

Joint ventures and associates

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

Management has applied judgement in determining that Gain Land is an associate of the Group. The Group has significant influence by virtue of holding a 20% equity interest which presumes significant influence per IAS 28, together with having a contractual right to appoint two out of 10 directors, whilst taking into account that the remaining 80% interest is held by one other party.

Structured entities

Management has applied judgement in determining whether the Group has control over any structured entities involved in the Group's credit card securitisations and retail property transactions. Refer to Note 13 for additional disclosures.

Leases

Management exercises judgement in determining the classification of leases as finance or operating leases at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the property, the lease is classified as a finance lease. All other leases are classified as operating leases.

Management further applies judgement in determining the accounting treatment of the sale and leaseback transactions. Factors considered include the substance of the transaction (by applying the lease classification principles described above) whether or not the sale was made at the asset's fair value and the relationship with the buyer, which is based on levels of control and influence (the buyer may be an associate, joint venture or an unrelated party).

Refer to Note 34 for additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

Classification of mall properties

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

Determination of cash-generating units

The Group has determined each store as a separate cash-generating unit for impairment testing. Refer to Note 11.

Operating segments

The Group's reportable segments are in line with its management reporting structure. Management has assessed the retail operations in different countries and determined that they share similar economic characteristics, products, customers and supply chain operations. The retail operations have therefore been aggregated in the UK & ROI and International segments, in line with the way they are managed below the Chief Operating Decision Maker (CODM). Tesco Bank operates in a different industry and reports separately hence is a separate segment.

Alternative performance measures (APMs): Exceptional items

Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive APMs which provide additional useful information on the underlying trends, performance and position of the Group.

Note 1 Accounting policies, judgements and estimates continued

This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria. A breakdown of the exceptional items included in the Group income statement, together with the impact of these items to the Group's cash flow statement for the period, is disclosed in Note 4 to the consolidated financial statements.

Refer to page 170 for further detail on APMs.

Sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment

a) Impairment of goodwill

Management tests annually whether goodwill has suffered any impairment through estimating the value in use of the cash-generating units to which goodwill has been allocated. Key estimates and sensitivities for impairment of goodwill are disclosed in Note 10.

b) Impairment of investments

Where there are indicators of impairment or reversals of previous impairment for investments in joint ventures and associates or other investments, management performs an impairment test for the investment based on the higher of value in use and fair value less costs of disposal. Key estimates and sensitivities for impairment of investments are disclosed in Note 13.

c) Impairment of assets

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's three year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Key estimates and sensitivities for impairment of assets are disclosed in Note 11. Fair value is determined with the assistance of independent, professional valuers where appropriate.

Commercial income

Management is required to make estimates in determining the amount and timing of recognition of commercial income (as defined on page 92) for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimate the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

Management assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements. Commercial income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised

in cost of sales upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of commercial income) provides a consistent and complete measure of the income statement impact of the overall supplier relationships.

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the balance sheet. Refer to Note 20 for commercial income disclosures.

Property provisions

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

Key estimates and sensitivities for property provisions are disclosed in Note 25.

Uncertain tax provisions

Tax provisions are recognised for uncertain tax positions where a risk of an additional tax liability has been identified and it is probable that the Group will be required to settle that tax. Measurement is dependent on management's expectation of the outcome of decisions by tax authorities in the various tax jurisdictions in which the Group operates. This is assessed on a case by case basis using in-house tax experts, professional firms and previous experience. Refer to Note 6.

Inventories

An inventory provision is booked for cases where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value. Management has estimated the inventory provisioning percentage for different product categories based on various factors, including the expected sales profiles of the items, the prevailing sales prices, the item's seasonality pattern and expected losses associated with slow-moving inventory items.

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions and sensitivities for post-employment benefit obligations are disclosed in Note 27.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to Note 32 for the disclosures.

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Standards issued but not yet effective

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

- IFRS 9 'Financial instruments' replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:
 - Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
 - Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
 - Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

The Group expects to continue applying the existing hedge accounting requirements of IAS 39 for its portfolio hedge accounting until this new approach is implemented.

The Group intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Annual Report and Financial Statements for the year ended 24 February 2018. IFRS 9 is expected to result in a more significant impact for Tesco Bank than for the Retail business.

- IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts.

The Group recognises revenue from the following principal activities:

- Retailing and associated activities; and
- Retail banking and insurance services through Tesco Bank.

An assessment of the impact of IFRS 15 has been completed. Revenue recognition under IFRS 15 is expected to be consistent with current practice for the Group's revenue, with the exception of Clubcard loyalty points, certain telecommunication contracts and certain bespoke contracts fulfilled by dunnhumby, where the timing of revenue recognition will change. Had the principles of IFRS 15 been applied in the current reporting period, it would not have had a significant impact on the financial statements.

- IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases.

IFRS 16 is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in cost of sales and an increase in finance costs. The standard will also impact a number of statutory measures such as operating profit and cash generated from operations, and alternative performance measures used by the Group.

The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the financial effect until this review is complete.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs, previously termed 'Non-GAAP measures', of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with the prior year.

The key APMs that the Group has focused on this year are as follows:

- Group sales (previously termed 'Revenue exc. fuel'): This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.
- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It 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: This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items. Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.

Note 1 Accounting policies, judgements and estimates continued

- Retail operating cash flow: This is the operating cash flow of continuing operations, excluding the effects of Tesco Bank's cash flows.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs: This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

Some of our IFRS measures are translated at constant exchange rates. Constant exchange rates are the average actual periodic exchange rates for the previous financial year and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial year.

Refer to the Glossary (page 170) for a full list and comprehensive descriptions and purpose of the Group's APMs.

Notes to the Group financial statements continued

Note 2 Segmental reporting

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

The principal activities of the Group are therefore presented in the following segments:

- Retailing and associated activities (Retail) in:
 - UK & ROI – the United Kingdom and Republic of Ireland; and
 - International – Czech Republic, Hungary, Poland, Slovakia, Malaysia, and Thailand; and
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

This presentation reflects how the Group's operating performance is reviewed internally by management.

Excluded from the current year segmental information below are the retailing and associated activities of Turkey which have been classified as discontinued operations. Turkey's performance in the comparative year has been excluded from segmental information. Refer to Note 7 for further detail.

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

Income statement

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

52 weeks ended 25 February 2017 At constant exchange rates	UK & ROI £m	International £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Group sales	37,424	9,892	1,012	48,328	1,539	49,867
Revenue	43,248	10,084	1,012	54,344	1,573	55,917
Operating profit before exceptional items*	793	280	157	1,230	50	1,280
Exceptional items	(291)	87	(80)	(284)	21	(263)
Operating profit/(loss)	502	367	77	946	71	1,017
Operating margin	1.8%	2.8%	15.5%	2.3%	-	2.3%

52 weeks ended 25 February 2017 At actual exchange rates	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	37,692	11,163	1,012	49,867
Revenue	43,524	11,381	1,012	55,917
Operating profit before exceptional items*	803	320	157	1,280
Exceptional items	(284)	101	(80)	(263)
Operating profit/(loss)	519	421	77	1,017
Operating margin	1.8%	2.8%	15.5%	2.3%
Share of post-tax profits/(losses) of joint ventures and associates				(107)
Finance income				109
Finance costs				(874)
Profit/(loss) before tax				145

* Intercompany recharges totalling £2m (2016: £2m) between continuing operations and the Turkey discontinued operations have been eliminated.

Note 2 Segmental reporting continued

Income statement continued

52 weeks ended 27 February 2016 At actual exchange rates	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	37,189	9,715	955	47,859
Revenue	43,080	9,898	955	53,933
Operating profit before exceptional items*	503	320	162	985
Exceptional items	94	(6)	(1)	87
Operating profit/(loss)	597	314	161	1,072
Operating margin	1.2%	3.2%	17.0%	1.8%
Share of post-tax profits/(losses) of joint ventures and associates				(21)
Finance income				29
Finance costs				(878)
Profit/(loss) before tax				202

* Refer to previous table for footnote.

Balance sheet

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

At 25 February 2017	UK & ROI £m	International £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,293	322	1,102	-	2,717
Property, plant and equipment and investment property	12,893	5,206	73	-	18,172
Investments in joint ventures and associates	11	657	71	-	739
Non-current other investments	-	-	810	13	823
Non-current trade and other receivables ^(a)	23	20	-	-	43
Non-current loans and advances to customers	-	-	5,795	-	5,795
Deferred tax asset	601	106	-	-	707
Non-current assets^(b)	14,821	6,311	7,851	13	28,996
Inventories and current trade and other receivables ^(c)	2,389	1,048	338	-	3,775
Current loans and advances to customers	-	-	4,166	-	4,166
Current other investments	-	-	156	128	284
Total trade and other payables	(7,006)	(1,951)	(242)	-	(9,199)
Total customer deposits and deposits from banks	-	-	(8,963)	-	(8,963)
Total provisions	(914)	(125)	(84)	-	(1,123)
Deferred tax liability	(7)	(67)	(14)	-	(88)
Net current tax	(579)	(13)	(8)	-	(600)
Post-employment benefits	(6,600)	(21)	-	-	(6,621)
Assets held for sale and of the disposal group ^(d)	100	46	-	187	333
Liabilities of the disposal group ^(d)	-	-	-	(95)	(95)
Net debt (including Tesco Bank) ^(e)	-	-	(722)	(3,729)	(4,451)
Net assets	2,204	5,228	2,478	(3,496)	6,414

^(a) Excludes loans to joint ventures of £137m (2016: £149m) which forms part of Net debt.

^(b) Excludes derivative financial instrument non-current assets of £1,303m (2016: £1,532m).

^(c) Excludes net interest and other receivables of £1m (2016: £1m) which forms part of Net debt.

^(d) Excludes Net debt of the disposal group of £(65)m. Refer to Note 7.

^(e) Refer to Note 30.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Balance sheet continued

At 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,391	309	1,174	-	2,874
Property, plant and equipment and investment property	12,815	5,085	78	-	17,978
Investments in joint ventures and associates	5	704	76	-	785
Non-current other investments	-	-	927	151	1,078
Non-current trade and other receivables ^(a)	31	21	-	-	52
Non-current loans and advances to customers	-	-	4,723	-	4,723
Deferred tax asset	-	49	-	-	49
Non-current assets^(b)	14,242	6,168	6,978	151	27,539
Inventories and current trade and other receivables ^(c)	2,526	995	314	-	3,835
Current loans and advances to customers	-	-	3,819	-	3,819
Current other investments	-	-	57	-	57
Total trade and other payables	(6,580)	(1,736)	(252)	-	(8,568)
Total customer deposits and deposits from banks	-	-	(7,479)	-	(7,479)
Total provisions	(837)	(129)	(58)	-	(1,024)
Deferred tax liability	(64)	(39)	(32)	-	(135)
Net current tax	(403)	(3)	2	-	(404)
Post-employment benefits	(3,153)	(22)	-	-	(3,175)
Assets held for sale and of the disposal group ^(d)	165	71	-	-	236
Liabilities of the disposal group ^(d)	-	-	-	-	-
Net debt (including Tesco Bank) ^(e)	-	-	(975)	(5,110)	(6,085)
Net assets	5,896	5,305	2,374	(4,959)	8,616

^(a)-^(e) Refer to previous table for footnotes.

Other segment information

52 weeks ended 25 February 2017	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations ^(b) £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment ^(a)	995	386	12	1,393	2	1,395
Investment property	-	-	-	-	-	-
Goodwill, software and other intangible assets	111	16	34	161	-	161
Depreciation and amortisation:						
Property, plant and equipment	(687)	(349)	(17)	(1,053)	(5)	(1,058)
Investment property	(1)	-	-	(1)	-	(1)
Software and other intangible assets	(117)	(26)	(101)	(244)	(1)	(245)
Impairment:						
Property, plant and equipment loss	(12)	(155)	-	(167)	(106)	(273)
Property, plant and equipment reversal	118	161	-	279	-	279
Investment property loss	(2)	(1)	-	(3)	-	(3)
Investment property reversal	3	1	-	4	-	4
Goodwill, software and other intangible assets loss	(54)	-	-	(54)	-	(54)
Goodwill, software and other intangible assets reversal	-	1	-	1	-	1

^(a) Includes £nil (2016: £1,742m) of property, plant and equipment acquired through business combinations.

^(b) Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises those of Turkey in the first four months of the year ended 25 February 2017 and the 12 months of the year ended 27 February 2016. In the year ended 27 February 2016, discontinued operations also comprises the results of Korea for the first six months of the year.

Note 2 Segmental reporting continued

Other segment information continued

52 weeks ended 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations ^(b) £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment ^(a)	2,300	231	8	2,539	60	2,599
Investment property	5	-	-	5	-	5
Goodwill, software and other intangible assets	188	17	32	237	4	241
Depreciation and amortisation:						
Property, plant and equipment	(688)	(279)	(16)	(983)	(94)	(1,077)
Investment property	(2)	-	-	(2)	-	(2)
Software and other intangible assets	(145)	(26)	(75)	(246)	(9)	(255)
Impairment:						
Property, plant and equipment loss	(164)	(98)	-	(262)	(1)	(263)
Property, plant and equipment reversal	126	105	-	231	14	245
Investment property loss	-	(2)	-	(2)	-	(2)
Investment property reversal	7	-	-	7	-	7
Goodwill, software and other intangible assets loss	(177)	(10)	-	(187)	-	(187)

^{(a)-(b)} Refer to previous table for footnotes.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Cash flow statement

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

	Retail		Tesco Bank		Tesco Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Operating profit/(loss) of continuing operations*	940	911	77	161	1,017	1,072
Operating profit/(loss) of discontinued operations	(117)	102	-	-	(117)	102
Depreciation and amortisation	1,186	1,243	118	91	1,304	1,334
ATM net income	(43)	(38)	43	38	-	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(80)	165	2	(1)	(78)	164
(Profit)/loss arising on sale of subsidiaries and other investments	7	-	(4)	-	3	-
(Profit)/loss arising on sale of joint ventures and associates	(5)	(1)	-	-	(5)	(1)
Impairment loss on goodwill	46	18	-	-	46	18
Net impairment loss/(reversal) on other investments	(12)	(7)	-	-	(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates	-	1	-	-	-	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property	(5)	182	-	-	(5)	182
Adjustment for non-cash element of pensions charge	7	(395)	-	-	7	(395)
Additional contribution into pension schemes	(248)	(223)	-	-	(248)	(223)
Share-based payments	14	273	1	10	15	283
Tesco Bank fair value movements included in operating profit	-	-	98	72	98	72
Cash flows generated from operations excluding working capital	1,690	2,231	335	371	2,025	2,602
(Increase)/decrease in working capital	588	350	(55)	(518)	533	(168)
Cash generated from/(used in) operations	2,278	2,581	280	(147)	2,558	2,434
Interest received/(paid)	(518)	(422)	(4)	(4)	(522)	(426)
Corporation tax received/(paid)	(64)	125	17	(7)	(47)	118
Net cash generated from/(used in) operating activities	1,696	2,284	293	(158)	1,989	2,126
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,199)	(858)	(6)	(13)	(1,205)	(871)
Purchase of intangible assets	(129)	(146)	(40)	(21)	(169)	(167)
Alternative performance measure: Free cash flow	368	1,280	247	(192)	615	1,088
Disposal of subsidiaries, net of cash disposed	205	3,237	-	-	205	3,237
Acquisition of subsidiaries, net of cash acquired	(25)	(325)	-	-	(25)	(325)
Proceeds from sale of joint ventures and associates	-	192	-	-	-	192
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	509	350	3	-	512	350
Net (increase)/decrease in loans to joint ventures and associates	15	(1)	-	-	15	(1)
Investments in joint ventures and associates	-	(77)	-	-	-	(77)
Net (investments in)/proceeds from sale of short-term investments	736	(2,894)	-	-	736	(2,894)
Net (investments in)/proceeds from sale of other investments	111	17	30	(120)	141	(103)
Dividends received from joint ventures and associates	28	41	-	-	28	41
Interest received/(paid)	41	3	-	-	41	3
Net cash generated from/(used in) investing activities	292	(461)	(13)	(154)	279	(615)
Proceeds from issue of ordinary share capital	1	1	-	-	1	1
Increase in borrowings	185	286	-	300	185	586
Repayment of borrowings	(2,036)	(1,328)	-	-	(2,036)	(1,328)
Net cash flows from derivative financial instruments	475	154	-	-	475	154
Repayment of obligations under finance leases	(12)	(17)	-	-	(12)	(17)
Dividends paid to equity owners	-	-	-	-	-	-
Net cash generated from/(used in) financing activities	(1,387)	(904)	-	300	(1,387)	(604)
Intra-Group funding and intercompany transactions	45	50	(45)	(50)	-	-
Net increase/(decrease) in cash and cash equivalents	646	969	235	(62)	881	907
Cash and cash equivalents at the beginning of the year	2,528	1,558	554	616	3,082	2,174
Effect of foreign exchange rate changes	(131)	1	-	-	(131)	1
Cash and cash equivalents including cash held in disposal group at the end of the year	3,043	2,528	789	554	3,832	3,082
Cash held in disposal group	(11)	-	-	-	(11)	-
Cash and cash equivalents at the end of the year	3,032	2,528	789	554	3,821	3,082

* Tesco Bank operating profit as per Bank income statement excluding ATM net income segmental adjustment. Refer to page 169.

Note 2 Segmental reporting continued

Cash flow statement continued

	Continuing operations		Discontinued operations		Retail	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Operating profit/(loss)	940	911	(117)	102	823	1,013
Depreciation and amortisation	1,180	1,140	6	103	1,186	1,243
ATM net income	(43)	(38)	-	-	(43)	(38)
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(84)	167	4	(2)	(80)	165
(Profit)/loss arising on sale of subsidiaries and other investments	7	-	-	-	7	-
(Profit)/loss arising on sale of joint ventures and associates	(5)	(1)	-	-	(5)	(1)
Impairment loss on goodwill	46	18	-	-	46	18
Net impairment loss/(reversal) on other investments	(12)	(7)	-	-	(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates	-	1	-	-	-	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property	(106)	195	101	(13)	(5)	182
Adjustment for non-cash element of pensions charge	6	(401)	1	6	7	(395)
Additional contribution into pension schemes	(248)	(223)	-	-	(248)	(223)
Share-based payments	14	271	-	2	14	273
Cash flows generated from operations excluding working capital	1,695	2,033	(5)	198	1,690	2,231
(Increase)/decrease in working capital	584	55	4	295	588	350
Cash generated from/(used in) operations	2,279	2,088	(1)	493	2,278	2,581
Interest received/(paid)	(499)	(379)	(19)	(43)	(518)	(422)
Corporation tax received/(paid)	(64)	167	-	(42)	(64)	125
Net cash generated from/(used in) operating activities	1,716	1,876	(20)	408	1,696	2,284
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,193)	(770)	(6)	(88)	(1,199)	(858)
Purchase of intangible assets	(129)	(145)	-	(1)	(129)	(146)
Alternative performance measure: Free cash flow	394	961	(26)	319	368	1,280

Included within net impairment loss/(reversal) of property, plant and equipment and intangible assets for discontinued operations is £99m of impairment loss representing remeasurement to fair value less costs to sell of the Group's Turkish operations. Refer to Note 7.

Note 3 Income and expenses

	2017 £m	2016 £m
Continuing operations		
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £38m (2016: £39m) relates to investment properties	(358)	(316)
Other rental income	(50)	(53)
Direct operating expenses arising on rental earning investment properties	20	20
Costs of inventories recognised as an expense	41,140	39,534
Inventory losses and provisions	1,337	1,252
Depreciation and amortisation	1,298	1,231
Operating lease expenses, of which £84m (2016: £102m) relates to hire of plant and machinery	1,043	1,142
Net impairment loss/(reversal) on property, plant and equipment and investment property	(113)	26
Net impairment loss/(reversal) of goodwill, software and other intangible assets	53	187
Net impairment loss/(reversal) of investments in and loans to joint ventures and associates	-	1
Auditor's remuneration		
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.5	1.5
The audit of the financial statements of the Company's subsidiaries	4.0	4.4
Total audit services	5.5	5.9
Audit-related assurance services	0.5	0.6
Total audit and audit-related services	6.0	6.5
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	-	0.3
Taxation advisory services	0.3	0.9
All other non-audit services	5.5	8.8
Total non-audit services	5.8	10.0
Total auditor's remuneration	11.8	16.5

Other non-audit services of £5.5m (2016: £8.8m) represents: transaction-related services £1.9m (2016: £nil); retail consultancy services £1.5m (2016: £4.6m); forensic services £1.2m (2016: £2.3m); international employee services £0.6m (2016: £0.9m); pension advisory services of £nil (2016: £0.6m); and other £0.3m (2016: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.2m (2016: £0.2m) for the audit of the main Group pension scheme. More detail on non-audit services, along with a description of the work of the Audit Committee, is set out in the Corporate Governance Report on page 50 and includes how objectivity and independence is safeguarded when non-audit services are provided by Deloitte.

Notes to the Group financial statements continued

Note 3 Income and expenses continued

Employment costs, including Directors' remuneration

	2017 £m	2016 £m
Continuing operations		
Wages and salaries	6,051	5,932
Social security costs	473	395
Post-employment defined benefits (Note 27) ^(a)	35	10
Post-employment defined contributions (Note 27) ^(b)	341	175
Share-based payments expense (Note 26)	294	308
Termination benefits ^(c)	168	77
Total	7,362	6,897

^(a) Includes £nil (2016: £538m) of exceptional past service credit. Refer to Note 4.

^(b) Includes £nil (2016: £58m) of additional exceptional costs. Refer to Note 4.

^(c) Includes £146m (2016: £58m) of exceptional redundancy costs. Refer to Note 4.

Post-employment expenses include £135m (2016: £168m) of salaries paid as pension contributions.

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

Continuing operations	Average number of employees		Average number of full-time equivalents	
	2017	2016	2017	2016
UK & ROI	327,601	335,068	218,522	225,378
International	133,041	136,699	120,692	122,557
Tesco Bank	3,878	3,632	3,556	3,354
Total	464,520	475,399	342,770	351,289

Note 4 Exceptional items

Income statement

52 weeks ended 25 February 2017

Profit/(loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Share of JV and associates profits/(losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Net restructuring and redundancy costs ^(a)	(153)	(26)	(20)	(199)	-	-	39	-
Net impairment (loss)/reversal of non-current assets and onerous lease provisions ^(b)	25	-	(31)	(6)	(54)	-	20	-
Provision for customer redress ^(c)	(45)	-	-	(45)	-	-	-	-
Interchange settlement ^(d)	57	-	-	57	-	-	(11)	-
Amounts provided in relation to DPA and FCA obligations ^(e)	-	(235)	-	(235)	-	-	-	-
Property transactions ^(f)	-	-	165	165	-	-	50	-
Insurance reserve adjustment ^(g)	-	-	-	-	(23)	-	-	-
Foreign exchange losses on GBP short term investments held in overseas entities ^(h)	-	-	-	-	-	(244)	-	-
Exceptional items related to discontinued operations ⁽ⁱ⁾	-	-	-	-	-	-	-	(75)
Total	(116)	(261)	114	(263)	(77)	(244)	98	(75)

^(a) This includes £164m relating to ongoing UK & ROI changes to the Group's distribution network and to store colleague structures and working practices. It also includes £35m relating to Tesco Bank business simplification and head office relocation costs.

^(b) Net impairment (loss)/reversal of non-current assets includes a reversal of £103m in property, plant and equipment and investment property, a net £(53)m loss in goodwill, software and other intangible assets and a net charge of £(56)m of onerous lease provisions. Refer to Notes 10, 11, 12 and 25 for further details on impairment. The £(54)m loss relates to the Group's share of impairment in Gain Land Limited following a fair valuation exercise of its investment properties.

^(c) Updated guidance from the Financial Conduct Authority (FCA) proposing an extension to the expected Payment Protection Insurance (PPI) settlement deadline, inclusion of items that had previously been out of scope for settlement and higher operational costs and claim rates than previously estimated, have resulted in a provision of £45m.

^(d) This relates to settlement of a legal case in respect of interchange fees.

^(e) The Group has taken a total exceptional charge of £235m in respect of the Deferred Prosecution Agreement (DPA) of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event. Refer to Notes 25 and 35 for further details.

^(f) As part of the Group's strategy to maximise value from property, the Group generated a profit on disposal of surplus properties and development sites of £74m. In addition, two malls in Central Europe were disposed of, generating a profit of £91m. There is a tax credit of £50m primarily due to a lower book value than tax value of assets disposed. Refer to item (b) overleaf for cash proceeds.

^(g) The Group's share of the results for the year of its joint venture, Tesco Underwriting, reflects an adjustment to insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims.

^(h) The Group received £2.5bn of proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. Over the year, this has generated a £244m loss which represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.

⁽ⁱ⁾ On 10 June 2016, the Group announced the proposed sale of its Turkish operations. This charge includes: an impairment of £(99)m following a remeasurement of the assets and liabilities of the Turkish operations to fair value less costs to sell; £(3)m of costs to sell the Turkish operations and £27m of net adjustments on profits/(losses) of past disposals. Refer to Note 7 for further details.

Note 4 Exceptional items continued

Income statement

52 weeks ended 27 February 2016

Profit/(loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Admin- istrative expenses £m	Property- related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Net impairment (loss)/reversal of non-current assets and onerous lease provisions	(314)	-	(109)	(423)	-	73	15
Net restructuring and redundancy costs	(75)	(34)	(17)	(126)	-	9	-
Property transactions	-	-	156	156	-	(20)	-
Past service credit and other associated costs	424	56	-	480	-	(86)	-
Foreign exchange losses on GBP balances held in overseas entities	-	-	-	-	(220)	-	-
Release of overprovision of tax liabilities in prior years	-	-	-	-	-	86	-
Loss on disposal of Korean operations	-	-	-	-	-	-	(168)
Total	35	22	30	87	(220)	62	(153)

Cash flow statement

The table below shows the impact of exceptional items on the Group cash flow statement:

	Cash flows from operating activities		Cash flows from investing activities	
	2017 £m	2016 £m	2017 £m	2016 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies ^(a)	(54)	(251)	-	-
Current year restructuring costs and other exceptional costs including trading store redundancies ^(a)	(78)	(63)	-	-
Utilisation of onerous lease provisions	(113)	(90)	-	-
Property transactions ^(b)	36	218	490	-
Provision for customer redress ^(c)	(28)	(34)	-	-
Legal settlement	57	-	-	-
Exceptional cash flows from discontinued operations	2	-	-	-
Defined benefit pension scheme closure cost	-	(58)	-	-
Property transactions – buy-back of property joint ventures, net of £15m cash acquired	-	-	-	(139)
Total	(178)	(278)	490	(139)

^(a) Cash outflows on settlement of restructuring and redundancy costs.

^(b) The proceeds from property transactions totalled £526m comprising £490m net proceeds from the sale of two malls in Central Europe and other properties in the UK & ROI, and £36m for development sites in UK & ROI. Refer to item (f) on the previous page.

^(c) Settlement of claims for customer redress in Tesco Bank.

Note 5 Finance income and costs

	2017 £m	2016 £m
Continuing operations		
Finance income		
Interest receivable and similar income	48	29
Financial instruments – fair value remeasurements	61	-
Total finance income	109	29
Finance costs		
GBP MTNs and Loans	(227)	(176)
EUR MTNs	(114)	(122)
USD Bonds	(93)	(86)
Finance charges payable under finance leases and hire purchase contracts	(8)	(9)
Other interest payable	(81)	(97)
Capitalised interest (Note 11)*	6	6
Financial instruments – fair value remeasurements	-	(19)
Total finance costs before exceptional items and net pension finance costs	(517)	(503)
Net pension finance costs (Note 27)	(113)	(155)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(244)	(220)
Total finance costs	(874)	(878)
Net finance cost	(765)	(849)

* A deferred tax liability is recognised in respect of capitalised interest at the applicable rate in the country in which the interest is capitalised.

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group income statement

	2017 £m	2016 £m
Continuing operations		
Current tax (credit)/charge		
UK corporation tax	70	81
Release of UK provisions for uncertain tax positions – exceptional credit	–	(86)
Foreign tax	111	73
Adjustments in respect of prior years	19	(191)
	200	(123)
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	(43)	(69)
Adjustments in respect of prior years*	(36)	169
Change in tax rate	(34)	(31)
	(113)	69
Total income tax (credit)/charge	87	(54)

* Prior year adjustments include a tax credit of £24m in relation to an impairment reversal classified as exceptional.

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these consolidated financial statements. Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

Reconciliation of effective tax charge

	2017 £m	2016 £m
Profit/(loss) before tax	145	202
Tax credit/(charge) at 20% (2016: 20.1%)	(29)	(41)
Effect of:		
Non-qualifying depreciation	(33)	(49)
Other non-deductible items ^(a)	(82)	(4)
Unrecognised tax losses	(48)	(103)
Release of provisions for uncertain tax positions – exceptional credit	–	86
Property items taxed on a different basis to accounting entries ^(b)	77	114
Banking surcharge tax	(17)	(3)
Differences in overseas taxation rates	15	5
Adjustments in respect of prior years	17	22
Share of losses of joint ventures and associates	(21)	(4)
Change in tax rate	34	31
Total income tax credit/(charge) for the year	(87)	54
Effective tax rate	60.0%	(26.6)%

^(a) This includes expenses not qualifying for tax relief including DPA and FCA obligations provision, impairments and movements in uncertain tax positions partially offset by non-taxable income.

^(b) This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Note 6 Taxation continued

Reconciliation of effective tax charge on alternative performance measures

	2017 £m	2016 £m
Profit/(loss) before tax before exceptional items	729	335
Tax credit/(charge) at 20% (2016: 20.1%)	(146)	(67)
Effect of:		
Non-qualifying depreciation	(33)	(30)
Other non-deductible items ^(a)	(50)	(4)
Unrecognised tax losses	(14)	(59)
Property items taxed on a different basis to accounting entries ^(b)	(1)	102
Banking surcharge tax	(17)	(3)
Differences in overseas taxation rates	(7)	8
Adjustments in respect of prior years	39	22
Share of losses of joint ventures and associates	(5)	(4)
Change in tax rate	49	27
Total income tax credit/(charge) for the year	(185)	(8)
Effective tax rate before exceptional items	25.4%	2.4%
Net pension finance costs	113	155
Tax charge at 20% (2016: 20.1%)	(23)	(31)
Change in tax rate	4	3
Total income tax credit/(charge) before exceptional items and net pension finance cost for the year	(204)	(36)
Effective tax rate before exceptional items and net pension finance cost	24.2%	7.3%

^(a) This includes expenses not qualifying for tax relief, impairments and movements in uncertain tax positions partially offset by non-taxable income.

^(b) This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Tax on items credited directly to the Group statement of changes in equity

	2017 £m	2016 £m
Current tax credit/(charge) on:		
Share-based payments	-	-
Deferred tax credit/(charge) on:		
Share-based payments	2	-
Total tax on items credited/(charged) to the Group statement of changes in equity	2	-

Tax relating to components of the Group statement of comprehensive income

	2017 £m	2016 £m
Current tax credit/(charge) on:		
Foreign exchange movements	(13)	6
Fair value of movement on available-for-sale investments	-	-
Fair value movements on cash flow hedges	-	-
Deferred tax credit/(charge) on:		
Pensions	579	(300)
Fair value of movement on available-for-sale investments	(15)	-
Fair value movements on cash flow hedges	5	(36)
Total tax on items credited/(charged) to Group statement of comprehensive income	556	(330)

Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years measured using the tax rates that are expected to apply when the liability is settled or the asset realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date:

	Property-related items ^(a) £m	Retirement benefit obligation ^(c) £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Other pre/post-tax temporary differences £m	Total £m
At 28 February 2015	(953)	957	3	248	69	(10)	1	315
(Charge)/credit to the Group income statement	46	(86)	5	(36)	3	-	(1)	(69)
(Charge)/credit to the Group statement of changes in equity	-	-	-	-	-	-	-	-
(Charge)/credit to the Group statement of comprehensive income	-	(300)	-	-	-	(36)	-	(336)
Discontinued operations	232	(10)	(2)	(68)	(22)	-	-	130
Business combinations	(136)	-	-	(4)	-	14	-	(126)
Foreign exchange and other movements ^(b)	(5)	2	-	3	-	-	-	-
At 27 February 2016	(816)	563	6	143	50	(32)	-	(86)

Notes to the Group financial statements continued

Note 6 Taxation continued

	Property-related items ^(a) £m	Retirement benefit obligation ^(c) £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Other pre/post-tax temporary differences £m	Total £m
At 27 February 2016	(816)	563	6	143	50	(32)	-	(86)
(Charge)/credit to the Group income statement	162	(20)	14	(6)	(41)	4	-	113
(Charge)/credit to the Group statement of changes in equity	-	-	2	-	-	-	-	2
(Charge)/credit to the Group statement of comprehensive income	-	579	-	-	-	(10)	-	569
Discontinued operations	18	-	-	-	-	-	-	18
Business combinations	-	-	-	1	-	-	-	1
Foreign exchange and other movements ^(b)	(8)	-	1	10	(1)	-	-	2
At 25 February 2017	(644)	1,122	23	148	8	(38)	-	619

^(a) Property-related items include a deferred tax liability on rolled over gains of £277m (2016: £321m) and deferred tax assets on capital losses of £185m (2016: £137m). The remaining balance relates to accelerated tax depreciation. It is not anticipated these will reverse materially in the foreseeable future.

^(b) The deferred tax charge for foreign exchange and other movements is a £2m credit (2016: £nil) relating to the retranslation of deferred tax balances at the balance sheet date is included within the Group statement of comprehensive income under the heading Currency translation differences.

^(c) The deferred tax asset on retirement benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 27.

Certain deferred tax assets and liabilities have been offset and are analysed as follows:

	2017 £m	2016 £m
Deferred tax assets	707	49
Deferred tax liabilities	(88)	(135)
	619	(86)

No deferred tax liability is recognised on temporary differences of £3.2bn (2016: £2.9bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 25 February 2017 is estimated to be £192m (2016: £141m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Unrecognised deferred tax assets

Deferred tax assets in relation to continuing operations have not been recognised in respect of the following items (because it is not probable that future taxable profits will be available against which the Group can utilise the benefits):

	2017 £m	2016 £m
Deductible temporary differences	108	155
Tax losses	202	89
	310	244

As at 25 February 2017, the Group has unused trading tax losses from continuing operations of £859m (2016: £728m) available for offset against future profits. A deferred tax asset has been recognised in respect of £45m (2016: £274m) of such losses. No deferred tax asset has been recognised in respect of the remaining £814m (2016: £454m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £18m that will expire in 2021 (2016: £32m in 2020) and £92m that will expire between 2022 and 2037 (2016: £2m between 2021 and 2036). Other losses will be carried forward indefinitely.

The 2016 balance for unrecognised deferred tax assets has been restated to exclude amounts in respect of discontinued operations. These include unrecognised deferred tax assets of £161m in respect of tax losses and £8m in relation to deductible temporary differences.

Current tax

Within the Group current tax liability of £613m is £383m of capital gains tax liabilities which may arise in respect of the sale of the Korea and China businesses.

Changes in tax law or its interpretation

The Group operates in a number of territories which leads to the Group's profits being subject to tax in many jurisdictions. We monitor income tax developments in these territories (which include the OECD Base Erosion and Profit Shifting (BEPS) initiative and European Union's state aid investigations) which could affect the Group's tax liabilities.

Note 7 Discontinued operations and non-current assets classified as held for sale

Assets and liabilities of the disposal group and non-current assets classified as held for sale

	25 February 2017 £m	27 February 2016 £m
Assets of the disposal group	198	-
Non-current assets classified as held for sale	146	236
Total assets of the disposal group and non-current assets classified as held for sale	344	236
Total liabilities of the disposal group	(171)	-
Total net assets of the disposal group and non-current assets classified as held for sale	173	236

The non-current assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year.

Discontinued operations

On 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (referred to as Turkish operations or Turkey) to Migros Ticaret A.Ş. (Migros). In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale within the period. Local regulatory approval was granted on 9 February 2017 and the sale completed on 1 March 2017.

At year end, an impairment charge of £99m has been recognised in property, plant and equipment primarily based on the latest completion statement as at 1 March 2017 reflecting fair value less costs to sell. This impairment has been included as an exceptional item within discontinued operations. The gain/(loss) on disposal at completion will also reflect the impact of the recycling of Turkey's currency translation reserve; at the year end the recycling would have increased the loss on sale by £119m. The equivalent amount for the recycling of the currency translation reserve at the date of disposal will be recorded as a non-cash loss within discontinued operations in the year ending 24 February 2018.

The tables below show the results of the discontinued operations which are included in the Group income statement, Group balance sheet and Group cash flow statement respectively. The comparative includes the Korean operations, which were sold on 22 October 2015 and disclosed as discontinued in the 2016 Annual Report.

Income statement

	2017		2016	
	Total ^(a) £m	Turkey £m	Korea £m	Total £m
Revenue	543	500	3,526	4,026
Expenses ^(b)	(580)	(555)	(3,404)	(3,959)
Profit/(loss) before tax before exceptional items	(37)	(55)	122	67
Taxation	-	-	(41)	(41)
Profit/(loss) after tax before exceptional items	(37)	(55)	81	26
Net impairment (loss)/reversal of non-current assets and onerous lease provisions	(99)	15	-	15
Costs to sell and other provisions – Turkey	(3)	-	-	-
Loss after tax on disposal of Korean operations	-	-	(168)	(168)
Net adjustments to profit/(loss) of past disposals	27	-	-	-
Total profit/(loss) after tax of discontinued operations^(c)	(112)	(40)	(87)	(127)

^(a) These figures represent the income statement of Turkey for the current year and the net adjustments to profit/(loss) of past disposals of £27m.

^(b) Intercompany recharges totalling £2m (2016: £2m) between continuing operations and the Turkey discontinued operation have been eliminated and intercompany recharges and intercompany loan interest totalling £48m between continuing operations and the Korea discontinued operation have been eliminated in 2016. These eliminations impact the performance of continuing and discontinued operations, reducing the profit/(loss) before tax of continuing operations by £2m (2016: £50m), whilst increasing the profit/(loss) before tax of Turkey and Korea discontinued operations by the same respective amounts.

^(c) Total profit/(loss) after tax of discontinued operations includes a loss of £6m attributable to non-controlling interests (2016: loss of £2m).

Loss per share impact from discontinued operations

	2017 Pence/share	2016 Pence/share
Basic	(1.30)	(1.54)
Diluted	(1.30)	(1.53)

Notes to the Group financial statements continued

Note 7 Discontinued operations and non-current assets classified as held for sale continued

Balance sheet

	Turkey 2017 £m
Assets of the disposal group	
Goodwill, software and other intangible assets	9
Property, plant and equipment	121
Inventories	43
Trade and other receivables	14
Cash and cash equivalents	11
Total assets of the disposal group	198
Trade and other payables	(88)
Borrowings	(76)
Other liabilities	(7)
Total liabilities of the disposal group	(171)
Total net assets of the disposal group	27

Cash flow statement

	Turkey 2017 £m	Korea and Turkey 2016 £m
Net cash flows from operating activities	(20)	408
Net cash flows from investing activities	13	(20)
Net cash flows from financing activities	21	8
Net cash flows from discontinued operations	14	396
Intra-Group funding and intercompany transactions	(2)	(108)
Net cash flows from discontinued operations, net of intercompany	12	288
Net cash flows from disposal of subsidiary	-	(366)
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	12	(78)

On 22 October 2015, the Group completed the sale of its Korean operations to a group of investors led by MBK Partners. There remains the potential for the Korean National Tax Service to interpret International Tax Conventions in a manner which gives rise to a tax liability in Korea on the sale of the Korean business. MBK Partners, the purchasers, considering this potential interpretation, withheld and paid capital gains tax of £325m from the sale proceeds to entirely eliminate any possible challenge against the purchasers by the Korean tax authorities. In addition, a further provision of £271m was recorded in 2016 for potential additional capital gains tax on the disposal, payable in Korean Won. The impact of foreign exchange movements has increased this provision to £329m as at 25 February 2017.

The Group is vigorously contesting this interpretation through the Korean legal process. During the year ended 27 February 2016, the Group filed a claim for a refund of the capital gains tax withheld by the purchasers and the Korean National Tax Service commenced an investigation into this claim. As the investigation is ongoing, the Group has not recognised the benefit of this claim in its financial statements for the current or prior years.

Note 8 Dividends

No dividend has been paid or is proposed in respect of the financial year ended 25 February 2017 (2016: £nil).

Note 9 Earnings/(losses) per share and diluted earnings/(losses) per share

Basic earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

For the 52 weeks ended 25 February 2017 there were 20 million (2016: 26 million) potentially dilutive share options. As the Group has recognised a profit for the period from its continuing operations dilutive effects have been considered in calculating diluted earnings per share.

Note 9 Earnings/(losses) per share and diluted earnings/(losses) per share continued

	2017			2016		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations ^(a)	66	–	66	263	–	263
Discontinued operations ^(b)	(106)	–	(106)	(125)	–	(125)
Total	(40)	–	(40)	138	–	138
Weighted average number of shares (millions)	8,148	20	8,168	8,126	26	8,152
Earnings/(losses) per share (pence)						
Continuing operations	0.81	–	0.81	3.24	(0.02)	3.22
Discontinued operations	(1.30)	–	(1.30)	(1.54)	0.01	(1.53)
Total	(0.49)	–	(0.49)	1.70	(0.01)	1.69

^(a) Excludes losses from non-controlling interest of £8m (2016: £7m).

^(b) Excludes losses from non-controlling interest of £6m (2016: £2m).

Alternative performance measure: Earnings/(losses) per share and diluted earnings/(losses) per share from continuing operations before exceptional items

	2017			2016		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations ^(a)	551	–	551	330	–	330
Discontinued operations ^(b)	(36)	–	(36)	29	–	29
Total	515	–	515	359	–	359
Weighted average number of shares (millions)	8,148	20	8,168	8,126	26	8,152
Earnings/(losses) per share (pence)						
Continuing operations	6.76	(0.01)	6.75	4.06	(0.01)	4.05
Discontinued operations	(0.44)	–	(0.44)	0.36	(0.01)	0.35
Total	6.32	(0.01)	6.31	4.42	(0.02)	4.40

^(a) Excludes losses from non-controlling interest of £7m (2016: £3m).

^(b) Excludes losses from non-controlling interest of £1m (2016: £3m).

Alternative performance measure: Diluted earnings/(losses) per share from continuing operations before exceptional items and net pension finance costs

	2017	2016
Profit before tax from continuing operations before exceptional items (£m)	729	335
Add: Net pension finance costs (£m)	113	155
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	842	490
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	845	494
Taxation on profit from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(200)	(37)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	645	457
Diluted weighted average number of shares (millions)	8,168	8,152
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs (pence)	7.90	5.61

Refer to page 170 for further detail on the Group's APMs.

Notes to the Group financial statements continued

Note 10 Goodwill, software and other intangible assets

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 27 February 2016	2,517	2,861	372	5,750
Foreign currency translation	71	28	5	104
Additions	-	156	5	161
Reclassification	-	(15)	2	(13)
Disposals	(123)	(43)	(10)	(176)
Transfer to disposal group classified as held for sale	(39)	(16)	(11)	(66)
At 25 February 2017	2,426	2,971	363	5,760
Accumulated amortisation and impairment losses				
At 27 February 2016	690	1,886	300	2,876
Foreign currency translation	36	21	2	59
Charge for the year	-	216	29	245
Impairment losses	46	5	3	54
Reversal of impairment losses	-	(1)	-	(1)
Reclassification	-	12	(12)	-
Disposals	(99)	(34)	(1)	(134)
Transfer to disposal group classified as held for sale	(39)	(13)	(4)	(56)
At 25 February 2017	634	2,092	317	3,043
Net carrying value				
At 25 February 2017	1,792	879	46	2,717
At 27 February 2016	1,827	975	72	2,874

* Software includes £422m of internally generated development costs (2016: £464m).

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 28 February 2015	2,949	2,970	422	6,341
Foreign currency translation	(21)	13	(1)	(9)
Additions	64	174	3	241
Reclassification	-	6	-	6
Disposals	-	(224)	(7)	(231)
Transfer to disposal group classified as held for sale	(475)	(78)	(45)	(598)
At 27 February 2016	2,517	2,861	372	5,750
Accumulated amortisation and impairment losses				
At 28 February 2015	661	1,596	313	2,570
Foreign currency translation	14	3	1	18
Charge for the year	-	244	11	255
Impairment losses	18	169	-	187
Reclassification	-	45	-	45
Disposals	-	(125)	(6)	(131)
Transfer to disposal group classified as held for sale	(3)	(46)	(19)	(68)
At 27 February 2016	690	1,886	300	2,876

Note 10 Goodwill, software and other intangible assets continued

Impairment of goodwill

The goodwill balances, discount rates and long-term growth rates for each group of cash-generating units are shown below:

	Balances £m		Pre-tax discount rates		Post-tax discount rates		Long-term growth rates	
	2017	2016	2017	2016	2017	2016	2017	2016
Tesco Bank	802	802	12.0%	11.0%	9.1%	8.2%	3.0%	4.0%
UK*	735	796	9.3%	9.1%	7.5%	7.2%	2.0%	2.0%
Thailand	181	159	10.0%	10.1%	8.0%	8.1%	2.7%	2.6%
Malaysia	74	70	12.4%	12.3%	9.4%	9.4%	2.3%	2.1%
	1,792	1,827						

* Included in the UK prior year balance is £29m previously disclosed as Other.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. The key estimates for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins.

Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The pre-tax discount rates used to calculate value in use are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit.

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates as shown above. These long-term growth rates for the Retail business are based on inflation forecasts by recognised bodies. The long-term growth rate for Tesco Bank is based on inflation and GDP growth forecasts by recognised bodies.

Goodwill related to the Sociomantic acquisition of £46m, within the UK balance, was fully impaired in the year due to lower forecast cash flows for the business. This charge has been classified as an exceptional item within 'Net impairment of non-current assets and onerous lease provisions' within cost of sales.

The Group has carried out a sensitivity analysis on the impairment tests of each group of cash-generating units to which goodwill has been allocated. A reasonably possible increase in the discount rate or reduction in the long-term growth rate by one percentage point, would not indicate impairment in any group of cash-generating units apart from Malaysia where an increase in the discount rate by one percentage point would reduce the recoverable value by £90m to its carrying value of £74m.

Impairment of software and other intangible assets

A net impairment loss of £7m has been recognised against software and other intangible assets as part of the impairment review discussed in Note 11. This loss has been classified as an exceptional item within 'Net impairment of non-current assets and onerous lease provisions' within cost of sales. Of the prior year impairment loss of £169m, a loss of £154m was recognised principally as a result of an evaluation of the cash-generating unit for technology relating to online general merchandising as the Group moved towards a single online platform for customers.

Notes to the Group financial statements continued

Note 11 Property, plant and equipment

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 27 February 2016	22,557	10,468	33,025
Foreign currency translation	727	327	1,054
Additions ^(b)	816	579	1,395
Reclassification	(103)	58	(45)
Classified as held for sale	(316)	(6)	(322)
Disposals	(674)	(594)	(1,268)
Transfer to disposal group classified as held for sale	(317)	(151)	(468)
At 25 February 2017	22,690	10,681	33,371
Accumulated depreciation and impairment losses			
At 27 February 2016	7,198	7,927	15,125
Foreign currency translation	258	239	497
Charge for the year	419	639	1,058
Impairment losses	246	27	273
Reversal of impairment losses	(246)	(33)	(279)
Reclassification	(58)	11	(47)
Classified as held for sale	(137)	(1)	(138)
Disposals	(353)	(539)	(892)
Transfer to disposal group classified as held for sale	(232)	(102)	(334)
At 25 February 2017	7,095	8,168	15,263
Net carrying value			
At 25 February 2017	15,595	2,513	18,108
At 27 February 2016	15,359	2,541	17,900
Construction in progress included above^(c)			
At 25 February 2017	57	66	123
At 27 February 2016	121	63	184

^(a) Other assets consist of fixtures and fittings with a net carrying value of £2,023m (2016: £2,145m), office equipment with a net carrying value of £161m (2016: £144m) and motor vehicles with a net carrying value of £329m (2016: £252m).

^(b) Includes £6m (2016: £7m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.9% (2016: 4.6%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.

^(c) Construction in progress does not include land.

Assets held under finance leases

Net carrying value includes assets held under finance leases, which are analysed below. These assets are pledged as security for the finance lease liabilities.

	2017		2016	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	66	27	55	21

Land and buildings

The net carrying value of land and buildings comprises:

	2017 £m	2016 £m
Freehold	13,175	13,005
Long leasehold – 50 years or more	404	491
Short leasehold – less than 50 years	2,016	1,863
Net carrying value	15,595	15,359

In the current year the Group reclassified property, plant and equipment with a net book value of £nil (2016: £8m) to development properties in inventories.

Note 11 Property, plant and equipment continued

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 28 February 2015	25,298	11,493	36,791
Foreign currency translation	76	34	110
Additions ^(b)	364	493	857
Acquired through business combinations	1,725	17	1,742
Reclassification	(93)	2	(91)
Classified as held for sale	(715)	(23)	(738)
Disposals	(515)	(346)	(861)
Transfer to disposal group classified as held for sale	(3,583)	(1,202)	(4,785)
At 27 February 2016	22,557	10,468	33,025
Accumulated depreciation and impairment losses			
At 28 February 2015	8,021	8,330	16,351
Foreign currency translation	93	49	142
Charge for the year	318	759	1,077
Impairment losses	263	-	263
Reversal of impairment losses	(220)	(25)	(245)
Reclassification	(28)	(77)	(105)
Classified as held for sale	(475)	(20)	(495)
Disposals	(295)	(281)	(576)
Transfer to disposal group classified as held for sale	(479)	(808)	(1,287)
At 27 February 2016	7,198	7,927	15,125

^{(a)-(b)} Refer to previous page for footnotes.

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the balance sheet date. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use.

The key estimates for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. The discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region and predominately range from 9% to 13% (2016: 9% to 12%). On a post-tax basis, the discount rates predominately range from 7% to 10% (2016: 7% to 9%).

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates. These long-term growth rates are based on inflation forecasts by recognised bodies and range from 1% to 3% (2016: 2% to 6%).

Fair values are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. The key inputs to the valuation are the potential market rents and yields, both of which are largely based on rentals and yields for similar properties in that location. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £18,108m (2016: £17,900m) above comprises £13,338m (2016: £13,731m) of unimpaired assets and £4,770m (2016: £4,169m) of impaired assets. Of the impaired assets, £2,196m (2016: £1,805m) carrying value was supported by value in use and £2,574m (2016: £2,364m) was supported by fair value. Due to the individual nature of each property, these fair values are classified as Level 3 within the fair value hierarchy.

The total net impairment reversal of £6m includes an impairment loss of £106m relating to the Group's decision to sell its Turkish operations. This impairment has been classified as an exceptional item relating to discontinued operations; refer to Note 4 and Note 7 for further details.

The remaining net impairment reversal of £112m (£279m reversal offset by £167m losses) relating to continuing operations largely reflects normal fluctuations expected from store level performance within the continuing challenging economic environment. These losses and reversals have been largely presented net at a country level to reflect the underlying trends in the businesses. The impairment reversal of £279m (2016: £231m) relates to properties in the UK & ROI of £118m (2016: £126m) and International of £161m (2016: £105m), whilst the impairment losses of £167m (2016: £263m) relate to properties in the UK & ROI of £12m (2016: £164m) and International of £155m (2016: £99m).

Notes to the Group financial statements continued

Note 11 Property, plant and equipment continued

Of the £112m net reversal relating to continuing operations, a £134m reversal within exceptional items related to trading stores has been classified as 'Net impairment of non-current assets and onerous lease provisions' included within cost of sales. In addition, a £30m charge within exceptional items related to construction in progress and closed stores has been classified as 'Net impairment of non-current assets and onerous lease provisions' included within profits/(losses) arising on property-related items. The remaining £8m reversal has not been included within exceptional items as it relates to the ongoing management of the property portfolio.

The prior period net impairment charge of £18m included a £14m reversal relating to the Turkish operations, which were classified as discontinued in the current financial year. Of the remaining £32m impairment charge related to continuing operations, an £80m release within exceptional items related to trading stores and online general merchandising hardware, which was classified as 'Net impairment of non-current assets and onerous lease provisions' included within cost of sales. In addition, a £90m charge within exceptional items related to construction in progress and closed stores was classified as 'Net impairment of non-current assets and onerous lease provisions' included within profits/(losses) arising on property-related items. An additional £34m charge within exceptional items relating to business rationalisation in the UK & ROI was classified as 'Net restructuring and redundancy costs' included within cost of sales. The remaining £12m reversal was not included within exceptional items.

The Group has carried out a sensitivity analysis on the impairment tests for its trading stores portfolio. A reasonably possible increase of one percentage point in the post-tax discount rates for each geographic region would increase impairment by £278m. A decrease by one percentage point would decrease impairment by £243m.

Note 12 Investment property

	2017 £m	2016 £m
Cost		
At beginning of the year	170	285
Foreign currency translation	7	5
Additions	-	5
Reclassification	56	48
Classified as held for sale	(25)	(91)
Disposals	(37)	(43)
Transfer to disposal group classified as held for sale	-	(39)
At end of the year	171	170
Accumulated depreciation and impairment losses		
At beginning of the year	92	121
Foreign currency translation	6	6
Charge for the year	1	2
Impairment losses for the year	3	2
Reversal of impairment losses for the year	(4)	(7)
Reclassification	45	31
Classified as held for sale	(12)	(47)
Disposals	(24)	(7)
Transfer to disposal group classified as held for sale	-	(9)
At end of the year	107	92
Net carrying value at end of the year	64	78

The estimated fair value of the Group's investment property is £0.2bn (2016: £0.3bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

Note 13 Group entities

The Group consists of the ultimate parent company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 158 to 164 for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 25 February 2017.

Consolidated structured entities

The Group has a number of securitisation structured entities established in connection with Tesco Bank's credit card securitisation transactions. Although none of the equity of these entities is owned by the Group, the Group has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over them under contractual agreements. As such these entities are effectively controlled by the Group, and are therefore accounted for as subsidiaries of the Group.

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 25 February 2017 within these financial statements.

Note 13 Group entities continued

Unconsolidated structured entities

In prior years, the Group sponsored a number of structured entities. The Group led the formation of the entities and its name appears in the name of the entities and/or on the debt issued by the entities. The structured entities were set up to finance property purchases by some of the UK property joint ventures in which the Group typically holds a 50% equity interest. The structured entities obtain debt financing from third party investors and lend the funds to these joint ventures, who use the funds to purchase the properties.

The liabilities of the UK property joint ventures include the loans from these structured entities. The Group's exposure to the structured entities is limited to the extent of the Group's interests in the joint ventures. The liabilities of the structured entities are non-recourse to the Group.

The Group concluded that it does not control, and therefore should not consolidate, these structured entities since it does not have power over the relevant activities of the structured entities, or exposure to variable returns from these entities.

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
Gain Land Limited	Associate	Retail	20%	British Virgin Islands	People's Republic of China/ Hong Kong
Included in 'UK property joint ventures':					
BLT Properties Limited*	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Atrato Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Property (No. 2) Limited Partnership	Joint venture	Property investment	50%	Jersey	United Kingdom
Included in 'Other joint ventures and associates':					
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Tesco Underwriting Limited	Joint venture	Financial services	49.9%	England	United Kingdom
Trent Hypermarket Limited	Joint venture	Retail	50%	India	India
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Associate	Property investment	25%	Thailand	Thailand

* On 6 April 2017, the Group purchased the remaining 50% equity interest in BLT Properties Limited. Refer to Note 35 for further details.

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2016 to 25 February 2017. The accounting period end dates for joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the parent, other than those imposed by the Companies Act 2006, and for Tesco Underwriting Limited, regulatory capital requirements.

The UK property joint ventures involve the Group partnering with third parties in carrying out some property investments in order to enhance returns from property and access funding, whilst reducing risks associated with sole ownership. These property investments generally cover shopping centres and standalone stores. The Group enters into operating leases for some or all of the properties held in the joint ventures. These leases provide the Group with some rights over alterations and adjacent land developments. Some leases also provide the Group with options to purchase the other joint venturers' equity stakes at a future point in time. In some cases the Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria. In other cases, the Group carries out property management activities for third party rentals of shopping centre units.

The property investment activities are carried out in separate entities, usually partnerships or limited liability companies. The Group has assessed its ability to direct the relevant activities of these entities and impact Group returns and concluded that the entities qualify as joint ventures since decisions regarding them require the unanimous consent of both equity holders. This assessment included not only rights within the joint venture agreements, but also any rights within other contractual arrangements between the Group and the entities.

The Group made a number of judgements in arriving at this determination, the key ones being:

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;

Notes to the Group financial statements continued

Note 13 Group entities continued

- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures or infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information for UK property joint ventures has been aggregated in order to provide useful information to users without excessive detail since these entities have similar characteristics and risk profiles largely based on their nature of activities and geographic market.

	UK property joint ventures		Gain Land Limited	
	2017 £m	2016 £m	12 months to Dec 2016 £m	12 months to Dec 2015 £m
Summarised balance sheet				
Non-current assets ^(a)	4,060	4,158	4,471	4,712
Current assets (excluding cash and cash equivalents)	99	58	2,261	2,047
Cash and cash equivalents	48	38	631	581
Current liabilities ^(b)	(301)	(327)	(6,208)	(5,550)
Non-current liabilities ^(b)	(4,831)	(4,572)	(169)	(153)
Net (liabilities)/assets	(925)	(645)	986	1,637
Summarised income statement				
Revenue	292	296	9,081	8,408
Profit/(loss) after tax	-	(36)	(626)	(341)
Reconciliation to carrying amounts:				
Opening balance	-	49	511	582
Additions/(disposals)	-	(10)	-	-
Foreign currency translation	-	-	47	(3)
Share of profits/(losses) ^(c)	14	22	(125)	(68)
Dividends received from joint ventures and associates	(14)	(29)	-	-
Deferred profits offset against carrying amounts ^(d)	-	(32)	-	-
Closing balance	-	-	433	511
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/(liabilities)	(463)	(323)	197	327
Goodwill	-	-	236	184
Deferred property profits offset against carrying amounts ^(d)	(63)	(64)	-	-
Cumulative unrecognised losses ^(e)	175	143	-	-
Cumulative unrecognised hedge reserves ^(f)	351	244	-	-
Carrying amount	-	-	433	511

^(a) The non-current asset balances of UK property joint ventures are reflected at historic depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the joint ventures are £5,242m (2016: £5,415m).

^(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £4,121m (2016: £4,151m) and derivative swap balances of £703m (2016: £487m) entered into to hedge the cash flow variability exposures of the joint ventures. The 2016 derivative balance of £487m reflects a £159m reduction due to valuation adjustments for credit risk not included in the prior year.

^(c) The profit for the year for UK property joint ventures related to £14m dividends received from joint ventures with £nil carrying amounts. £21m of losses and £107m of decreases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively. The loss of £(125)m for Gain Land Limited includes an impairment loss of £(54)m treated as an exceptional item. Refer to Note 4.

^(d) Deferred profits that arose from the transfer of properties into the UK property joint ventures have been offset against the carrying amounts of the related joint ventures. £1m relating to The Brookmaker Limited Partnership has been released during the year as a result of the disposal.

^(e) Cumulative unrecognised losses of £3m were disposed of relating to The Brookmaker Limited Partnership.

^(f) The 2016 cumulative unrecognised hedge reserves balances have been reduced by £79m to reflect valuation adjustments for credit risks.

At 25 February 2017, the Group has £103m (2016: £115m) loans to UK property joint ventures and £nil (2016: £nil) to Gain Land Limited.

Note 13 Group entities continued

Other joint ventures and associates

The Group also has interests in a number of other joint ventures and associates, excluding UK property joint ventures and Gain Land Limited. These are not considered to be individually material to the Group.

	Joint ventures		Associates	
	2017 £m	2016 £m	2017 £m	2016 £m
Aggregate carrying amount of other joint ventures and associates	245	219	61	55
Group's share of profits/(losses) for the year	(7)	23	11	2

Impairment

Management has performed impairment tests and sensitivity analysis on its investments in Gain Land Limited, Trent Hypermarket Limited and Tesco Underwriting Limited. The carrying values of Trent Hypermarket Limited of £112m (2016: £96m) and Tesco Underwriting Limited of £71m (2016: £76m) are included within 'Other joint ventures and associates' as discussed above.

The recoverable values of these investments were estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses. No impairment was recognised in the period for these investments. Sensitivity tests for reasonably possible increases in the discount rates of one percentage point would not indicate impairment in any of the investments.

Future changes in estimated cash flows, discount rates, competitive landscape, retail market conditions and other factors may result in impairment losses or reversals of impairment in future periods.

Note 14 Other investments

	2017 £m	2016 £m
Loans receivable	13	30
Available-for-sale financial assets	1,094	1,105
Total other investments	1,107	1,135
Of which:		
Current	284	57
Non-current	823	1,078
	1,107	1,135

The Group holds an 8.8% investment stake in Lazada Group S.A. (2016: 21%), which is also included within available-for-sale financial assets. Refer to Note 31 for details of the disposal of part of this investment during the year.

Note 15 Inventories

	2017 £m	2016 £m
Goods held for resale	2,276	2,390
Development properties	25	40
	2,301	2,430

Goods held for resale are net of commercial income (refer to Note 20).

Note 16 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	490	496
Prepayments	322	319
Accrued income	207	121
Other receivables	483	491
Amounts owed by joint ventures and associates (Note 29)	153	180
Total trade and other receivables	1,655	1,607
Of which:		
Current	1,475	1,406
Non-current	180	201
	1,655	1,607

Trade and other receivables include commercial income (refer to Note 20).

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from 7 to 60 days.

Notes to the Group financial statements continued

Note 16 Trade and other receivables continued

At 25 February 2017, trade and other receivables of £16m (2016: £37m) were past due and impaired. The gross amount of trade and other receivables was £68m (2016: £67m) with a provision of £52m (2016: £30m).

The ageing analysis of these receivables is as follows:

	2017 £m	2016 £m
Up to three months past due	–	14
Three to six months past due	3	4
Over six months past due	13	19
	16	37

At 25 February 2017, trade and other receivables of £130m (2016: £149m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2017 £m	2016 £m
Up to three months past due	119	129
Three to six months past due	10	15
Over six months past due	1	5
	130	149

No receivables have been renegotiated in the current or prior financial years.

Note 17 Loans and advances to customers

Tesco Bank has loans and advances to customers, as follows:

	2017 £m	2016 £m
Non-current	5,795	4,723
Current	4,166	3,819
	9,961	8,542

The maturity of these loans and advances is as follows:

	2017 £m	2016 £m
Repayable on demand or at short notice	3	3
Within three months	4,107	3,758
Greater than three months but less than one year	155	146
Greater than one year but less than five years	2,419	2,181
After five years	3,471	2,608
	10,155	8,696
Provision for impairment of loans and advances	(194)	(154)
	9,961	8,542

At 28 February 2017, £2.5bn (2016: £2.6bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1.9bn (2016: £2.0bn).

At 28 February 2017, Delamare Cards MTN Issuer plc had £1.8bn (2016: £1.8bn) notes in issue in relation to securitisation transactions, of which £0.8bn (2016: £0.8bn) was externally issued. The Group owned £1.0bn (2016: £1.0bn) of Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Of the total £0.8bn (2016: £0.8bn) class A retained Credit Card backed notes, £0.6bn (2016: £nil) is held in a distinct pool for the purposes of collateralising the Bank of England's Term Funding Scheme drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Note 17 Loans and advances to customers continued

Provision for impairment of loans and advances

	£m
At 28 February 2015	(140)
Increase in allowance, net of recoveries, charged to the Group income statement	(64)
Amounts written off	47
Unwinding of discount	3
At 27 February 2016	(154)
Increase in allowance, net of recoveries, charged to the Group income statement	(103)
Amounts written off	60
Unwinding of discount	3
At 25 February 2017	(194)

Note 18 Cash and cash equivalents and short-term investments

	2017 £m	2016 £m
Cash and cash equivalents		
Cash at bank and in hand	3,498	2,334
Short-term deposits	323	748
	3,821	3,082
Short-term investments		
Money market funds	2,727	3,463

Included in cash and cash equivalents is an amount of £777m that has been set aside for completion of the merger with Booker Group Plc. This cash is not available to the Group and must be held in ring-fenced accounts until released jointly by the Group and its advisors on satisfaction of the completion terms of the merger as set out in the offering circular dated 27 January 2017. Until that time, or if the merger is not completed, it remains an asset of the Group. At the balance sheet date it was invested with a single financial institution at a floating rate of interest. Interest accrues and is payable to the Group.

Note 19 Trade and other payables

	2017 £m	2016 £m
Trade payables	4,914	4,545
Other taxation on social security	310	388
Other payables	2,422	2,091
Amounts payable to joint ventures and associates (Note 29)	17	14
Accruals and deferred income	1,536	1,530
Total trade and other payables	9,199	8,568
Of which:		
Current	8,875	8,293
Non-current	324	275
	9,199	8,568

Trade and other payables are net of commercial income (refer to Note 20).

Note 20 Commercial income

Below are the commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables. Amounts received in advance of income being earned are included in accruals and deferred income.

	2017 £m	2016 £m
Current assets		
Inventories	(75)	(75)
Trade and other receivables		
Trade/other receivables	215	201
Accrued income	150	100
Current liabilities		
Trade and other payables		
Trade payables	213	305
Accruals and deferred income	(22)	(43)

The 27 February 2016 accruals and deferred income disclosure, previously disclosed in Note 19 of the 2016 Annual Report and Financial Statements, included amounts that were unrelated to commercial income and has therefore been amended accordingly.

Notes to the Group financial statements continued

Note 21 Borrowings

Current

	Par value	Maturity	2017 £m	2016 £m
Bank loans and overdrafts	-	-	912	845
Loans from joint ventures (Note 29)	-	-	6	6
4% RPI MTN	£310m	Sep 2016	-	316
5.875% MTN	€1,039m	Sep 2016	-	877
2.7% USD Bond	\$500m	Jan 2017	-	361
5.4478% Term Loan	£382m	Jan 2017	-	396
LIBOR + 0.5% Term Loan	£488m	Oct 2017	484	-
1.250% MTN	€500m	Nov 2017	423	-
5.5% USD Bond	\$850m	Nov 2017	709	-
5.5457% Secured Bond ^{(a)(b)}	£366m	Feb 2029	15	14
Finance leases (Note 34)	-	-	11	11
			2,560	2,826

Non-current

	Par value	Maturity	2017 £m	2016 £m
LIBOR + 0.5% Term Loan	£488m	Oct 2017	-	478
1.250% MTN	€500m	Nov 2017	-	394
5.5% USD Bond	\$850m	Nov 2017	-	666
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	129	132
3.375% MTN	€750m	Nov 2018	641	595
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	150
1.375% MTN	€1,250m	Jul 2019	1,063	990
5.5% MTN	£350m	Dec 2019	353	353
1% RPI Tesco Bank Retail Bond ^(c)	£67m	Dec 2019	67	66
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	299
2.125% MTN	€500m	Nov 2020	423	394
5% Tesco Bank Retail Bond	£200m	Nov 2020	210	211
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349
6.125% MTN	£900m	Feb 2022	896	896
5% MTN	£389m	Mar 2023	411	411
2.5% MTN	€750m	Jul 2024	640	595
3.322% LPI MTN ^(d)	£323m	Nov 2025	326	320
5.5457% Secured Bond ^{(a)(b)}	£366m	Feb 2029	339	353
6.067% Secured Bond ^(a)	£200m	Feb 2029	190	189
LIBOR + 1.2% Secured Bond ^(a)	£50m	Feb 2029	31	30
6% MTN	£200m	Dec 2029	253	257
5.5% MTN	£200m	Jan 2033	255	259
1.982% RPI MTN ^(e)	£268m	Mar 2036	270	265
6.15% USD Bond	\$1,150m	Nov 2037	1,063	1,035
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN	€600m	Apr 2047	522	486
5.2% MTN	£279m	Mar 2057	275	275
Finance leases (Note 34)	-	-	103	88
			9,433	10,711

^(a) The bonds are secured by a charge over the property, plant and equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £788m (2016: £838m).

^(b) This is an amortising bond which matures in February 2029. £15m (2016: £14m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.

^(c) The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.

^(d) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

^(e) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Note 21 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed facilities available at 25 February 2017, in respect of which all conditions precedent had been met as at that date:

	2017 £m	2016 £m
Expiring in less than one year	-	100
Expiring between one and two years	-	2,200
Expiring in more than two years	4,427	2,700
	4,427	5,000

The current year undrawn committed facilities include £1.8bn (2016: £2.4bn) of bilateral facilities and a £2.6bn (2016: £2.6bn) syndicated revolving credit facility. During the year, £1.8bn equivalent of bilateral facilities were refinanced in a tenor of three years to a final maturity of August 2019.

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 22 Financial instruments

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IAS 39 'Financial Instruments: Recognition and Measurement'. Derivatives may qualify as hedges for accounting purposes and the Group's hedging policies are further described below.

Net finance income of £43m (2016: net finance cost of £53m) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group income statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group income statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group income statement on an effective interest rate basis.

A gain of £126m on hedging instruments was recognised during the year, offset by a loss of £26m on hedged items (2016: a gain of £45m on hedging instruments was offset by a loss of £48m on hedged items).

Cash flow hedges

The Group uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur and will affect the Group income statement within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies.

The Group also uses forward contracts to hedge the future purchase of diesel for own use.

Cash flow hedging ineffectiveness resulted in a loss of £57m during the year (2016: a loss of £50m).

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations (with non-Sterling functional currency) against changes in value due to changes in foreign exchange rates. There was £nil (2016: £nil) that was recorded as resulting from net investment hedge ineffectiveness.

Gains and losses accumulated in equity are recycled to the Group income statement on disposal of overseas operations.

Notes to the Group financial statements continued

Note 22 Financial instruments continued

Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group income statement.

These instruments include index-linked swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group income statement within finance income or costs.

The fair values of derivative financial instruments have been disclosed in the Group balance sheet as follows:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	286	(61)	176	(62)
Non-current	1,303	(607)	1,532	(889)
	1,589	(668)	1,708	(951)

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2017				2016			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m						
Fair value hedges								
Interest rate swaps and similar instruments	29	543	(116)	3,050	30	320	(129)	3,241
Cross-currency swaps	386	791	(26)	408	280	1,377	-	-
Cash flow hedges								
Interest rate swaps and similar instruments	-	-	(38)	598	-	-	(263)	998
Cross-currency swaps	334	2,384	-	-	651	1,713	(63)	1,379
Index-linked swaps	152	651	-	-	108	950	-	-
Forward contracts	75	1,174	(1)	947	76	1,173	(15)	292
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	3	71	(6)	1,156	5	70	(14)	2,234
Cross-currency swaps	1	27	(9)	44	4	25	(4)	40
Index-linked swaps	592	3,589	(446)	3,589	529	3,589	(421)	3,589
Forward contracts	17	1,126	(26)	741	25	1,107	(42)	958
Total	1,589	10,356	(668)	10,533	1,708	10,324	(951)	12,731

Note 22 Financial instruments continued

The carrying value and fair value of financial assets and liabilities are as follows:

	2017		2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	3,821	3,821	3,082	3,082
Loans and advances to customers – Tesco Bank	9,961	10,178	8,542	8,822
Short-term investments	2,727	2,727	3,463	3,463
Other investments	1,107	1,107	1,135	1,135
Joint venture and associates loan receivables (Note 29)*	137	158	149	163
Other receivables	–	–	1	1
Derivative financial instruments:				
Interest rate swaps and similar instruments	32	32	35	35
Cross-currency swaps	721	721	935	935
Index-linked swaps	744	744	637	637
Forward contracts	92	92	101	101
Total financial assets	19,342	19,580	18,080	18,374
Liabilities				
Short-term borrowings:				
Amortised cost	(2,246)	(2,269)	(1,938)	(1,936)
Bonds in fair value hedge relationships	(303)	(291)	(877)	(865)
Long-term borrowings:				
Amortised cost	(7,977)	(8,414)	(9,512)	(9,136)
Bonds in fair value hedge relationships	(1,353)	(1,248)	(1,111)	(800)
Finance leases (Note 34)	(114)	(125)	(99)	(101)
Customer deposits – Tesco Bank	(8,463)	(8,485)	(7,397)	(7,405)
Deposits from banks – Tesco Bank	(500)	(500)	(82)	(82)
Derivative financial instruments:				
Interest rate swaps and similar instruments	(160)	(160)	(406)	(406)
Cross-currency swaps	(35)	(35)	(67)	(67)
Index-linked swaps	(446)	(446)	(421)	(421)
Forward contracts	(27)	(27)	(57)	(57)
Total financial liabilities	(21,624)	(22,000)	(21,967)	(21,276)
Total	(2,282)	(2,420)	(3,887)	(2,902)

* Joint venture and associates loan receivables carrying amounts of £137m (2016: £149m) are presented on the Group balance sheet net of deferred profits of £54m (2016: £57m) historically arising from the sale of property assets to joint ventures.

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes trade and other receivables/payables which have fair values equal to their carrying values. The expected maturity of the financial assets and liabilities is not considered to be materially different to their current and non-current classification.

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 25 February 2017 and 27 February 2016 are as follows:

	Available- for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
At 25 February 2017				
Cash and cash equivalents	–	3,821	–	3,821
Loans and advances to customers – Tesco Bank	–	9,961	–	9,961
Short-term investments	–	2,727	–	2,727
Other investments	1,094	13	–	1,107
Joint venture and associates loan receivables (Note 29)	–	137	–	137
Customer deposits – Tesco Bank	–	(8,463)	–	(8,463)
Deposits from banks – Tesco Bank	–	(500)	–	(500)
Short-term borrowings	–	(2,549)	–	(2,549)
Long-term borrowings	–	(9,330)	–	(9,330)
Finance leases (Note 34)	–	(114)	–	(114)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(128)	(128)
Cross-currency swaps	–	–	686	686
Index-linked swaps	–	–	298	298
Forward contracts	–	–	65	65
	1,094	(4,297)	921	(2,282)

Notes to the Group financial statements continued

Note 22 Financial instruments continued

At 27 February 2016	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	-	3,082	-	3,082
Loans and advances to customers – Tesco Bank	-	8,542	-	8,542
Short-term investments	-	3,463	-	3,463
Other investments	1,105	30	-	1,135
Joint ventures and associates loan receivables (Note 29)	-	149	-	149
Other receivables	-	1	-	1
Customer deposits – Tesco Bank	-	(7,397)	-	(7,397)
Deposits from banks – Tesco Bank	-	(82)	-	(82)
Short-term borrowings	-	(2,815)	-	(2,815)
Long-term borrowings	-	(10,623)	-	(10,623)
Finance leases (Note 34)	-	(99)	-	(99)
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	-	(371)	(371)
Cross-currency swaps	-	-	868	868
Index-linked swaps	-	-	216	216
Forward contracts	-	-	44	44
	1,105	(5,749)	757	(3,887)

The above tables exclude trade and other receivables/payables that are classified under loans and receivables/other financial liabilities.

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 25 February 2017 and 27 February 2016, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 25 February 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	964	-	130	1,094
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	32	-	32
Cross-currency swaps	-	721	-	721
Index-linked swaps	-	744	-	744
Forward contracts	-	92	-	92
Total assets	964	1,589	130	2,683
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	(160)	-	(160)
Cross-currency swaps	-	(35)	-	(35)
Index-linked swaps	-	(446)	-	(446)
Forward contracts	-	(27)	-	(27)
Total liabilities	-	(668)	-	(668)
Total	964	921	130	2,015

Note 22 Financial instruments continued

At 27 February 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	980	-	125	1,105
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	35	-	35
Cross-currency swaps	-	935	-	935
Index-linked swaps	-	637	-	637
Forward contracts	-	101	-	101
Total assets	980	1,708	125	2,813
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	-	(406)	-	(406)
Cross-currency swaps	-	(67)	-	(67)
Index-linked swaps	-	(421)	-	(421)
Forward contracts	-	(57)	-	(57)
Total liabilities	-	(951)	-	(951)
Total	980	757	125	1,862

The following table presents the changes in Level 3 instruments for the year ended 25 February 2017.

	2017 £m	2016 £m
At beginning of the year	125	112
Gains/(losses) recognised in finance costs in the Group income statement	(4)	-
Gains/(losses) recognised in the Group statement of comprehensive income	90	9
Disposal of available-for-sale financial asset	(81)	-
Purchase of non-controlling interests	-	4
At end of the year	130	125

During the financial year, there were no transfers (2016: £nil) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2016: £nil). £128m of Level 3 assets relate to an investment in an unlisted entity measured at cost (2016: £121m). At the time of the partial disposal, the remaining investment was revalued, resulting in a gain of £88m recognised in the Group statement of comprehensive income.

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 25 February 2017	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of financial assets/(liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		Net amount £m
				Financial instruments £m	Collateral £m	
Financial assets offset						
Cash and cash equivalents	4,085	(264)	3,821	-	-	3,821
Derivative financial instruments	1,589	-	1,589	(308)	(11)	1,270
Total trade and other receivables	1,894	(239)	1,655	-	-	1,655
Total	7,568	(503)	7,065	(308)	(11)	6,746
Financial liabilities offset						
Bank loans and overdrafts	(1,176)	264	(912)	-	-	(912)
Repurchases, securities lending and similar agreements*	(100)	-	(100)	100	-	-
Derivative financial instruments	(668)	-	(668)	308	115	(245)
Total trade and other payables	(9,438)	239	(9,199)	-	-	(9,199)
Total	(11,382)	503	(10,879)	408	115	(10,356)

* Repurchases, securities lending and similar agreements are included within the deposits from banks balance of £500m (2016: £82m) on the Group balance sheet (Note 24).

Notes to the Group financial statements continued

Note 22 Financial instruments continued

	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		Net amount £m
				Financial instruments £m	Collateral £m	
At 27 February 2016						
Financial assets offset						
Cash and cash equivalents	3,413	(331)	3,082	-	-	3,082
Derivative financial instruments	1,708	-	1,708	(365)	(4)	1,339
Total trade and other receivables	1,916	(309)	1,607	-	-	1,607
Total	7,037	(640)	6,397	(365)	(4)	6,028
Financial liabilities offset						
Bank loans and overdrafts	(1,176)	331	(845)	-	-	(845)
Repurchases, securities lending and similar agreements*	(82)	-	(82)	83	(1)	-
Derivative financial instruments	(951)	-	(951)	365	121	(465)
Total trade and other payables	(8,877)	309	(8,568)	-	-	(8,568)
Total	(11,086)	640	(10,446)	448	120	(9,878)

* Refer to previous table for footnote.

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Note 23 Financial risk factors

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below.

Financial risk management is carried out by a central treasury department under policies approved and delegated by the Board of Directors. The Board provides written principles for risk management.

Interest rate risk

Debt issued at variable rates, as well as cash deposits and short-term investments, exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk.

The Group's policy is to target fixing a minimum of 50%-70% of interest costs for senior unsecured debt of the Group excluding Tesco Bank. At the year end, the percentage of interest-bearing debt at fixed rates was 88% (2016: 88%). The weighted average rate of interest paid on senior unsecured debt this year, excluding joint ventures and associates, was 4.08% (2016: 3.94%).

Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

The Group has Retail Price Index (RPI) linked debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has Limited Price Inflation (LPI) linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt. RPI linked debt and LPI linked debt are hedged for the effects of inflation until maturity.

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 134 and 135. During 2017 and 2016, net debt was managed using derivative instruments to hedge interest rate risk.

Note 23 Financial risk factors continued

	2017			2016		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	3,821	3,821	–	3,082	3,082
Loans and advances to customers – Tesco Bank	5,738	4,223	9,961	4,725	3,817	8,542
Short-term investments	–	2,727	2,727	–	3,463	3,463
Other investments	1,022	85	1,107	1,059	76	1,135
Joint ventures and associates loan receivables (Note 29)	74	63	137	83	66	149
Other receivables	–	–	–	1	–	1
Finance leases (Note 34)	(114)	–	(114)	(99)	–	(99)
Bank and other borrowings	(9,324)	(2,555)	(11,879)	(10,729)	(2,709)	(13,438)
Customer deposits – Tesco Bank	(3,984)	(4,479)	(8,463)	(3,165)	(4,232)	(7,397)
Deposits from banks – Tesco Bank	(500)	–	(500)	(82)	–	(82)
Derivative effect:						
Interest rate swaps	(5,288)	5,288	–	(6,732)	6,732	–
Cross-currency swaps	1,199	(1,199)	–	1,898	(1,898)	–
Index-linked swaps	(328)	328	–	(633)	633	–
Total	(11,505)	8,302	(3,203)	(13,674)	9,030	(4,644)

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits from banks and financial institutions.

The Group holds positions with an approved list of investment-grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. The net counterparty exposure under derivative contracts is £1.3bn (2016: £1.3bn). The Group considers its maximum credit risk to be £20.1bn (2016: £18.7bn) being the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 134 and 135.

Liquidity risk

The Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases. The policy is to maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise. The Group retains access to capital markets so that maturing debt may be refinanced as it falls due.

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has undrawn committed facilities totalling £4.4bn (2016: £5.0bn), consisting of a syndicated revolving credit facility and bilateral facilities, which mature between 2019 and 2021.

The Group has a £15.0bn Euro Medium Term Note programme, of which £6.8bn was in issue at 25 February 2017 (2016: £7.4bn), plus a Euro Commercial Paper programme of £2.0bn, £nil of which was in issue at 25 February 2017 (2016: £nil), and a US Commercial Paper programme of \$4.0bn, £nil of which was in issue at 25 February 2017 (2016: £nil). The Group also has £1.7bn equivalent of USD denominated notes issued under 144A documentation (2016: £nil).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 134.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow of £18.4bn is considered acceptable as it is offset by financial assets of £20.1bn (2016: £17.1bn offset by financial assets of £18.7bn).

The undiscounted cash flows will differ from both the carrying values and fair values. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 3% for the life of the liability (2016: 3%).

Notes to the Group financial statements continued

Note 23 Financial risk factors continued

At 25 February 2017	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(2,634)	(1,076)	(1,850)	(645)	(926)	(4,771)
Interest payments on borrowings	(349)	(352)	(379)	(288)	(268)	(2,906)
Customer deposits – Tesco Bank	(6,658)	(1,147)	(423)	(167)	(174)	–
Deposits from banks – Tesco Bank	(100)	(301)	(1)	(100)	–	–
Finance leases	(19)	(16)	(23)	(9)	(9)	(126)
Trade and other payables*	(8,875)	(27)	(17)	(11)	(11)	(258)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	34	23	19	14	10	1,430
Net settled derivative contracts – payments	(96)	(59)	(251)	(414)	(86)	(197)
Gross settled derivative contracts – receipts	1,402	105	105	528	96	2,878
Gross settled derivative contracts – payments	(1,118)	(83)	(85)	(506)	(130)	(2,248)
Total	(18,413)	(2,933)	(2,905)	(1,598)	(1,498)	(6,198)

* Trade and other payables includes £268m (2016: £435m) of deferred income.

At 27 February 2016	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(2,436)	(1,659)	(1,034)	(1,777)	(617)	(5,370)
Interest payments on borrowings	(482)	(388)	(339)	(311)	(276)	(3,008)
Customer deposits – Tesco Bank	(5,891)	(946)	(329)	(201)	(135)	(1)
Deposits from banks – Tesco Bank	(82)	–	–	–	–	–
Finance leases	(18)	(14)	(11)	(12)	(9)	(123)
Trade and other payables*	(8,293)	(78)	(34)	(5)	(16)	(142)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	63	26	22	13	9	944
Net settled derivative contracts – payments	(145)	(264)	(109)	(202)	(293)	(126)
Gross settled derivative contracts – receipts	4,694	1,228	98	98	492	3,470
Gross settled derivative contracts – payments	(4,551)	(1,121)	(74)	(75)	(496)	(2,670)
Total	(17,141)	(3,216)	(1,810)	(2,472)	(1,341)	(7,026)

* Refer to previous table for footnote.

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Group income statement are hedged. These exposures are hedged via forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges. At the year end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2.1bn were outstanding (2016: £1.4bn). The notional and fair values of these contracts are shown in Note 22;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group hedges a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. During the year, currency movements increased the net value, after the effects of hedging, of the Group's overseas assets by £751m (2016: increase by £168m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries. These are hedged via foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

The impact on the Group financial statements from foreign currency volatility is shown in the sensitivity analysis on the next page.

Sensitivity analysis

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 25 February 2017. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

Note 23 Financial risk factors continued

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt, which has been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group statement of comprehensive income;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group income statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group income statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the illustrative effect on the Group income statement and equity that would result, at the balance sheet date, from changes in interest rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	2017		2016	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2016: 1%)	80	(39)	88	(44)
5% appreciation of the Czech Koruna (2016: 5%)	(2)	1	(1)	-
10% appreciation of the Euro (2016: 10%)	(83)	(108)	(285)	(94)
5% appreciation of the Hungarian Forint (2016: 5%)	(2)	-	(1)	(1)
10% appreciation of the US Dollar (2016: 10%)	6	170	(1)	95
5% appreciation of the Polish Zloty (2016: 5%)	-	-	(2)	-

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

The impact on the Group statement of comprehensive income from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group statement of comprehensive income will largely be offset by the revaluation in equity of the hedged assets.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares.

The Group raises finance in the public debt markets and borrows from financial institutions. The policy for debt is to smooth the debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year, with bonds redeemed of £1.9bn (2016: £nil) and new bonds issued of £nil (2016: £nil). The Group borrows centrally and locally, using a variety of capital market instruments and borrowing facilities to meet the Group's business requirements of each local business.

Refer to Note 30 for the value of the Group's net debt (£3.7bn; 2016: £5.1bn), and the Group statement of changes in equity for the value of the Group's equity (£6.4bn; 2016: £8.6bn).

Insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events. The Group purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only.

The risk not transferred to the insurance market is retained within the Group with some cover being provided by the Group's captive insurance companies. ELH Insurance Limited in Guernsey and Valiant Insurance Company DAC (formerly Valiant Insurance Company Limited) in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company DAC covers Combined Liability only.

Notes to the Group financial statements continued

Note 23 Financial risk factors continued

Tesco Bank

Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates and from unexpected changes to the yield curve. Tesco Bank is exposed to interest rate risk through dealings with retail customers as well as through lending to and borrowing from the wholesale market. Tesco Bank has established limits for risk appetite and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. Tesco Bank also use the Capital at Risk (CaR) approach which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

Liquidity and funding risk

Liquidity risk is the risk that Tesco Bank has insufficient liquidity resources to meet its obligations as they fall due. Funding risk is the risk that Tesco Bank does not have sufficiently stable and diverse sources of funding.

Tesco Bank operates within a Liquidity Risk Management Policy Framework (LRMP) to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's risk appetite is met.

Liquidity and funding risks are assessed through the Individual Liquidity Adequacy Assessment Process (ILAAP) on at least an annual basis. Formal limits are set within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board and key liquidity measures are monitored on a regular basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

Credit risk

Credit risk is the risk that a bank borrower or counterparty will fail to meet its obligations in accordance with contractually agreed terms and Tesco Bank will incur losses as a result. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time.

Retail credit policy is managed through the credit risk policy framework with minimum requirements for management of credit activities defined across the customer life cycle. Customer lending decisions are managed principally through the deployment of appropriate credit scoring and associated rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay the advances they are seeking. Wholesale credit risk is managed using a limit-based framework, with limits determined by counterparty credit worthiness, instrument type and remaining tenor. A limits framework is also in place for the management of third-party credit risk exposures.

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt. The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business.

Credit quality of loans and advances	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
As at 25 February 2017				
Past due and impaired				
Less than 90 days past due	32	-	-	32
90-179 days past due	48	-	-	48
180 days plus past due	99	-	-	99
Past due but not impaired				
Less than 29 days past due	48	1	-	49
30-59 days past due	15	-	-	15
60-119 days past due	10	-	-	10
Neither past due nor impaired				
Low risk ^(a)	7,440	2,154	140	9,734
High risk ^(b)	152	16	-	168
Total	7,844	2,171	140	10,155

^(a) Low risk is defined as an asset with a probability of default of less than 10%.

^(b) High risk is defined as an asset with a probability of default of 10% or more.

Note 23 Financial risk factors continued

	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
As at 27 February 2016				
Past due and impaired				
Less than 90 days past due	30	-	-	30
90-179 days past due	41	-	-	41
180 days plus past due	82	-	-	82
Past due but not impaired				
Less than 29 days past due	39	1	1	41
30-59 days past due	12	-	-	12
60-119 days past due	9	-	-	9
Neither past due nor impaired				
Low risk ^(a)	6,566	1,673	146	8,385
High risk ^(b)	86	10	-	96
Total	6,865	1,684	147	8,696

^(a) Low risk is defined as an asset with a probability of default of less than 10%.

^(b) High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off balance sheet items in 2017, mainly undrawn contractual lending commitments, was £12.1bn (2016: £11.9bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. Insurance risk is defined as the risk accepted through the provision of insurance products in return for a premium. The timing and quantum of the risks are uncertain and determined by events outside the control of Tesco Bank. The key insurance risks within TU relate to underwriting risk and reserving risk. TU operates a separate framework to ensure that the TU insurance portfolio operates within agreed risk appetite. The Bank closely monitors performance of the portfolio against specific thresholds and limits.

Note 24 Customer deposits and deposits from banks

	2017 £m	2016 £m
Customer deposits	8,463	7,397
Deposits from banks	500	82
	8,963	7,479
Of which:		
Current	6,687	5,906
Non-current	2,276	1,573
	8,963	7,479

Deposits from banks include liabilities of £100m (2016: £82m) that have been sold under sale and repurchase agreements.

Note 25 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 28 February 2015	941	325	100	1,366
Foreign currency translation	(1)	4	-	3
Amount released in the year	(4)	(77)	-	(81)
Amount provided in the year	154	166	-	320
Amount utilised in the year	(188)	(335)	(34)	(557)
Transfer to disposal group classified as held for sale	(74)	-	-	(74)
Unwinding of discount	47	-	-	47
At 27 February 2016	875	83	66	1,024
Foreign currency translation	12	4	-	16
Amount released in the year	(38)	(18)	-	(56)
Amount provided in the year	99	196	136	431
Amount utilised in the year	(141)	(162)	(28)	(331)
Transfer to disposal group classified as held for sale	-	(5)	-	(5)
Unwinding of discount	44	-	-	44
At 25 February 2017	851	98	174	1,123

Notes to the Group financial statements continued

Note 25 Provisions continued

The balances are analysed as follows:

	2017 £m	2016 £m
Current	438	360
Non-current	685	664
	1,123	1,024

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased properties to the Group is based on the same assumptions for growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11, discounted at the appropriate risk free rate. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the appropriate risk adjusted rate. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Based on the factors set out above, the Group has recognised a net onerous property provision charge in the year of £61m (2016: £150m), largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties. The Group has performed sensitivity analysis on the onerous lease provisions. A reasonably possible increase of one percentage point in the risk-free rate would reduce the provision by £43m. A decrease of one percentage point would increase the provision by £50m.

Of the net onerous property provision charge, a £76m charge (2016: £151m) has been recognised as an exceptional item; £56m in cost of sales and £20m in property-related items. This is made up of £56m classified as 'Net impairment (loss)/reversal of non-current assets and onerous lease provisions' and £20m classified as 'Net restructuring and redundancy costs'.

Onerous lease provisions will be utilised over the relevant lease terms, predominantly within the next 25 years.

Restructuring provisions

Of the £178m net charge (£196m charge, £18m release) recognised in the year, £135m relating to ongoing UK & ROI changes to the distribution network and to store colleague structures and working practices has been classified as an exceptional item. Refer to Note 4 for further details. The exceptional charges are expected to be utilised in the next financial year.

Other provisions

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco Ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

Of the £235m, £91m is included within other current provisions to cover the cost of the compensation scheme and related costs. The remaining £144m has been recorded within accruals. These charges have been classified as an exceptional item within administrative expenses.

Other current provisions also include provisions for Tesco Bank customer redress in respect of potential complaints arising from the historic sales of Payment Protection Insurance (PPI), and in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act (CCA) for post contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable. A charge of £45m has been recognised in the year as an exceptional item in cost of sales. Refer to Note 4 for further details.

Note 26 Share-based payments

For continuing operations, the Group income statement charge for the year recognised in respect of share-based payments is £294m (2016: £308m), which is made up of share option schemes and share bonus payments. Of this amount, £36m (2016: £283m) will be settled in equity and £258m (2016: £25m) in cash. The movement between cash and equity settled charge with reference to the prior year is predominantly due to a one-off award which was previously disclosed as equity settled. During the year, colleagues were offered a choice of cash settlement, which resulted in a reclassification from equity to cash.

Note 26 Share-based payments continued

Share option schemes

The Company had eight share option schemes in operation during the financial year, all of which are equity settled schemes:

- i) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- ii) The Irish Savings-related Share Option Scheme (2000) permits the grant to Irish colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three or five year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.
- iii) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of options in respect of ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.
- iv) The Executive Incentive Plan (2014) was adopted on 10 February 2014. This scheme permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' Remuneration report.
- v) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three year period and/or continuous employment.
- vi) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and 10 years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The vesting of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three year period. There were no discounted options granted under this scheme.
- vii) The Group Bonus Plan was adopted on 3 July 2009. This scheme was amended on 20 April 2015 to permit the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.
- viii) The Long Term Incentive Plan (2015) was adopted on 14 May 2015. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three year period and/or continuous employment.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

For the year ended 25 February 2017

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2016	278,367,865	173.32	8,263,111	189.46	6,514,959	407.19	32,459,966	387.09	24,534,811	386.76	20,802,806	-
Granted	32,923,969	190.00	1,681,721	190.00	-	-	-	-	-	-	14,449,336	-
Forfeited	(53,597,182)	205.10	(3,587,857)	207.57	(1,495,505)	361.29	(8,009,380)	360.37	(6,039,761)	354.89	(6,880,744)	-
Exercised	(831,771)	150.11	(17,668)	150.03	-	-	-	-	-	-	(731,078)	-
Outstanding at 25 February 2017	256,862,881	168.91	6,339,307	179.46	5,019,454	420.87	24,450,586	395.84	18,495,050	397.17	27,640,320	-
Exercisable at 25 February 2017	10,596,827	339.47	443,702	330.95	5,019,454	420.87	24,450,586	395.84	18,495,050	397.17	3,517,971	-
Exercise price range (pence)		282.00 to 364.00		322.00 to 364.00		338.40 to 473.75		338.40 to 473.75		338.40 to 473.75		-
Weighted average remaining contractual life (years)		0.43		0.43		1.10		1.45		1.43		7.70

Notes to the Group financial statements continued

Note 26 Share-based payments continued

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	284,304,292	191.11	8,122,650	218.19	7,534,373	400.03	45,312,593	380.72	29,096,990	381.86	11,724,776	-
Granted	71,185,926	151.00	2,153,891	151.00	-	-	-	-	-	-	13,560,088	-
Forfeited	(76,535,735)	218.82	(2,008,433)	264.53	(1,019,414)	354.25	(12,852,627)	364.62	(4,562,179)	355.53	(3,625,191)	-
Exercised	(586,618)	150.00	(4,997)	150.00	-	-	-	-	-	-	(856,867)	-
Outstanding at 27 February 2016	278,367,865	173.32	8,263,111	189.46	6,514,959	407.19	32,459,966	387.09	24,534,811	386.76	20,802,806	-
Exercisable at 27 February 2016	13,188,829	329.78	750,453	308.64	6,514,959	407.19	32,459,966	387.09	24,534,811	386.76	2,302,052	-
Exercise price range (pence)		282.00 to 386.00		282.00 to 386.00		318.60 to 473.75		318.60 to 473.75		318.60 to 473.75		-
Weighted average remaining contractual life (years)		0.42		0.42		1.84		2.18		2.15		8.28

Share options were exercised on a regular basis throughout the financial year. The average share price during the financial year ended 25 February 2017 was 184.26p (2016: 196.55p).

The fair value of share options is estimated at the date of grant using the Black-Scholes or Monte Carlo option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2017		2016	
	SAYE	Nil cost	SAYE	Nil Cost
Expected dividend yield (%)	1.4%	-	1.3%	-
Expected volatility (%)	29-32%	29-36%	25-26%	23-25%
Risk-free interest rate (%)	0.4-0.7%	0.2-0.5%	0.9-1.3%	0.6-1.6%
Expected life of option (years)	3 or 5	3-6	3 or 5	3-6
Weighted average fair value of options granted (pence)	53.14	61.00 to 159.64	52.58	129.90 to 221.06
Probability of forfeiture (%)	10-11%	-	9-11%	-
Share price (pence)	211.00	159.04 to 196.84	188.50	218.60 to 221.06
Weighted average exercise price (pence)	190.00	-	151.00	-

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long Term Incentive Plan (2015). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

Eligible UK colleagues were able to participate in Shares In Success, an all-employee profit-sharing scheme. Until May 2015, shares were awarded as a percentage of earnings, up to a statutory maximum permitted under the Share Incentive Plan at the time of the award. Shares awarded through Shares In Success are held in trust on behalf of employees for a period of at least three years. Eligible Republic of Ireland colleagues are able to participate in a Share Bonus Scheme, an all-employee profit-sharing scheme. Each year, colleagues may receive an award of either cash or shares based on a percentage of their earnings. Shares awarded to colleagues through the Share Bonus Scheme are held in trust on behalf of employees for a period of at least two years and for a maximum period of three years.

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' Remuneration report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

Note 26 Share-based payments continued

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year were:

	2017		2016	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Shares In Success	-	-	15,979,321	221.79
Irish Share Bonus Scheme	-	-	-	-
Group Bonus Plan	33,293,571	159.04	8,762,915	215.65
Performance Share Plan	61,533,740	161.82	33,338,199	215.01
Long Term Incentive Plan	-	-	529,292	216.35

Note 27 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK (now closed to future accrual) and the Republic of Ireland, and the funded defined contribution pension scheme for employees in the UK. Of these schemes, the UK defined benefit deficit represents 98% of the Group deficit (2016: 94%).

Defined contribution plans

A defined contribution scheme, Tesco Retirement Savings Plan, was opened on 22 November 2015 and is open to all Tesco employees in the UK.

A defined contribution pension scheme is one under which members pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the members' contributions. The Group has no legal or constructive obligation to pay further contributions to this fund once its initial contributions have been paid. Members' benefits upon retirement are then determined by the amount of contributions paid into the fund, together with the performance of the investments into which those contributions have been invested. Members are able to choose the investments into which their contributions are invested, as well as how they wish to receive benefits upon retirement. As a result, any risks associated with either the future value of benefits or the performance of the assets invested lie with the member.

The contributions payable for defined contribution schemes of £341m (2016: £175m) have been recognised in the Group income statement. This includes £135m (2016: £43m) of salaries paid as pension contributions.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2014 and all the relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

- i) representatives of the Group; and
- ii) representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Willis Towers Watson Limited (formerly Towers Watson Limited), an independent actuary, carried out the latest triennial actuarial assessment of the Scheme as at 31 March 2014, using the projected unit credit method. At 31 March 2014, the actuarial deficit was £2.751m. The market value of the Scheme's assets was £8,020m and these assets represented 75% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The next triennial actuarial valuation is effective as at 31 March 2017 and work is already underway. The Trustee is aiming to conclude the valuation as soon as is reasonably possible.

The Scheme has a duration of 27 years.

Closure to future accrual and new members

The Career Average section of the Scheme (Pension Builder) was closed to new members and future accrual on 21 November 2015. The Final Salary section of the Scheme, which was closed to new entrants in 2001, was also closed to future accrual on 21 November 2015. As a result of this closure, a one-off past service credit of £538m and other associated costs of £(58)m were recognised as exceptional items in the prior year. Refer to Note 4.

Notes to the Group financial statements continued

Note 27 Post-employment benefits continued

Scheme liabilities as at 31 March 2014

The table below shows a breakdown of the liabilities held by the Scheme as at 31 March 2014, the date of the last triennial valuation. As at 25 February 2017, none of the liabilities related to active members, as the Scheme had closed to future accrual.

	%
Active	55
Deferred	21
Pensioner	24

The table below shows a breakdown of the liabilities for active members held by the Scheme as at 31 March 2014:

	%
Pension Builder	57
Final Salary	43

UK principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 25 February 2017 were as follows:

	2017 %	2016 %
Discount rate	2.5	3.8
Price inflation	3.2	2.9
Rate of increase in deferred pensions*	2.2	1.9
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	3.0	2.7
Benefits accrued after 1 June 2012	2.2	1.9

* In excess of any Guaranteed Minimum Pension (GMP) element.

UK mortality assumptions

The Group conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2014, the following assumptions were adopted for funding purposes:

Base tables:

95% of the SAPS S2 normal male pensioners for male staff and 80% of SAPS S2 normal light male pensioners for male senior managers.
100% of the SAPS S2 all female pensioners for female staff and 80% of SAPS S2 all female pensioners for female senior managers.

These assumptions were used for the calculation of the pension liability as at 25 February 2017 for the Scheme.

The mortality assumptions used are based on tables that have been projected to 2014 with CMI 2013 improvements. In addition, the allowance for future mortality improvements from 2014 is in line with CMI 2013 with a long-term improvement rate of 1.25% per annum.

The following table illustrates the expectation of life of an average member retiring at age 65 at the reporting date and a member reaching age 65 at reporting date +25 years:

		2017 Years	2016 Years
Retiring at reporting date at age 65:	Male	23.2	23.1
	Female	24.5	24.5
Retiring at reporting date +25 years at age 65:	Male	25.5	25.4
	Female	26.9	26.8

Overseas

The most significant overseas scheme is the funded defined benefit scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the Republic of Ireland scheme as at 25 February 2017. At the year end, the deficit relating to the Republic of Ireland was £107m (2016: £145m).

The accounting valuation has been based on the most recent actuarial valuation and updated by Willis Towers Watson Limited to take account of the requirements of the applicable accounting standard in order to assess the liabilities of the scheme as at 25 February 2017. The scheme's assets are stated at their market values as at 25 February 2017. The liabilities relating to retirement healthcare benefits have also been determined in accordance with the applicable accounting standard.

Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

- Investment risk – The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.

Note 27 Post-employment benefits continued

- Inflation risk – The Scheme's benefit obligations are linked to inflation, therefore higher inflation will lead to higher liabilities. This will be partially offset by an increase in any Scheme assets that are linked to, or correlate with, inflation. Changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).
- Changes in bond yields – A decrease in corporate bond yields will increase the Scheme's liabilities. However, this may be partially offset by an increase in the capital value of the Scheme's assets that have similar characteristics.
- Life expectancy risk – The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities. To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years.

The Operations and Audit Pensions Committee (formally the Audit & Risk Pensions Committee) was established to further strengthen the Group's Trustee Governance and provide greater oversight and stronger internal control over the Group's risks. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance, and impacts of any regulatory changes.

A different approach is used to calculate the triennial actuarial liabilities and the accounting liabilities. The key difference is that the accounting valuation requires the discount rate to be set using corporate bonds whilst the actuarial liabilities discount rate is based on expected returns of Scheme assets.

Sensitivity analysis of significant actuarial assumptions

	2017 £m	2016 £m
Decrease in UK defined benefit obligation from a 0.1% increase in discount rate	526	312
Decrease in UK defined benefit obligation from a 1.0% increase in discount rate	4,536	2,691
Increase in UK defined benefit obligation from a 0.1% decrease in discount rate	545	315
Increase in UK defined benefit obligation from a 1.0% decrease in discount rate	6,541	3,754
Increase in UK defined benefit obligation from a 1.0% increase in pensions in payment	3,173	1,797
Increase in UK defined benefit obligation from each additional year of longevity assumed	818	439

The method and assumptions used to determine sensitivity and their limitation is the effect of varying the assumption whilst holding all other assumptions constant.

Plan assets

The table below shows a breakdown of the combined investments held by the Group's schemes:

	2017 £m	2016 £m
Equities		
UK	365	475
Europe	628	892
Rest of the world	3,894	3,861
	4,887	5,228
Bonds		
Government	4,757	1,935
Corporates – investment grade	501	338
Corporates – non-investment grade	-	6
	5,258	2,279
Property		
UK	787	707
Rest of the world	373	317
	1,160	1,024
Alternative assets		
Hedge funds	489	650
Private equity	707	640
Other	553	204
	1,749	1,494
Cash	142	277
Total market value of assets	13,196	10,302

The Scheme uses financial instruments to balance the asset allocation and to manage inflation risk, interest rate risk, liquidity risk and foreign currency risk. The analysis of investments are shown net of such instruments.

The Government Bonds category consists of assets of the value of £6,594m (2016: £2,903m) and associated repurchase agreements and swaps of £(1,837)m (2016: £(968)m). The repurchase agreements and swaps serve to help the scheme reduce exposure to fluctuations in interest rate risk and inflation risk.

Notes to the Group financial statements continued

Note 27 Post-employment benefits continued

At the year end, 75% (2016: 74%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The plan assets include £176m (2016: £171m) relating to property used by the Group. In addition, Group property with net carrying value of £411m (2016: £412m) has been held as security in favour of the Scheme.

Movement in Group pension deficit during the financial year

Changes in the fair value of defined benefit pension assets, including all movements of discontinued operations up to classification as held for sale, are as follows:

	2017 £m	2016 £m
Opening fair value of defined benefit pension assets	10,302	9,677
Interest income	385	360
Return on plan assets greater than discount rate	2,689	59
Contributions by employer*	28	433
Additional contributions by employer	248	223
Actual member contributions	2	11
Foreign currency translation	13	6
Benefits paid	(471)	(346)
Transfer to disposal group classified as held for sale	-	(121)
Closing fair value of defined benefit pension assets	13,196	10,302

* Contributions by employer include £nil (2016: £125m) of salaries paid as pension contributions.

Changes in the present value of defined benefit pension obligations, including all movements of discontinued operations up to classification as held for sale, are as follows:

	2017 £m	2016 £m
Opening defined benefit pension obligation	(13,477)	(14,519)
Current service cost	(35)	(570)
Past service credit	-	535
Interest cost	(498)	(515)
Gains/(losses) on change of financial assumptions	(6,455)	1,007
Experience gains	199	98
Foreign currency translation	(25)	(14)
Benefits paid	471	346
Actual member contributions	(2)	(11)
Transfer to disposal group classified as held for sale	5	166
Closing defined benefit pension obligation	(19,817)	(13,477)

The amounts that have been charged to the Group income statement and Group statement of comprehensive income, excluding discontinued operations, for the year ended 25 February 2017 are set out below:

	2017 £m	2016 £m
Analysis of the amount charged to operating profit:		
Current service cost	(35)	(555)
Past service credit*	-	545
Total charge to operating profit	(35)	(10)
Analysis of the amount credited/(charged) to finance income/(cost):		
Interest on defined benefit pension assets	385	358
Interest on defined benefit pension obligation	(498)	(513)
Net pension finance cost (Note 5)	(113)	(155)
Total charge to the Group income statement	(148)	(165)
Analysis of the amount recognised in the Group statement of comprehensive income:		
Return on plan assets greater than discount rate	2,689	59
Experience gains on defined benefit pension obligation	199	95
Financial assumption gains/(losses) on defined benefit pension obligation	(6,455)	1,006
Foreign currency translation	(12)	(12)
Total gains/(losses) recognised in the Group statement of comprehensive income	(3,579)	1,148

* Past service credit in prior year previously included £(10)m in relation to Turkey, which is now classified as discontinued.

Note 27 Post-employment benefits continued

Summary of movements in Group deficit during the financial year

Changes in the Group deficit, including movements of discontinued operations up to classification as held for sale, are as follows:

	2017 £m	2016 £m
Deficit in schemes at beginning of the year	(3,175)	(4,842)
Current service cost	(35)	(570)
Past service credit	–	535
Net pension finance cost ^(a)	(113)	(155)
Contributions by employer ^(b)	28	433
Additional contributions by employer	248	223
Foreign currency translation	(12)	(8)
Remeasurements	(3,567)	1,164
Transfer to disposal group classified as held for sale	5	45
Deficit in schemes at the end of the year	(6,621)	(3,175)
Deferred tax asset (Note 6)	1,122	563
Deficit in schemes at the end of the year, net of deferred tax	(5,499)	(2,612)

^(a) Includes £nil (2016: £nil) discontinued operations up to reclassification as held for sale.

^(b) Contributions by employer include £nil (2016: £125m) of salaries paid as pension contributions.

History of movements

The historical movement in defined benefit pension schemes' assets and liabilities and history of experience gains and losses are as follows:

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Total market value of assets	13,196	10,302	9,677	8,124	7,206
Present value of liabilities relating to unfunded pension schemes	(146)	(117)	(134)	(111)	(91)
Present value of liabilities relating to partially funded pension schemes	(19,671)	(13,360)	(14,385)	(11,206)	(9,493)
Pension deficit	(6,621)	(3,175)	(4,842)	(3,193)	(2,378)
Remeasurements on defined benefit pension assets	2,689	59	874	253	94
Experience gains/(losses) on defined benefit pension obligation	199	95	272	(22)	1

Remeasurements on defined benefit pension assets of £2,689m represent the growth of assets beyond returns expected by the discount rate. This is due to unusually sharp movements in global equities, global fixed income and currency markets following the EU referendum.

Post-employment benefits other than pensions

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 25 February 2017 of £13m (2016: £11m) was determined in accordance with the advice of independent actuaries. During the year, £nil (2016: £nil) has been charged to the Group income statement and £1m (2016: £1m) of benefits were paid.

Additional contributions

A plan to pay £270m a year was agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the scheme. The expenses of the scheme were £22m (2016: £27m).

Note 28 Called up share capital

	2017 Ordinary shares of 5p each		2016 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	8,141,083,114	407	8,122,991,499	406
Share options exercised	849,439	–	591,615	–
Share bonus awards issued	33,000,000	2	17,500,000	1
At end of the year	8,174,932,553	409	8,141,083,114	407

During the financial year, 0.8 million (2016: 0.6 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2016: £1m) and 33.0 million (2016: 17.5 million) ordinary shares of 5p each were issued in relation to share bonus awards.

Between 26 February 2017 and 5 April 2017, options over 110,014 ordinary shares were exercised under the terms of the Savings-related Share Options Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 26 February 2017 and 5 April 2017, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 25 February 2017, the Directors were authorised to purchase up to a maximum in aggregate of 814.1 million (2016: 812.3 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Notes to the Group financial statements continued

Note 29 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Transactions

	Joint ventures		Associates	
	2017 £m	2016 £m	2017 £m	2016 £m
Sales to related parties	418	408	–	–
Purchases from related parties	416	496	16	14
Dividends received	17	32	11	9

Sales to related parties consists of services/management fees and loan interest.

Purchases from related parties include £286m (2016: £379m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Transactions between the Group and the Group's pension plans are disclosed in Note 27.

Balances

	Joint ventures		Associates	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts owed to related parties	17	13	–	1
Amounts owed by related parties	16	28	–	3
Loans to related parties (net of deferred profits)*	137	149	–	–
Loans from related parties (Note 21)	6	6	–	–

* Loans to related parties of £137m (2016: £149m) are presented net of deferred profits of £54m (2016: £57m) historically arising from the sale of property assets to joint ventures.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 (Regulations) apply. The financial statements for those partnerships have been consolidated into these financial statements pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Key management personnel compensation for the financial year was as follows:

	2017 £m	2016 £m
Salaries and short-term benefits	13	20
Pensions and cash in lieu of pensions	2	3
Share-based payments	17	9
Joining costs and loss of office costs	1	5
	33	37
Attributable to:		
The Board of Directors (including Non-executive Directors)	12	11
Executive Committee (members not on the Board of Directors)	21	26
	33	37

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the year end:

	Credit card, mortgage and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 25 February 2017	6	1	4	–
At 27 February 2016	11	1	8	–

Note 30 Analysis of changes in net debt

	At 27 February 2016 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	Reclassifications of movements in net debt of the disposal group £m	At 25 February 2017 £m
Total Group							
Cash and cash equivalents	3,082	881	(131)	-	-	(11)	3,821
Short-term investments	3,463	(736)	-	-	-	-	2,727
Joint venture loans	149	(15)	-	-	3	-	137
Interest and other receivables	1	(25)	-	25	-	-	1
Bank and other borrowings	(13,253)	1,851	(372)	(21)	10	73	(11,712)
Interest payables	(185)	522	(18)	(479)	(10)	3	(167)
Finance lease payables	(99)	12	(6)	-	(21)	-	(114)
Net derivative financial instruments	698	(475)	655	15	-	-	893
Net derivative interest	59	(16)	-	(15)	-	-	28
Net debt of the disposal group	-	-	-	-	-	(65)	(65)
Total Group	(6,085)	1,999	128	(475)	(18)	-	(4,451)
Tesco Bank							
Cash and cash equivalents	554	235	-	-	-	-	789
Joint venture loans	34	-	-	-	-	-	34
Bank and other borrowings	(1,441)	-	1	-	-	-	(1,440)
Interest payables	(1)	4	-	(3)	-	-	-
Net derivative financial instruments	(121)	-	16	-	-	-	(105)
Tesco Bank	(975)	239	17	(3)	-	-	(722)
Retail							
Cash and cash equivalents	2,528	646	(131)	-	-	(11)	3,032
Short-term investments	3,463	(736)	-	-	-	-	2,727
Joint venture loans	115	(15)	-	-	3	-	103
Interest and other receivables	1	(25)	-	25	-	-	1
Bank and other borrowings	(11,812)	1,851	(373)	(21)	10	73	(10,272)
Interest payables	(184)	518	(18)	(476)	(10)	3	(167)
Finance lease payables	(99)	12	(6)	-	(21)	-	(114)
Net derivative financial instruments	819	(475)	639	15	-	-	998
Net derivative interest	59	(16)	-	(15)	-	-	28
Net debt of the disposal group	-	-	-	-	-	(65)	(65)
Net debt	(5,110)	1,760	111	(472)	(18)	-	(3,729)

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group balance sheet and the Group cash flow statement.

Reconciliation of net cash flow to movement in Net debt

	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents	881	907
Elimination of Tesco Bank movement in cash and cash equivalents	(235)	62
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(736)	2,894
Net increase/(decrease) in joint venture loans	(15)	1
Net (increase)/decrease in borrowings and lease financing	1,863	1,059
Net cash flows from derivative financial instruments	(475)	(154)
Net interest paid on components of net debt	477	419
Change in Net debt resulting from cash flow	1,760	5,188
Retail net interest charge on components of net debt	(472)	(447)
Retail fair value and foreign exchange movements	111	113
Debt disposed of on disposal of Korean operations	-	97
Debt acquired on business combinations	-	(1,545)
Retail other non-cash movements	(18)	(35)
(Increase)/decrease in Net debt for the year	1,381	3,371
Opening Net debt	(5,110)	(8,481)
Closing Net debt	(3,729)	(5,110)

Notes to the Group financial statements continued

Note 31 Business combinations and disposals

Business combinations

The Group has paid £25m of deferred consideration in the year, related to its obligations under the purchase agreements for the acquisitions of Sociomantic Labs and Bzz Agent Limited from prior years.

Disposals

During the year, the Group sold its interests in Dobbies Garden Centres, Giraffe and Harris + Hoole and closed its Nutricentre business, further enhancing the focus of the UK retail business on its core strengths. The Group received £213m in cash, net of cash disposed, and recognised £1m in deferred consideration. Of the net cash received, £192m related to the sale of Dobbies Garden Centres. In total, the Group disposed of net assets of £243m and incurred costs to sell of £15m, £8m of which had been paid as at the year end.

In addition, the Group disposed of a 6.9% interest (on a fully diluted basis) in Lazada Group S.A. (Lazada) for net cash consideration of US\$115m (£81m), retaining an 8.8% shareholding.

The total loss on these transactions amounted to £7m, which is included within operating profit before exceptional items.

On 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in its Turkish operations to Migros. The assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale during the year and are presented within discontinued operations. Local regulatory approvals were obtained on 9 February 2017 and the sale completed on 1 March 2017. Refer to Notes 7 and 35 for further information.

Note 32 Commitments and contingencies

Capital commitments

At 25 February 2017, there were commitments for capital expenditure contracted for, but not incurred, of £115m (2016: £215m), principally relating to store development.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, refer to Note 11.

As previously reported, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement of expected profits in 2014, and purport to have secured third party funding for such litigation. In this regard, the Group has received two High Court claims against Tesco PLC. The first was received on 31 October 2016 from a group of 112 investors and the second was received on 5 December 2016 from an investment company and a trust company. The merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure.

Prior to the disposal of its Korean operations (Homeplus), Tesco PLC provided guarantees in respect of 13 Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus' default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus, which currently remains outstanding. This liability decreases over time with all relevant leases expiring in the period between 2026 and 2033. Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made under such guarantees. The maximum potential liability under the lease guarantees as at 25 February 2017 is KRW575bn (£407m).

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of that Act.

Name	Company number
Tapesilver Limited	05205362
Launchgrain Limited	05260856
Armitage Finance ULC	05966324
Tesco (Overseas) Limited	03193632
Buttoncable Limited	05294246
Cheshunt Finance Unlimited	06807552
Dillons Newsagents Limited	00140624
Tesco Mobile Communications Limited	04780729
Tesco Mobile Services Limited	04780734
Tesco International Internet Retailing Limited	00041420

Note 32 Commitments and contingencies continued

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 25 February 2017 in accordance with section 479C of the Companies Act 2006, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

Tesco PLC has irrevocably guaranteed the liabilities of the following Irish subsidiary undertakings, which undertakings have been exempted pursuant to Section 357 of the Companies Act, 2014 of Ireland from the provisions of Section 347 & 348 of that Act: Monread Developments Limited; Edson Properties Limited; Edson Investments Limited; Cirrus Finance (2009) Limited; Commercial Investments Limited; Chirac Limited; Clondalkin Properties Limited; Tesco Ireland Pension Trustees Limited; Orpingford; Tesco Trustee Company of Ireland Limited; WSC Properties Limited; Thundridge; Pharaway Properties Limited; R.J.D. Holdings; Nabola Development Limited; PEJ Property Investments Limited; Cirrus Finance Limited; Tesco Ireland Limited; Wanze Properties (Dundalk) Limited; Tesco Ireland Holdings Limited.

Tesco Bank

At 25 February 2017, Tesco Bank had contractual lending commitments totalling £12.1bn (2016: £11.9bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

Note 33 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date:

	2017 £m	2016 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,381	1,218
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	63	44
Total tier 2 regulatory adjustments	(31)	(27)
Total regulatory capital	1,648	1,470

On 27 June 2013, the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules are currently being phased in. The following tables analyse the regulatory capital resources of TPF (being the regulated entity) applicable as at the year end.

The movement of tier 1 capital during the financial year is analysed as follows:

	2017 £m	2016 £m
At beginning of the year	1,218	1,041
Share capital and share premium	-	-
Profit attributable to shareholders	153	190
Other reserves	5	8
Ordinary dividends	(50)	(50)
Movement in material holdings	3	3
Movement in intangible assets	64	39
Other – Tier 1	1	(2)
At end of the year, excluding CRD IV adjustments	1,394	1,229
CRD IV adjustment – deferred tax liabilities related to intangible assets	(13)	(11)
At end of the year, including CRD IV adjustments	1,381	1,218

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Notes to the Group financial statements continued

Note 34 Lease commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings that are held under finance leases. The fair value of the Group's lease obligations approximate their carrying value.

Future minimum lease commitments under finance leases and hire purchase contracts, together with the present value of the net minimum lease commitments, are as follows:

	Minimum lease commitments	
	2017 £m	2016 £m
Within one year	19	18
Greater than one year but less than five years	57	46
After five years	126	123
Total minimum lease commitments	202	187
Less future finance charges	(88)	(88)
Present value of minimum lease commitments	114	99

	Present value of net minimum lease commitments	
	2017 £m	2016 £m
Within one year	11	11
Greater than one year but less than five years	30	20
After five years	73	68
Total minimum lease commitments	114	99
Analysed as:		
Current finance lease commitments	11	11
Non-current finance lease commitments	103	88
	114	99

Operating lease commitments – Group as lessee

Future minimum lease commitments under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Within one year	1,199	1,296
Greater than one year but less than five years	3,767	3,918
After five years	7,395	7,831
Total minimum lease commitments	12,361	13,045

Future minimum lease commitments under non-cancellable operating leases after five years are analysed further as follows:

	2017 £m	2016 £m
Greater than five years but less than ten years	3,161	3,272
Greater than ten years but less than fifteen years	2,225	2,303
After fifteen years	2,009	2,256
Total minimum lease commitments – after five years	7,395	7,831

The Group has used operating lease commitments discounted at 7% (2016: 7%) of £7,440m (2016: £7,814m) in its calculation of total indebtedness. Total operating lease commitments in Turkey of £27m were included in 2016. The discounted operating lease commitment included in total indebtedness is not an appropriate proxy for the expected impact of recognising a lease liability under IFRS 16 'Leases', primarily due to differences in the discount rates used and the treatment of additional lease rentals arising from contracts that contain extend or buy conditions, amongst other differences.

Operating lease commitments represent rentals payable by the Group for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation linked, fixed rates, resets to market rents and hybrids of these.

The Group has lease-break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease commitments exclude those falling after the buy-back date. The current market value of these properties is £2.9bn (2016: £3.2bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (2016: £2.6bn) using current rent values, as shown overleaf.

Note 34 Lease commitments continued

The additional lease rentals, if incurred, following the option exercise date would be as follows:

	2017 £m	2016 £m
Within one year	23	45
Greater than one year but less than five years	170	72
Greater than five years but less than ten years	709	686
Greater than ten years but less than fifteen years	670	718
After fifteen years	1,019	1,115
Total undiscounted contingent additional lease rentals	2,591	2,636
Total discounted contingent additional lease rentals at 7%	1,107	1,111

The lease break options are exercisable between 2017 and 2023.

Operating lease commitments with joint ventures and associates

In prior years, the Group entered into several joint ventures and associates, and sold and leased back properties to and from these joint ventures and associates. The terms of these sale and leasebacks varied. However, common factors included: the sale of the properties to the joint venture or associate at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor

The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease amounts are contractually receivable from tenants:

	2017 £m	2016 £m
Within one year	194	198
Greater than one year but less than five years	298	293
After five years	229	230
Total minimum lease receivables	721	721

Note 35 Events after the reporting period

On 1 March 2017, the Group announced the completion of the disposal of its 95.5% controlling stake in the Kipa business in Turkey following the receipt of all local regulatory approvals.

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme, which will compensate certain net purchasers of Tesco ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

On 6 April 2017, the Group unwound its joint venture with British Land Company PLC (British Land). The Group obtained sole control of BLT Properties Limited through the acquisition of British Land's 50% interest in the joint venture. The acquisition increased the Group's owned property portfolio by £0.2bn, comprising seven stores. British Land obtained sole control of one store and one retail centre, previously held in the joint venture.

Note 36 Proposed Booker Group transaction

On 27 January 2017, the Group announced that it had reached an agreement on the terms of a recommended share and cash merger with Booker Group PLC. The transaction is subject to shareholder and regulatory approvals.

Tesco PLC – Parent Company balance sheet

	Notes	25 February 2017 £m	27 February 2016 £m
Non-current assets			
Investments	6	13,082	13,338
Receivables	7	18	46
Derivative financial instruments	12	1,274	1,502
		14,374	14,886
Current assets			
Derivative financial instruments	12	155	83
Receivables	7	7,469	11,815
Short-term investments	8	1,398	622
Cash and cash equivalents	9	790	13
		9,812	12,533
Current liabilities			
Borrowings	11	(840)	(1,778)
Derivative financial instruments	12	-	(2)
Payables	10	(4,978)	(6,350)
		(5,818)	(8,130)
Net current assets		3,994	4,403
Non-current liabilities			
Borrowings	11	(5,440)	(5,993)
Derivative financial instruments	12	(466)	(614)
		(5,906)	(6,607)
Net assets		12,462	12,682
Equity			
Share capital	15	409	407
Share premium		5,096	5,095
All other reserves		162	187
Retained earnings (including profit/(loss) for the year of £(247)m (2016: £(222)m))		6,795	6,993
Total equity		12,462	12,682

The notes on pages 152 to 157 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors

The Parent Company financial statements on pages 150 to 157 were authorised for issue by the Directors on 11 April 2017 and are subject to the approval of the shareholders at the Annual General Meeting on 16 June 2017.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

	All other reserves							Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserves £m	Hedging reserves £m	Treasury shares £m	Retained earnings £m		
At 27 February 2016	407	5,095	16	178	(7)	6,993	12,682	
Loss for the year	-	-	-	-	-	(247)	(247)	
Other comprehensive income/(loss)								
Net fair value gain on cash flow hedges	-	-	-	166	-	-	166	
Reclassified and reported in income statement	-	-	-	(162)	-	-	(162)	
Tax relating to components of other comprehensive income	-	-	-	(14)	-	-	(14)	
Total other comprehensive income	-	-	-	(10)	-	-	(10)	
Total comprehensive income/(loss)	-	-	-	(10)	-	(247)	(257)	
Transactions with owners								
Purchase of treasury shares	-	-	-	-	(24)	-	(24)	
Share-based payments	-	-	-	-	9	49	58	
Issue of shares	2	1	-	-	-	-	3	
Dividends	-	-	-	-	-	-	-	
Total transactions with owners	2	1	-	-	(15)	49	37	
At 25 February 2017	409	5,096	16	168	(22)	6,795	12,462	

	All other reserves							Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserves £m	Hedging reserves £m	Treasury shares £m	Retained earnings £m		
At 28 February 2015	406	5,094	16	11	(17)	6,940	12,450	
Loss for the year	-	-	-	-	-	(222)	(222)	
Other comprehensive income/(loss)								
Change in hedge relationship	-	-	-	186	-	-	186	
Net fair value gain on cash flow hedges	-	-	-	132	-	-	132	
Reclassified and reported in income statement	-	-	-	(113)	-	-	(113)	
Tax relating to components of other comprehensive income	-	-	-	(38)	-	-	(38)	
Total other comprehensive income	-	-	-	167	-	-	167	
Total comprehensive income/(loss)	-	-	-	167	-	(222)	(55)	
Transactions with owners								
Purchase of treasury shares	-	-	-	-	(5)	-	(5)	
Share-based payments	-	-	-	-	15	275	290	
Issue of shares	1	1	-	-	-	-	2	
Dividends	-	-	-	-	-	-	-	
Total transactions with owners	1	1	-	-	10	275	287	
At 27 February 2016	407	5,095	16	178	(7)	6,993	12,682	

The notes on pages 152 to 157 form part of these financial statements.

Notes to the Parent Company financial statements

Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the year ended 25 February 2017 were approved by the Board of Directors on 11 April 2017 and the balance sheet was signed on the Board's behalf by Dave Lewis and Alan Stewart.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The financial year represents the 52 weeks to 25 February 2017 (prior financial year 52 weeks to 27 February 2016).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Presentation changes to the Parent Company balance sheet

The Parent Company balance sheet includes an additional line item to better reflect the current and non-current categorisation of receivables. In the prior year the balance was presented on one line in the balance sheet, with additional information on the current and non-current categorisation included within the note.

Short-term investments

Short-term investments are recognised initially at fair value, and subsequently at amortised cost. All income from these investments

is included in the income statement as interest receivable and similar income.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies

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

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings

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

Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

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

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

Note 2 Accounting policies continued

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

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

Fair value hedging

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

Cash flow hedging

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

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

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

Pensions

The Company participates in defined benefit pension schemes and cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the period is based upon the cash contributions payable.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

Taxation

The tax expense included in the Company income statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Company income statement except to the extent that it relates to items recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, in which case it is recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, respectively.

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

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

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

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

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

Judgements and sources of estimation uncertainty

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

Judgements

Critical judgements, apart from those involving estimations, are not applied in the preparation of the Company financial statements.

Sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of investments

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on three year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate.

Notes to the Parent Company financial statements continued

Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 of the Group financial statements.

Note 4 Employment costs, including Directors' remuneration

	2017 £m	2016 £m
Wages and salaries*	15	21
Social security costs	2	2
Pension costs (Note 14)	3	2
Share-based payment expense (Note 13)	6	7
	26	32

* Wages and salaries include recharges from other Group companies for Tesco PLC related activities.

The average number of employees (all Directors of the Company) during the financial year was 11 (2016: 10).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 57 to 73.

Note 5 Dividends

For details of dividends see Note 8 in the Group financial statements.

Note 6 Investments

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 27 February 2016	16,403	9	16,412
Additions	32	-	32
Disposals	(9)	-	(9)
At 25 February 2017	16,426	9	16,435
Impairment			
At 27 February 2016	(3,074)	-	(3,074)
Charge for the year	(279)	-	(279)
At 25 February 2017	(3,353)	-	(3,353)
Net carrying value			
At 25 February 2017	13,073	9	13,082
At 27 February 2016	13,329	9	13,338

On 6 April 2017, the Company disposed of its £9m investment in a UK property joint venture. Refer to Note 17.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 158 to 165.

Note 7 Receivables

	2017 £m	2016 £m
Amounts owed by Group undertakings*	7,428	11,770
Amounts owed by joint ventures and associates	18	46
Other receivables	41	45
	7,487	11,861
Of which:		
Current	7,469	11,815
Non-current	18	46
	7,487	11,861

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship.

Note 8 Short-term investments

	2017 £m	2016 £m
Short-term investments	1,398	622

Note 9 Cash and cash equivalents

Included in cash and cash equivalents of £790m is an amount of £777m that has been set aside for completion of the merger with Booker Group PLC. This cash is not available to the Company and must be held in ring-fenced accounts until released jointly by the Company and its advisors on satisfaction of the completion terms of the merger as set out in the offering circular dated 27 January 2017. Until that time, or if the merger is not completed, it remains an asset of the Company, and at the balance sheet date it was invested with a single financial institution at a floating rate of interest.

Note 10 Payables

	2017 £m	2016 £m
Amounts owed to Group undertakings ^(a)	4,889	6,289
Other payables	50	45
Taxation and social security	1	2
Accruals and deferred income	6	6
Deferred tax liability ^(b)	32	8
	4,978	6,350

^(a) Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship.

^(b) The deferred tax asset/(liability) recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 27 February 2016	(24)	16	(8)
Charge to the income statement for the year	-	(10)	(10)
Movement in reserves for the year	(14)	-	(14)
At 25 February 2017	(38)	6	(32)

Note 11 Borrowings

Current

	Par value	Maturity	2017 £m	2016 £m
Bank loans and overdrafts			131	224
4% RPI MTN	£310m	Sep 2016	-	316
5.875% MTN	€1,039m	Sep 2016	-	877
2.7% USD Bond	\$500m	Jan 2017	-	361
5.5% USD Bond	\$850m	Nov 2017	709	-
			840	1,778

Non-current

	Par value	Maturity	2017 £m	2016 £m
5.5% USD Bond	\$850m	Nov 2017	-	666
3.375% MTN	€750m	Nov 2018	641	595
5.5% MTN	£350m	Dec 2019	353	353
6.125% MTN	£900m	Feb 2022	896	896
5% MTN	£389m	Mar 2023	411	411
3.322% LPI MTN ^(a)	£323m	Nov 2025	326	320
6% MTN	£200m	Dec 2029	253	257
5.5% MTN	£200m	Jan 2033	255	259
1.982% RPI MTN ^(b)	£268m	Mar 2036	270	265
6.15% USD Bond	\$1,150m	Nov 2037	1,063	1,035
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN	€600m	Apr 2047	522	486
5.2% MTN	£279m	Mar 2057	275	275
			5,440	5,993

^(a) The 3.322% LPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

^(b) The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

Notes to the Parent Company financial statements continued

Note 12 Derivative financial instruments

The fair value of derivative financial instruments has been disclosed in the Company's balance sheet as:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	155	-	83	(2)
Non-current	1,274	(466)	1,502	(614)
Total	1,429	(466)	1,585	(616)

	2017				2016			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m						
Fair value hedges								
Interest rate swaps and similar instruments	16	65	-	-	17	65	-	-
Cross currency swaps	386	791	(26)	408	280	1,377	-	-
Cash flow hedges								
Interest rate swaps and similar instruments	-	-	-	-	-	-	(195)	400
Cross currency swaps	296	907	-	-	650	1,713	-	-
Index-linked swaps	162	591	-	-	117	890	-	-
Forward contracts	-	-	-	-	-	-	-	-
Derivatives not in a formal hedge relationship								
Index-linked swaps	569	3,339	(440)	3,339	513	3,339	(419)	3,339
Forward contracts	-	-	-	-	8	232	(2)	65
Total	1,429	5,693	(466)	3,747	1,585	7,616	(616)	3,804

Note 13 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, see Note 26 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

For the year ended 25 February 2017

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2016	23,840	151.00	-	-	-	-	5,079,088	-
Granted	-	-	-	-	-	-	5,511,106	-
Forfeited	-	-	-	-	-	-	-	-
Exercised	-	-	-	-	-	-	(41,636)	-
Outstanding at 25 February 2017	23,840	151.00	-	-	-	-	10,548,558	-
Exercisable at 25 February 2017	-	-	-	-	-	-	2,250,252	-
Exercise price range (pence)	-	-	-	-	-	-	-	-
Weighted average remaining contractual life (years)	-	-	-	-	-	-	-	7.68

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	-	-	19,008	315.65	6,152,817	378.20	2,821,238	-
Granted	23,840	151.00	-	-	-	-	2,478,657	-
Forfeited	-	-	(19,008)	315.65	(6,152,817)	378.20	-	-
Exercised	-	-	-	-	-	-	(220,807)	-
Outstanding at 27 February 2016	23,840	151.00	-	-	-	-	5,079,088	-
Exercisable at 27 February 2016	-	-	-	-	-	-	1,354,714	-
Exercise price range (pence)	-	-	-	-	-	-	-	-
Weighted average remaining contractual life (years)	-	-	-	-	-	-	-	8.61

Note 14 Pensions

The total cost of participation in defined benefit pension schemes (now closed to future accrual and new members) to the Company was £nil (2016: £2.0m). The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £2.9m (2016: £0.1m). Further disclosure relating to all schemes can be found in Note 27 to the Group financial statements.

Note 15 Called up share capital

	2017 Ordinary shares of 5p each		2016 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	8,141,083,114	407	8,122,991,499	406
Share options exercised	849,439	–	591,615	–
Share bonus awards issued	33,000,000	2	17,500,000	1
At end of the year	8,174,932,553	409	8,141,083,114	407

During the financial year, 0.8 million (2016: 0.6 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2016: £1m) and 33.0 million (2016: 17.5 million) ordinary shares of 5p each were issued in relation to share bonus awards.

Between 26 February 2017 and 5 April 2017, options over 110,014 ordinary shares were exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 26 February 2017 and 5 April 2017, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 25 February 2017, the Directors were authorised to purchase up to a maximum in aggregate of 814.1 million (2016: 812.3 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 32 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,534m (2016: £2,364m). These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed use retail developments.

The likelihood of the above items being called upon is considered remote.

The Company also has joint responsibility for the compensation scheme disclosed in Note 17.

Note 17 Events after the reporting period

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The expected costs of the compensation scheme of £85m are the joint responsibility of Tesco PLC and Tesco Stores Limited. These have been recorded in the financial statements of Tesco Stores Limited and therefore no provision has been recorded in the financial statements of Tesco PLC.

On 6 April 2017, the Company disposed of its 50% investment in a UK property joint venture. See Note 35 to the Group financial statements.

Related undertakings of the Tesco Group

In accordance with Section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office address and the percentage of share class owned as at 25 February 2017 are disclosed below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	-	dunnhumby Employment Company Limited	5	£1.00 Ordinary	100
Adminstore Limited	1	£0.01 A Ordinary	100	dunnhumby Holding Limited	5	£1.00 Ordinary	100
		£0.01 B Ordinary	100	dunnhumby International Limited	5	£1.00 Ordinary	100
		£0.01 C Ordinary	100	dunnhumby Limited	5	£3.59 Ordinary	100
Adsega Limited [†]	1	£1.00 Ordinary	100	dunnhumby Overseas Limited	5	£1.00 Ordinary	100
Alfred Preedy & Sons (Trustees) Limited	2	£1.00 Ordinary	100	dunnhumby Trustees Limited	5	£1.00 Ordinary	100
Alfred Preedy & Sons Limited	2	£1.00 Deferred	100	Europa Foods Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Faraday Properties Limited	6	£1.00 Ordinary	100
Anthony Heagney Limited	2	£1.00 10% Preference (Class B)	100	Food & Wine Lovers Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Gibbs News Limited	2	£1.00 Ordinary	100
		£1.00 Variable Preference (Class C)	100	Gibbs Newsagents Limited	2	£1.00 A Cumulative Redeemable Preference	100
Armitage Finance Unlimited	1	£0.90 Ordinary	100			£1.00 A Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	-			£1.00 B Cumulative Redeemable Preference	100
Beehythe Estates Limited	1	£1.00 Ordinary	100			£1.00 B Ordinary	100
Berry Lane Management Company Limited	1	Limited by Guarantee	-			£1.00 D Ordinary	100
Broughton Retail Nominee 1 Limited	1	£1.00 Ordinary	100			£1.00 Deferred	100
Broughton Retail Nominee 2 Limited	1	£1.00 Ordinary	100	Halesworth SPV Limited	1	£1.00 Ordinary	100
Broughton Retail Nominee 3 Limited	1	£1.00 Ordinary	100	Harts the Grocers (Russell Square) Limited	1	£1.00 Ordinary	100
Broughton Retail Nominee 4 Limited	1	£1.00 Ordinary	100	Harts the Grocers (TCR) Limited	1	£1.00 Ordinary	100
Bugden Limited [†]	1	£1.00 Ordinary	100	Highams Green Management Company Limited	1	Limited by Guarantee	-
Buttoncable Limited	1	£1.00 Ordinary	100	J E Properties Holdings Limited [¶]	1	£1.00 Ordinary	100
Buttoncase Limited [†]	1	£1.00 Cumulative Redeemable Preference	100	J.E. Cohen & Company Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	KSS Retail Limited	5	£0.001 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	-	Launchgrain Limited [†]	1	£1.00 Ordinary	100
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	-	Laws Stores Limited [¶]	1	£1.00 3.5% Cumulative Preference	100
Careneed News Limited	2	£0.001 Non-Cumulative Preference	100			£1.00 5.25% Cumulative Preference	100
		£0.001 Ordinary	100	Linebush III Holdings Limited [¶]	2	£1.00 Ordinary	100
		£0.001 Ordinary A	100	Linebush III Limited	2	£1.00 Ordinary A	100
Cheshunt Finance Unlimited	1	£0.01053258724 Ordinary	100			£1.00 Ordinary B	100
Comar Limited [†]	1	£1.00 Ordinary	100			£0.01 Ordinary C	100
Cullen's Holdings Limited	1	£0.10 Ordinary	100	Linebush Limited	2	£0.01 A Ordinary	100
Cullen's Stores Limited	1	£1.00 Ordinary	100			£1.00 B Ordinary	100
Daily Wrap Produce Limited [¶]	96	£1.00 Ordinary	100			£0.01 C Ordinary	100
Day and Nite Stores Limited	2	£1.00 Cumulative Convertible Participating Preferred Ordinary	100	Linebush V Limited	2	£1.20 Ordinary A	100
		£1.00 Cumulative Redeemable Preference	100			£1.20 Ordinary B	100
		£1.00 Ordinary	100	London and Home Counties Superstores Limited	1	£1.00 Ordinary A	100
Delamare One Limited [†]	1	£0.001 A Ordinary	100			£1.00 Ordinary B	100
		£0.001 B Ordinary	100			£1.00 Redeemable Cumulative Preference	100
		£0.001 C Ordinary	100	M & W Limited	2	£0.10 Ordinary	100
		£0.001 Convertible	100	Mills (East Midlands) Limited	2	£1.00 Ordinary	100
Dillons Newsagents Limited	2	£0.25 Non-Voting Ordinary	100	Mills (West Midlands) Limited	2	£1.00 Ordinary	100
				Mills Group Holdings Limited [¶]	2	£1.00 Ordinary	100
				Mills Group Limited	2	£1.00 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Morgam Holdings Limited	2	£1.00 Non-Cumulative Preference	100	Tesco Atrato (1LP) Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Tesco Barbers Wood Limited ^(1c)	1	£1.00 Ordinary	100
Morgam News Limited	2	£1.00 Ordinary	100	Tesco Blue (3LP) Limited	1	£1.00 Ordinary	100
Motorcause Limited	1	£1.00 Ordinary	100	Tesco Blue (FinCo2) Limited	1	£1.00 Ordinary	100
NutriCentre Limited	1	£0.10 Ordinary	100	Tesco Blue (GP) Limited	1	£1.00 A Ordinary	100
Oakwood Distribution Limited	1	£1.00 Ordinary	100			£1.00 B Ordinary ^(d)	100
One Stop Community Stores Limited	2	£1.00 Ordinary	100	Tesco Blue (Nominee 1) Limited	1	£1.00 Ordinary	100
One Stop Convenience Stores Limited	2	£1.00 Ordinary	100	Tesco Blue (Nominee 2) Limited	1	£1.00 Ordinary	100
One Stop Stores Limited ^(1a)	2	£1.00 Ordinary	100	Tesco Blue (Nominee Holdco) Limited	1	£1.00 Ordinary	100
One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100	Tesco Card Services Limited ⁽¹⁰⁾	1	£1.00 Ordinary	100
Orpington (Station Road) Limited	1	£1.00 Ordinary	100	Tesco Corporate Treasury Services PLC [†]	1	£1.00 Ordinary	100
Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	-	Tesco Depot Propco Limited	1	£1.00 Ordinary	100
Paper Chain (East Anglia) Limited	2	£1.00 Deferred US\$0.001 Ordinary	100	Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100
PTLL Limited	1	£1.00 Ordinary	100	Tesco Distribution Limited	1	£1.00 Ordinary	100
Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100	Tesco Dorney (1LP) Limited	1	£1.00 Ordinary	100
Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100	Tesco Employees' Share Scheme Trustees Limited ^(1e)	1	£1.00 Ordinary	100
Snowman Retail 1 Limited	2	£1.00 Ordinary	100	Tesco Estates Limited [†]	1	£1.00 Ordinary	100
Snowman Retail 2 Limited	2	£1.00 Ordinary	100	Tesco Family Dining Limited	1	£1.00 Ordinary	100
Sociomantic Labs Limited	8	£1.00 Ordinary	100	Tesco FFC Limited	1	£0.01 Ordinary	100
Spenn Hill Developments (Holdings) Limited	1	£1.00 Ordinary	100	Tesco Food Sourcing Limited	1	£1.00 Ordinary	100
Spenn Hill Developments Limited	1	£1.00 Ordinary	100	Tesco Freetime Limited	1	£1.00 Ordinary	100
Spenn Hill Management Limited ^(1b)	1	£1.00 Ordinary	100	Tesco Fuchsia (3LP) Limited	1	£1.00 Ordinary	100
Spenn Hill Properties (Holdings) plc [†]	1	£1.00 Ordinary	100	Tesco Gateshead Property Limited	1	£1.00 Ordinary	100
Spenn Hill Regeneration Limited	1	£1.00 Ordinary	100	Tesco High Beech Limited ^(1c)	1	£1.00 Ordinary	100
Spenn Hill Residential No 1 Limited	1	£1.00 Ordinary	100	Tesco Holdings Limited [†]	1	£0.10 Ordinary	100
Spenn Hill Residential No 2 Limited	1	£1.00 Ordinary	100			£1.00 Preference	100
Station House Welling Management Limited	1	Limited by Guarantee	-	Tesco Hungary (Holdings) Limited ⁽¹¹⁾	1	£1.00 Ordinary	100
Statusfloat Limited	1	£1.00 Ordinary	100	Tesco International Internet Retailing Limited [†]	1	£1.00 Ordinary	100
Stewarts Supermarkets Limited [†]	1	£1.00 Ordinary	100	Tesco International Services Limited [†]	1	£1.00 Ordinary	100
T & S Management Services Limited	2	£1.00 Ordinary	100	Tesco Kirkby (General Partner) Limited	1	£1.00 Ordinary	100
T & S Properties Limited	2	£1.00 Ordinary	100	Tesco Kirkby (LP) Limited	1	£1.00 Ordinary	100
T & S Stores Limited [†]	2	£0.05 Ordinary	100	Tesco Kirkby (Unitholder1) Limited	1	£1.00 Ordinary	100
Tapesilver Limited [†]	1	£1.00 Ordinary	100	Tesco Kirkby (Unitholder2) Limited	1	£1.00 Ordinary	100
Teesport (GP) Limited	1	£1.00 Ordinary	100	Tesco Lagoon GP Limited	6	£1.00 Ordinary	100
Teesport (Nominee) Limited	1	£1.00 Ordinary	100	Tesco Maintenance Limited	1	£1.00 Ordinary	100
Tesco (Overseas) Limited [†]	1	£1.00 Ordinary	100	Tesco Mobile	1	£1.00 Ordinary	100
Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100	Communications Limited [†]			
Tesco Aqua (FinCo1) Limited	1	£1.00 Ordinary	100	Tesco Mobile Services Limited	1	£1.00 Ordinary	100
Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100	Tesco Navona (1LP) Limited	1	£1.00 Ordinary	100
Tesco Aqua (GP) Limited	1	£1.00 A Ordinary	100	Tesco Navona (GP) Limited	1	£1.00 Ordinary A	100
		£1.00 B Ordinary	100			£1.00 Ordinary B ^(d)	100
Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100	Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100	Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100	Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100
				Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100
				Tesco Opticians Limited	1	£1.00 Ordinary	100
				Tesco Overseas Investments Limited [†]	1	£1.00 Ordinary	100

Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Overseas ULC	1	£0.00000025 A Ordinary	100	Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
		£0.00000025 B Ordinary	100	Tesco Property Partner (GP) Limited†	1	£1.00 A Ordinary	100
		£0.00000025 C Ordinary	100	Tesco Property Partner (No.1) Limited†	1	£1.00 B Ordinary	100
		£0.00000025 D Ordinary	100	Tesco Property Partner (No.2) Limited†	1	£1.00 Ordinary	100
		£0.00000025 E Ordinary	100	Tesco Red (3LP) Limited	1	£1.00 Ordinary	100
		£0.00000025 F Ordinary	100	Tesco Red (GP) Limited	1	£1.00 A Ordinary	100
		£0.00000025 G Ordinary	100			£1.00 B Ordinary	100
		£0.00000025 H Ordinary	100	Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100
		£0.00000025 J Ordinary	100	Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100
		£0.00000025 K Ordinary	100	Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100
		£0.00000025 L Ordinary	100	Tesco Sarum (1LP) Limited	1	£1.00 Ordinary	100
		£0.00000025 M Ordinary	100	Tesco Seacroft Limited	1	£1.00 Ordinary	100
		£0.00000025 N Ordinary	100	Tesco Secretaries Limited	1	£1.00 Ordinary	100
		£0.00000025 O Ordinary	100	Tesco Services Limited	1	£1.00 Ordinary	100
		£0.00000025 P Ordinary	100	Tesco Stores Limited	1	£1.00 A Preference	100
						£1.00 B Preference	100
						£1.00 Ordinary	100
				Tesco Treasury Services PLC†	1	£1.00 Ordinary	100
				Tesco Worldwide Limited ⁽¹⁰⁾	1	£1.00 Ordinary	100
				The Teesport Limited Partnership	1	Limited Partnership	100
				The Tesco Aqua Limited Partnership	1	Limited Partnership	100
				The Tesco Blue Limited Partnership	1	Limited Partnership	100
				The Tesco Kirkby Limited Partnership	1	Limited Partnership	100
				The Tesco Navona Limited Partnership	1	Limited Partnership	100
				The Tesco Passaic Limited Partnership	1	Limited Partnership	100
				The Tesco Property Limited Partnership	1	Limited Partnership	100
				The Tesco Red Limited Partnership	1	Limited Partnership	100
				Trigger Retail Limited	2	£1.00 Ordinary	100
				Ventnor High Street Management Company Limited	1	Limited by Guarantee	-
				Verulam Properties (2001) Limited ⁽¹¹⁾	1	£1.00 Ordinary	100
				Verulam Properties Limited	1	£1.00 Ordinary	100
				Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100
				Wm. Low Supermarkets Limited	6	£1.00 Ordinary	100
				Worple Road PLC	1	£1.00 Ordinary	100
Tesco Passaic (1LP) Limited	1	£1.00 Ordinary	100				
Tesco Passaic (GP) Limited	1	£1.00 Ordinary A	100				
		£1.00 Ordinary B ^(d)	100				
Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100				
Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100				
Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100				
Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100				
Tesco PEG Limited	1	£0.01 B Preference	100				
		£0.01 Ordinary	100				
		£0.01 Preferred Ordinary	100				
Tesco PENL Limited	1	£1.00 Ordinary	100				
Tesco Pension (Jade) Limited ^(d)	1	£1.00 Ordinary	100				
Tesco Pension Investment Limited ^(d)	1	£1.00 Ordinary	100				
Tesco Pension Trustees Limited ⁽¹¹⁾	1	£1.00 Ordinary	100				
Tesco Personal Finance Group Limited†	10	£0.10 A Ordinary	100				
		£0.10 B Ordinary	100				
		£0.10 C Ordinary	100				
Tesco Personal Finance PLC	10	£0.10 Ordinary	100				
Tesco Property (Nominees) (No.1) Limited	11	£1.00 Ordinary	100				
Tesco Property (Nominees) (No.2) Limited	11	£1.00 Ordinary	100				
Tesco Property (Nominees) Limited	11	£1.00 Ordinary	100				
Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100				
Tesco Property Finance 1 PLC	1	£1.00 Ordinary	100				
		£1.00 Ordinary	100				
Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100				
Tesco Property Holdings Limited	1	£1.00 Ordinary	100				
Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100				

International subsidiary undertakings

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Arena (Jersey) Management Limited†	28	£1.00 Ordinary	100	dunnhumby Slovakia s.r.o.	75	No shares in issue	–
Armitage Luxembourg s.à.r.l. ^①	29	No par value Ordinary shares	100	dunnhumby South Africa (Pty) Ltd	76	No par value Ordinary	100
Cheshunt Holdings Guernsey Limited†	18	£1.00 Ordinary	99.994	dunnhumby Inc	78	No par value Common stock	100
Cheshunt Hungary Servicing Limited Liability Company	22	HUF 100,000 Quota	100	dunnhumby Ventures LLC	79	–	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100	Edson Investments Limited	24	€2.00 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100	Edson Properties Limited	24	€1.00 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100	Ek-Chai Distribution System Co., Ltd.*	37	THB 10.00 Ordinary	99.9
Cirrus Finance Limited	24	£1,000 Ordinary	100	ELH Insurance Limited	19	£1.00 Ordinary	100
Cirrus Luxembourg s.à.r.l. ^①	29	No par value Ordinary shares	100	Genesis sp. z.o.o.	35	PLN 500.00 Ordinary	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100	Golden Island Management Services Limited	24	€1.269738 A Ordinary	100
Commercial Investments Limited	24	€1.25 Ordinary	100	Jasper Sp. z.o.o.	35	€1.269738 Ordinary	100
Crest Ostrava a.s.	16	CZK 100,000 Ordinary	100	Kabaty Investments Tesco (Polska) Sp. z.o.o. Sp.k	35	PLN 100.00 Ordinary	100
Delamare Holdings B.V.	31	€1.00 Ordinary	100	Lekáreň Tesco	59	PLN Partnership Interests	100
Delamare Luxembourg s.à.r.l. ^①	29	No par value Ordinary shares	100	Lekáreň Tesco Dunajská Streda, k.s.	59	Limited Partnership	100
Department store Brno s.r.o.	16	CZK 100,000 Ordinary	100	Lekáreň Tesco Petržalka, k.s.	59	Limited Partnership	100
Department store HK s.r.o.	16	CZK 100,000 Ordinary	100	Lekáreň Tesco Piešťany, k.s.	59	Limited Partnership	100
Department store Pardubice s.r.o.	16	CZK 100,000 Ordinary	100	Lekáreň Tesco Prešov Vukov, k.s.	59	Limited Partnership	100
Department store Plzeň s.r.o.	16	CZK 100,000 Ordinary	100	Lekáreň Tesco Senec, k.s.	59	Limited Partnership	100
dunnhumby (Korea) Limited	70	KRW 5,000.00 Ordinary	100	Lekáreň Tesco Trenčín, s.r.o.	59	Limited Partnership	100
dunnhumby (Malaysia) Sdn Bhd	72	RM 1.00 Ordinary	100	Lekáreň Tesco	59	Limited Partnership	100
dunnhumby (Thailand) Limited	77	THB 100.00 Ordinary	100	Lekáreň Tesco Banská Bystrica, k.s.	59	Limited Partnership	100
dunnhumby Brazil Consultora Ltda	61	BRL\$1.00 Ordinary	100	Lekáreň Tesco Košice, k.s.	59	Limited Partnership	100
dunnhumby Colombia S.A.S.	60	COP\$2,000.00 Type A	100	Lekáreň Tesco Lamač, k.s.	59	Limited Partnership	100
		COP\$41.00 Type B	100	Lekáreň Tesco Nitra, k.s.	59	Limited Partnership	100
		COP\$1.00 Type C	100	Lekáreň Tesco Spišská Nová Ves, k.s.	59	Limited Partnership	100
dunnhumby Computer Information Technology and Consultancy Services LLC	62	TL 25.00 Ordinary	100	Lekáreň Tesco Trnava, k.s.	59	Limited Partnership	100
dunnhumby Consulting Canada Limited	63	CAD\$0.01 Ordinary	100	Lekáreň Tesco Zlaté Piesky, k.s.	59	Limited Partnership	100
dunnhumby Consulting Services India Private Limited	64	INR 10.00 Ordinary	100	Lekáreň Tesco Zvolen, k.s.	59	Limited Partnership	100
dunnhumby Czech s.r.o.	16	CZK 200,000 Basic business	100	Letňany Development land 1 s.r.o.	16	CZK 100,000 Ordinary	100
dunnhumby France SAS	65	€2.00 Ordinary	100	Letňany Development land 2 s.r.o.	16	CZK 100,000 Ordinary	100
dunnhumby Hungary Kft	22	Registered capital HUF 3,000,000	100	Marine Coffee Company Holdings Limited	25	€1.00 Ordinary	100
dunnhumby Information Technology Consulting (Shanghai) Company Limited	66	Registered capital US\$140,000	100	Marine Coffee Company Nominees Limited	25	€1.00 Ordinary	100
dunnhumby Ireland Limited	71	€1.00 Ordinary	100	Monread Developments Limited	24	€0.001 Ordinary	100
dunnhumby IT Services India Private Limited	67	INR 10.00 Ordinary	100	Nabola Development Limited	24	€1.25 A Ordinary	100
dunnhumby Italia Srl.	68	€1.00 Common	100			€1.25 B Ordinary	100
dunnhumby Japan K.K.	69	JPY 10,000 Ordinary	100	Obchodný dom Bratislava, s.r.o.	59	€1.00 Registered capital	100
dunnhumby Mexico S. de R.L. de C.V.	73	MXN 1.00 Common	100	Obchodný dom Košice, s.r.o.	59	€1.00 Registered capital	100
dunnhumby Poland Sp z.o.o.	35	PLN 50.00 Ordinary	100	Obchodný dom Nitra, s.r.o.	59	€1.00 Registered capital	100
				Obchodný dom Prešov, s.r.o.	59	€1.00 Registered capital	100
				Old FEHC Inc.	39	US\$0.01 Common Stock	100
				Old FENM Inc.†	39	US\$0.01 Ordinary	100
				Old FEPC LLC†	39	US\$0.01 Equity	100
				Orpingford	24	€1.00 Ordinary	100
				PEJ Property Developments Limited	24	€1.00 Ordinary	100
				Pharaway Properties Limited	24	€1.00 Ordinary	100
				R.J.D. Holdings	24	€1.269738 Ordinary	100

Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Seberov site s.r.o.	16	CZK 100.000 Ordinary	100	Tesco Ireland Limited	24	€1.25 Ordinary	100
Shuke Advertising (Shanghai) Co., Ltd	95	€130,000 Registered Capital	100	Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100
Sociomantic Labs AB	91	SEK 1 Ordinary	100	Tesco Joint Buying Service (Shanghai) Co Limited	14	US\$ 1.00 Ordinary	100
Sociomantic Labs B.V.	86	€100.00 Ordinary	100	Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gida Sanayi A.S.* ⁽ⁿ⁾	38	TRL 1.00 A TRL 1.00 B	98.67 95.495
Sociomantic labs GmbH	80	€1.00 Ordinary	100	Tesco Mauritius Holdings Limited	30	£1.00 Ordinary	100
Sociomantic Labs Inc	94	US\$50.00 Common Stock	100	Tesco Mobile (Thailand) Co. Limited	37	THB 100.00 Ordinary	100
Sociomantic Labs Internet Hizmetleri Limited Şirketi	92	TRY 25.00 Ordinary	100	Tesco Mobile Polska Sp. z.o.o.	35	PLN 50.00 Ordinary	100
Sociomantic Labs LLC	88	RUR 1.00 Ordinary	100	Tesco Property (No. 1) Limited	28	£1.00 Ordinary	100
Sociomantic Labs Private Limited	84	INR 10.00 Ordinary	100	Tesco Property Limited	15	US\$ 1.00 Registered Capital	100
Sociomantic Labs Pte Ltd	89	S\$1.00 Ordinary	100	Tesco Sourcing India Private Limited	97	INR 10.00 Ordinary	100
Sociomantic Labs s.r.o.	82	KC 1.00 Ordinary	100	Tesco Stores (Malaysia) Sdn Bhd* ⁽ⁱ⁾	48	RM 1.00 A Ordinary RM 10.00 Non-Convertible Non-Cumulative Irredeemable Preference Shares	100 100
Sociomantic Labs SARL	83	€100.00 Ordinary	100	Tesco Stores (Thailand) Limited*	37	THB 10.00 A Ordinary THB 10.00 B Preference THB 10.00 C Preference	100 <0.001 100
Sociomantic Labs Servicios Web Ltda	81	R\$1.00 Ordinary	100	Tesco Stores ČR a.s.	16	CZK 1000 Ordinary	100
Sociomantic Labs Sp. z.o.o.	87	PLN 50.00 Ordinary	100	Tesco Stores SR, a.s.	59	€33,193.92 Ordinary	100
Sociomantic S.L.U.	90	€1.00 Ordinary	100	Tesco Technology Services HK Limited	21	HKD 1.00 Ordinary	100
Tesco (Jersey) Limited ^f	28	£1.00 Ordinary	100	Tesco Trustee Company of Ireland Limited ^f	24	€1.25 Ordinary	100
Tesco (Polska) Sp. z.o.o.	35	PLN 500.00 Ordinary	100	Thundridge	24	€1.00 Ordinary	100
Tesco Akadémia Képzési és Fejlesztési Korlátolt Felelősségű Társaság	22	HUF 100.000 Quotas	100	Valiant Insurance Company DAC	26	£1.00 Ordinary	100
Tesco Bengalaru Private Limited	23	INR 10.00 Ordinary	100	Victoria BB Sp. z.o.o.	35	PLN 800.00 Ordinary	100
Tesco Capital No. 1 Limited ^f	28	£0.50 A Ordinary £0.50 B Ordinary £0.01 Preference – Guaranteed fixed rate cumulative preference £0.01 Preferred Ordinary	100 100 100 100	Wanze Properties (Dundalk) Limited	24	€1.00 Ordinary	100
Tesco Capital No. 2 Limited	28	£0.01 Floating Rate Redeemable Preference ¹ £1.00 Ordinary	100 100	WSC Properties Limited	24	€1.00 Ordinary	100
Tesco Chile Sourcing Limitada	13	CLP 1.00 Ordinary US\$ 1.00 Ordinary	100 100				
Tesco Digital Ventures Pte Ltd	36	SGD 1.00 Ordinary	100				
Tesco Dystrybucja Sp. z.o.o	35	PLN 50.00 Ordinary	100				
Tesco EU IT Services s.r.o.	16	CZK 1.00 Ordinary	100				
Tesco Europe B.V.	32	€1.00 Ordinary	100				
Tesco Food Sourcing Brazil Consultoria De Negócios Ltda.	12	BRL 1.00 Ordinary	100				
Tesco Foundation (Nadacia Tesco)	59	No par value basic capital	100				
Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100				
Tesco-Global Stores Privately Held Company Limited	22	HUF 10.00 Common	99.9				
Tesco Global Employment Company Limited	37	THB 100.00 Ordinary	100				
Tesco Guangdong (HK) Co. Limited	20	US\$ 1.00 Ordinary	100				
Tesco Holdings B.V.	31	€1.00 Ordinary	100				
Tesco International Clothing Brand s.r.o.	59	€1.00 Ordinary	100				
Tesco International Franchising s.r.o.	59	€1.00 Ordinary	100				
Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100				
Tesco Ireland Holdings Limited ^(e)	24	€1.25 Ordinary	100				

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Blinkbox Books Limited	3	£0.001 Ordinary	100
Bedminster Estates Limited	3	£1.00 Ordinary	100
Brian Ford's Discount Store Limited	3	£1.00 Ordinary	100
Cheshunt Overseas LLP	3	Limited Liability Partnership	100
Country Market Limited (The)	1	£1.00 Ordinary	100
Crazy Prices [†]	4	£1.00 Ordinary	100
Flitwick Pharmacies Limited	1	£1.00 Ordinary	100
Honiton Wholesale Supplies Limited	3	£1.00 Ordinary	100
Kingsway Fresh Foods Limited [†]	4	£1.00 Ordinary	100
Launchtable Limited [†]	1	£1.00 Ordinary	100
Lee (Southern) Limited	2	£1.00 Ordinary	99.975
Lowfoods Limited	6	£1.00 2% Non-Cumulative Preference	100
		£1.00 Ordinary	100
NPL (Hardgate) Limited	9	£1.00 Ordinary	100
Power Supermarkets Limited	1	£1.00 Ordinary	100
Premier Garage (Worthing) Limited	3	£1.00 Ordinary	100
Pulford Foods Limited	3	£1.00 Ordinary	100
S.Bottomley and Bros., Limited	1	£10.00 Deferred	100
		£1.00 Ordinary	100
Sanders Supermarkets Limited	1	£1.00 Non-voting Ordinary	100
		£0.50 Ordinary	100
		£1.00 Preference	100
Sarcon (No. 239) Limited	100	£1.00 Ordinary	100
Spenn Hill Developments (Portishead) Limited	1	£1.00 Ordinary	100
Spenn Hill Developments (Tonbridge) Limited	1	£1.00 Ordinary	100
Spenn Hill Properties (Southend) Limited	1	£1.00 Ordinary	100
Telegraph Properties (Kirkby) Limited	3	£1.00 Ordinary	100
Tesco.Com Limited [†]	1	£1.00 Ordinary	100
Tesco (Foxtrot 1) Limited	1	£1.00 Ordinary	100
Tesco (Foxtrot 2) Limited	1	£1.00 Ordinary	100
Tesco (Yorkshire) Limited	1	£1.00 Ordinary	100
Tesco Fuel Limited	1	£1.00 Ordinary	100
Tesco Home Shopping Limited [†]	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Kirkby (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Overseas (Holdings) Limited [†]	1	£1.00 Ordinary	100
Tesco PEIP Limited	1	£1.00 Ordinary	100
Tesco PEL Limited	1	£1.00 Ordinary	100
Tesco Personal Finance Compare Limited	9	£1.00 Ordinary	100
Value House Properties Limited	3	£1.00 Ordinary	100
Whitecastle Properties Limited	9	£1.00 Ordinary	100

The following subsidiary undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Netherlands BV	74	€1.00 Ordinary	100
Sociomantic Labs S.r.l in liquidazione	85	Quota shares	100
Tesco Aqua (1LP) Limited	40	£1.00 Ordinary	100
Tesco Blue (1LP) Limited	40	£1.00 Ordinary	100
Tesco Fuchsia (1LP) Limited	40	£1.00 Ordinary	100
Tesco Red (1LP) Limited	40	£1.00 Ordinary	100
Tesco Vin Plus S.A.	17	€1.60 Ordinary	100

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
BLT Holdings 2010 Limited ^{†*(k)}	54	£1.00 Ordinary A	100
Broadfields Management Limited	55	£0.10 Ordinary	35.3
Clarepharm Limited	56	£0.10 Ordinary	22.7
Shire Park Limited	57	£1.00 Ordinary	54.5
Tesco Atrato (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Jade (GP) Limited	99	£1.00 A Ordinary	30
		£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
		£0.90 B Ordinary	100
Tesco Property Partner (GP No.2) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Underwriting Limited	58	£1.00 Ordinary	49.9
The Tesco Atrato Limited Partnership	1	Limited Partnership	50
The Tesco Coral Limited Partnership	1	Limited Partnership	50
The Tesco Dorney Limited Partnership	1	Limited Partnership	50
The Tesco Property (No.2) Limited Partnership	27	Limited Partnership	50
The Tesco Sarum Limited Partnership	1	Limited Partnership	50

The following associated undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Canada Limited	42	CAS 1.00 Ordinary	50
dunnhumby Norge A.S.	49	NOK 1000 Ordinary	50
Gain Land Limited	41	\$1.00 Ordinary	20
Koxka Hungary Refridgeration LLC	45	HUF 1.00 Quota	40
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51.9
Retail Property Co., Limited*	51	THB 100.00 Ordinary A	100
Tesco (Fujian) Industry Limited	43	US\$ 1.00 Registered Capital	50

Related undertakings of the Tesco Group continued

Associated undertakings continued

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Card Services Limited*	52	THB 100.00 Ordinary A	100
Tesco for Thais Foundation	37	Foundation	–
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	53	THB Listed	25
Tesco Mobile ČR s.r.o.	16	CZK 100,000 Ordinary	50
Tesco Mobile Ireland Limited	24	€1.00 Ordinary	50
Tesco Mobile Slovakia s.r.o.	59	€1.00 Ordinary	50
Tesco Nanjing Zhongshan (HK) Co. Limited	20	US\$ 1.00 Ordinary	50
Trent Hypermarket Private Limited	46	INR 10.00 Equity	50
Xiamen Firste Property Limited	44	US\$ 1.00 Registered Capital	50

Consolidated Structured Entities

Name of Undertaking	Registered address	Nature of business
Delamare Cards Holdco Limited	98	Securitisation entity
Delamare Cards MTN Issuer plc	98	Securitisation entity
Delamare Cards Receivables Trustee Limited	98	Securitisation entity
Delamare Cards Funding 1 Limited	98	Securitisation entity
Delamare Cards Funding 2 Limited	98	Securitisation entity
Delamare Finance PLC	11	Securitisation entity
Delamare Group Holdings Limited	11	Securitisation entity

* Undertaking where other share classes are held by a third party.

† Interest held directly by Tesco PLC.

^(a) 95% held by Tesco PLC.

^(b) 66.6% held by Tesco PLC.

^(c) Application for strike off submitted to Companies House on 22 February 2017.

^(d) Shares held by Tesco Pension Trustees Limited (TPTL), the corporate trustee of the Tesco PLC Pension Scheme (the Scheme). On behalf of the Scheme, TPTL holds a 50% shareholding in three property joint ventures with Tesco, and is the sole shareholder of Tesco Pension (Jade) Limited and Tesco Pension Investment Limited.

^(e) 50% held by Tesco PLC.

^(f) This company is the corporate trustee of the Tesco PLC Pension Scheme.

^(g) 12.705% held by Tesco PLC.

^(h) Sold with effect from 1 March 2017.

⁽ⁱ⁾ A third share class of £1.00 Ordinary B shares. A third party holds 100% of the Ordinary B shares in issue. The Group holds 70% of the voting rights of the entity.

^(j) Dissolved on 21 March 2017.

^(k) On 6 April 2017, Tesco PLC sold its entire holding of £1.00 Ordinary A shares in the capital of BLT Holdings 2010 Limited to British Land (Joint Ventures) Limited. As part of the transaction, Tesco Property Holdings Limited purchased 100% of the share capital in BLT Properties Limited, and certain subsidiaries, from BLT Holdings 2010 Limited.

^(l) Entered liquidation on 3 April 2017.

Registered office addresses

- 1 Tesco House, Shire Park, Kestrel Way, Welwyn Garden City AL7 1GA, United Kingdom
- 2 Apex Road, Brownhills, Walsall, West Midlands WS8 7TS, United Kingdom
- 3 KPMG LLP, 15 Canada Square, London E14 5GL, United Kingdom
- 4 Local Support Office, Abbey Retail Park, 1st Floor, Newtownabbey, Northern Ireland, BT36 7GU
- 5 184 Shepherd's Bush Road, London W6 7NL, United Kingdom
- 6 c/o Morton Fraser LLP, 5th Floor, Quartermile Two, 2 Lister Square, Edinburgh, Scotland EH3 9GL, United Kingdom
- 7 Aurora House, 71-75 Uxbridge Road, London W5 5SL, United Kingdom
- 8 5th Floor, 10-12 Alie Street, London E1 8DE, United Kingdom
- 9 KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Midlothian EH1 2EG, United Kingdom
- 10 Interpoint Building, 22 Haymarket, Edinburgh, Midlothian EH12 5BH, United Kingdom
- 11 35 Great St Helen's, London EC3A 6AP, United Kingdom
- 12 Av. Paulista, 37 - 4º Andar, São Paulo, 01311-902, Brazil
- 13 Oficina No 102, Oficinas Los Andes, San Patricio 4099, Vitacura, Santiago, Chile
- 14 Room 1101-1110, 10f, No. 600 Middle Long Hua Road, Xuhui District, Shanghai, China
- 15 R1108 Level 11, Bld No.1, China Central Place, No. 81 Jianguo Road, Chaoyang District, Beijing, China
- 16 Praha 10 - Vršovice, Vršovická 1527/68b, PSČ 10000, Prague, Czech Republic
- 17 Centre de Commerces et de Loisirs, Cité Europe, 62231 Coquelles, France
- 18 PO Box 25, Regency Court, Gategny Esplanade, St. Peter Port, GY1 3AP, Guernsey
- 19 Maison Trinity, Trinity Square, St Peter Port, GY1 4AT, Guernsey
- 20 15/F., Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong
- 21 Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong
- 22 H-2040 Budaörs, Kinizsi, ÚT 1-3, Hungary
- 23 81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India
- 24 Gresham House, Marine Road, Dun Laoghaire, Co. Dublin, Ireland
- 25 25-28 North Wall Quay, International Financial Services Centre, Dublin 1, Ireland
- 26 38/39 Fitzwilliam Square, Dublin 2, Ireland
- 27 PO Box 87, 22 Grenville Street, St Helier, JE4 8PX, Jersey
- 28 Lime Grove House, Green Street, St Helier, JE1 2ST, Jersey
- 29 6C Rue Gabriel Lippmann, Munsbach, L-5365, Luxembourg
- 30 C/o CIM Corporate Services Ltd, Les Cascades Building, Edith Cavell Street, Port Louis, Mauritius
- 31 Willemsparkweg 150 house, 1071 HS, Amsterdam, Netherlands
- 32 De Lairessestraat 137, 1075 HJ, Amsterdam, Netherlands
- 33 Ul. Wadowicka, 6 C w 13, 30 - 415, Kraków, Poland
- 34 ul. Gorzewska 212/226, 01-460, Warsaw, Poland
- 35 56 Kapelena St, 30-347, Krakow, Poland
- 36 163 Tras Street, #03-01, Lian Huat Building, Singapore, 079024, Singapore
- 37 629/1 Nawamintr Road, Nuanchan, Buengkoom, Bangkok, 10230, Thailand
- 38 Yeni Havaalani Cad. No. 40, 35610 Cigli-Izmir, Turkey
- 39 The Corporation Trust Company, 1209 Orange Street, Delaware, USA, 19801
- 40 KPMG LLP, Century Yard, Cricket Square, PO Box 493, Grand Cayman, KY1-1106, Cayman Islands
- 41 P.O. Box 957, Offshore Incorporations Centre, Road Town, Tortola British Virgin Islands
- 42 Place Carillion, 7151 Jean-Talon East, Montreal Québec, H1M 3N, Canada
- 43 Room 1503, No.268 Fang Hu Dond Road, Huli District, Xiamen City, Fujian Province, China
- 44 Room 610, 705 Fanghu East Road, Huli District, Xiamen, PRC China
- 45 1148 Budapest, Kerepesi, út 76/D.3. em. 3, Hungary
- 46 Taj Building, 2nd Floor, 210, Dr D.N. Road Fort, Mumbai, 400001, India
- 47 5 Heienhaff, L-1736 Senningerberg, Grand Duchy of Luxembourg Luxembourg
- 48 Level 8, Symphony House, Pusat Dangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia
- 49 Rosenkrantzgate 16, Oslo, 0160, Norway
- 50 Einsteinova 24, Bratislava 851 01, Slovakia
- 51 313 CP Tower, Silom Road, Khwaeng Silom, Khet Bangrak, Bangkok, Thailand
- 52 Capital Tower, All Seasons Place, Fl.1-6, 87/1 Wireless Road, Lumpini, Pathumwan, Bangkok 10330, Thailand
- 53 1 Empire Tower, 32nd Floor, South Sathorn Road, Yannawa, Sathorn Bangkok, 10120, Thailand
- 54 45 Seymour Street, York House, London W1H 7LX, United Kingdom
- 55 2 Paris Parklands, Railton Road, Guildford, Surrey GU2 9JX, United Kingdom
- 56 Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon EX8 1BD, United Kingdom
- 57 c/o Lamburn & Turner, Riverside House, 1 Place Farm, Wheathamstead St Albans, Hertfordshire AL4 8SB, United Kingdom
- 58 Ageas House, Hampshire Corporate Park, Templars Way, Eastleigh Hampshire SO53 3YA, United Kingdom
- 59 Kamenné nám. 1/A 815 61 Bratislava, Slovakia
- 60 Calle 32 b sur #48-100, Envigado, Antioquia, Colombia
- 61 Avenida Brigadeiro Luiz Antonio, No. 3142, 6th Fl Jardim Paulista Sao Paulo, Brazil, 01402-901
- 62 Yeni Havaalani Caddesi, No. 40 Cigli, Izmir, 35610 Turkey
- 63 Davis LLP, 2800 Park Place, 666 Burrand Street, Vancouver, BC, Canada
- 64 4th Fl, Tower B, Paras Twin Towers, DLF Golf Course Road, Sector 54, Gurgaon, Haryana-HR, 122002, India
- 65 48 rue Cambon, 75001, Paris, France
- 66 Room 1001, Enterprise Development Tower, No. 398, Jiangsu Road Changning District, Shanghai 200050, China
- 67 S-22 Greater Kailash, Part 1, Lower Ground Floor, New Delhi 110048, India
- 68 Via Savonarola 217, 35137 Padova, Italy
- 69 Tokyo Club Buolding 11F, 2-6 Kasumigaseki 3-chrime, Chiyoda-ku, Tokyo Japan
- 70 37th Floor, ASEM Tower, 517 Yeongdong-daero, Gangnam-gu, Seoul 135-798, Korea
- 71 Floor 3, 2 Harbour Square, Crofton Road, Dun Laoghaire, Dublin, Ireland
- 72 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P Ramlee, Kuala Lumpur 50250, Malaysia
- 73 Av President Masarik No. 111, Piso 1, Colina Polance V Seccion Delegacion Miguel Hidalgo, C.P. 11560, Mexico
- 74 Herikerberweg 238, Luna Arena 1101CM, Amsterdam, Zuidoost, Netherlands
- 75 Cesta na Senec 2, Bratislava, 821 04, Slovakia
- 76 B4 Century Square, Heron Crescent, Century City, Cape Town 7441 South Africa
- 77 No. 319 Chamchuri Square Building, 16th Fl, Unit 01, Phayathi Road Pathumwan sub District, Bangkok 10330, Thailand
- 78 424 Walnut Street, Suite 1800, Cincinnati, Ohio 45202, United States
- 79 One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202, United States
- 80 Paul-Lincke-Ufer 39/40, 10999 Berlin, Germany
- 81 Rua Sansão Alves dos Santos, 76, 12º andar, conj. 121 e 122, Edifício Uchôa Borges, CEP 04571-090, Pinheiros, São Paulo, Brazil
- 82 Stefanikova 18/25, Smichov 150 00, Prague 5, Czech Republic
- 83 18 rue de la Pépinière, Paris (75008), France
- 84 801, 8th Floor, El Tara Building, off Orchard Avenue, Hiranandani Gardens, Powai, Mumbai-400076, India
- 85 Piazzale Biancamano 8, Milan, Italy
- 86 Danzigerkade 13H 2hg, 1013AP Amsterdam, Netherlands
- 87 ul. Puławska 2, 02-566 Warszawa, Poland
- 88 Russian Federation, 121099, Moscow, Spasopeskovsky lane, 7/1, b.1. Russia
- 89 30 A Tanjong Pagar Road, Singapore 088453, Singapore
- 90 Paseo de General Martinez Campos nº 9 1º izquierda, 28010 Madrid, Spain
- 91 c/o 7A Odenplan, Norrtullsgatan 6, 113 29 Stockholm, Sweden
- 92 Istiklal Caddesi Beyoglu Is Merkezi No: 187/5 Galatasaray, Istanbul, Turkey
- 93 5th Floor, 10-12 Alie Street, London E1 8DE, United Kingdom
- 94 C/O United Corporate Services, Inc., 874 Walker Road, Suite C, Dover, DE 19904, United States
- 95 Room 886S, 8/F, 1111, Changshou Road, Jing'an District, Shanghai, People's Republic of China
- 96 Local Support Office, Abbey Retail Park, 1st Floor, Newtownabbey, Northern Ireland BT36 7GU, United Kingdom
- 97 5th Floor, Unit 401, Tower B, The Millenia, No. 18.2 Murphy Road Ulsoor, Bangalore, 560 008, India
- 98 Asticus Building, 2nd Floor, 21 Palmer Street, London SW1H 0AD, United Kingdom
- 99 20 Churchill Place, Canary Wharf, London E14 5HJ, United Kingdom
- 100 KPMG LLP, Stokes House, 17-25 College Square East, Belfast, BT1 6DH Northern Ireland

Supplementary information (unaudited)

Total sales performance at actual rates (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	0.7%	1.7%	2.3%	0.7%	1.2%	1.5%	1.4%
UK	0.3%	1.0%	1.4%	0.2%	0.7%	0.8%	0.7%
ROI	8.7%	15.3%	19.7%	11.9%	11.9%	15.6%	13.8%
International	5.6%	16.5%	23.2%	16.1%	10.9%	19.5%	15.2%
Europe	8.2%	15.1%	19.6%	12.3%	11.6%	15.7%	13.7%
Asia	2.8%	18.2%	27.7%	20.9%	10.1%	24.1%	17.1%
Tesco Bank	3.5%	7.2%	6.3%	6.9%	5.3%	6.6%	6.0%
Group	1.8%	4.7%	6.5%	4.1%	3.3%	5.2%	4.3%

Total sales performance at constant rates (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	0.3%	1.0%	1.4%	0.1%	0.6%	0.6%	0.6%
UK	0.3%	1.0%	1.4%	0.2%	0.7%	0.7%	0.7%
ROI	0.2%	(0.3)%	0.0%	(1.7)%	(0.1)%	(0.9)%	(0.5)%
International	3.6%	2.8%	1.5%	0.6%	3.2%	1.0%	2.1%
Europe	2.4%	1.2%	0.1%	(1.5)%	1.8%	(0.7)%	0.5%
Asia	5.0%	4.8%	3.2%	3.2%	4.9%	3.2%	4.0%
Tesco Bank	3.5%	7.2%	6.3%	6.9%	5.3%	6.6%	6.0%
Group	1.1%	1.5%	1.5%	0.3%	1.3%	0.9%	1.1%

Like-for-like sales performance (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	0.3%	0.9%	1.7%	0.6%	0.6%	1.3%	0.9%
UK	0.3%	0.9%	1.8%	0.7%	0.6%	1.2%	0.9%
ROI	0.3%	0.1%	0.5%	(1.3)%	0.2%	(0.4)%	(0.1)%
International	3.0%	2.1%	0.6%	(0.3)%	2.6%	0.1%	1.3%
Europe	2.8%	1.3%	0.7%	(0.8)%	2.0%	(0.1)%	0.9%
Asia	3.3%	3.0%	0.4%	0.5%	3.2%	0.4%	1.8%
Tesco Bank	n/a						
Group	0.9%	1.1%	1.5%	0.4%	1.0%	1.0%	1.0%

Notes

These results have been reported on a continuing operations basis and exclude the results from our operations in Turkey. Like-for-like sales growth is reported at constant exchange rates. Growth rates are all based on comparable days.

Country detail

	Revenue (exc. VAT, inc. fuel)		Average exchange rate	Closing exchange rate
	Local currency (m)	£m		
UK	41,458	41,458	1.000	1.000
ROI	2,483	2,066	1.202	1.184
Czech Republic	43,017	1,324	32.49	31.98
Hungary	595,463	1,593	373.8	365.0
Poland	10,832	2,070	5.233	5.096
Slovakia	1,405	1,169	1.202	1.184
Malaysia	4,458	808	5.517	5.557
Thailand	204,059	4,378	46.61	43.66

UK sales area by size of store

Store size sq. ft.	February 2017			February 2016		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0-3,000	2,507	5.2	13.1%	2,498	5.2	12.5%
3,001-20,000	288	3.4	8.6%	289	3.5	8.4%
20,001-40,000	283	8.2	20.5%	283	8.3	20.0%
40,001-60,000	182	9.4	23.5%	204	10.4	25.0%
60,001-80,000	120	8.6	21.5%	132	8.9	21.5%
80,001-100,000	45	4.2	10.6%	45	4.2	10.2%
Over 100,000	8	0.9	2.2%	9	1.0	2.4%
Total*	3,433	39.9	100.0%	3,460	41.5	100.0%

* Excludes franchise stores.

Group space summary

Actual Group space – store numbers^(a)

	2015/16 year-end	2016/17 year-end	Net gain/ reduction ^(b)	Openings	Closures/ disposals	Repurposing/ extensions
Extra	252	252	-	-	-	14
Superstore	478	479	1	2	(1)	-
Metro	177	176	(1)	-	(1)	-
Express	1,732	1,740	8	17	(9)	-
Dotcom only	6	6	-	-	-	-
Total Tesco	2,645	2,653	8	19	(11)	14
One Stop ^(c)	779	780	1	23	(22)	-
Dobbies	36	-	(36)	-	(36)	-
UK^(c)	3,460	3,433	(27)	42	(69)	14
ROI	149	148	(1)	-	(1)	-
UK & ROI^(c)	3,609	3,581	(28)	42	(70)	14
Czech Republic ^(c)	201	198	(3)	-	(3)	1
Hungary	208	206	(2)	-	(2)	2
Poland	440	429	(11)	-	(11)	1
Slovakia	161	154	(7)	-	(7)	2
Europe^(c)	1,010	987	(23)	-	(23)	6
Malaysia	62	71	9	9	-	6
Thailand	1,815	1,914	99	105	(6)	44
Asia	1,877	1,985	108	114	(6)	50
International^(c)	2,887	2,972	85	114	(29)	56
Group^(c)	6,496	6,553	57	156	(99)	70
UK (One Stop)	134	158	24	32	(8)	-
Czech Republic	103	98	(5)	-	(5)	-
Franchise stores	237	256	19	32	(13)	-

^(a) Continuing operations.

^(b) The net gain/reduction reflects the number of store openings less the number of store closures/disposals.

^(c) Excludes franchise stores.

Supplementary information (unaudited) continued

Group space summary continued

Actual Group space – '000 sq.ft.

	2015/16 year-end	2016/17 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions ^(c)
Extra	17,846	17,748	(98)	–	–	(98)
Superstore	14,002	14,075	73	96	(23)	–
Metro	2,005	1,993	(12)	–	(12)	–
Express	4,031	4,054	23	40	(17)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	38,600	38,586	(14)	136	(52)	(98)
One Stop ^(b)	1,256	1,269	13	44	(31)	–
Dobbies	1,652	–	(1,652)	–	(1,652)	–
UK^(a)	41,508	39,855	(1,653)	180	(1,735)	(98)
ROI	3,560	3,543	(17)	–	(17)	–
UK & ROI^(b)	45,068	43,398	(1,670)	180	(1,752)	(98)
Czech Republic ^(b)	5,558	5,479	(79)	–	(28)	(51)
Hungary	6,931	6,896	(35)	–	(5)	(30)
Poland	9,688	9,578	(110)	–	(85)	(25)
Slovakia	3,969	3,859	(110)	–	(83)	(27)
Europe^(b)	26,146	25,812	(334)	–	(201)	(133)
Malaysia	4,164	4,005	(159)	35	–	(194)
Thailand	15,536	15,522	(14)	514	(26)	(502)
Asia	19,700	19,527	(173)	549	(26)	(696)
International^(b)	45,846	45,339	(507)	549	(227)	(829)
Group^(b)	90,914	88,737	(2,177)	729	(1,979)	(927)
UK (One Stop)	185	212	27	39	(12)	–
Czech Republic	96	92	(4)	–	(4)	–
Franchise stores	281	304	23	39	(16)	–

^(a) Continuing operations.

^(b) Excludes franchise stores.

^(c) Repurposing of gross selling space is not included in the above net selling space measure.

Group space forecast to 24 February 2018 – '000 sq.ft.

	2016/17 year-end	2017/18 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,748	17,748	–	–	–	–
Superstore	14,075	14,149	74	74	–	–
Metro	1,993	1,993	–	–	–	–
Express	4,054	4,112	58	60	(2)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	38,586	38,718	132	134	(2)	–
One Stop ^(b)	1,269	1,297	28	49	(21)	–
UK^(a)	39,855	40,015	160	183	(23)	–
ROI	3,543	3,584	41	40	–	1
UK & ROI^(b)	43,398	43,599	201	223	(23)	1
Czech Republic ^(b)	5,479	5,049	(430)	–	(291)	(139)
Hungary	6,896	6,800	(96)	–	–	(96)
Poland	9,578	9,221	(357)	–	(167)	(190)
Slovakia	3,859	3,630	(229)	–	(208)	(21)
Europe^(b)	25,812	24,700	(1,112)	–	(666)	(446)
Malaysia	4,005	3,891	(114)	65	(60)	(119)
Thailand	15,522	15,622	100	436	(16)	(320)
Asia	19,527	19,513	(14)	501	(76)	(439)
International^(b)	45,339	44,213	(1,126)	501	(742)	(885)
Group^(b)	88,737	87,812	(925)	724	(765)	(884)
UK (One Stop)	212	277	65	65	–	–
Czech Republic	92	92	–	–	–	–
Franchise stores	304	369	65	65	–	–

^(a) Continuing operations.

^(b) Excludes franchise stores.

Tesco Bank income statement

	2017 ^(a) £m	2016 ^(a) £m
Revenue		
Interest receivable and similar income	622	576
Fees and commissions receivable	390	379
	1,012	955
Direct costs		
Interest payable	(175)	(166)
Fees and commissions payable	(23)	(3)
	(198)	(169)
Gross profit	814	786
Other expenses		
Staff costs	(165)	(172)
Premises and equipment	(76)	(81)
Other administrative expenses	(215)	(212)
Depreciation and amortisation	(96)	(91)
Provisions for bad and doubtful debts	(105)	(68)
Operating profit before exceptional items	157	162
Restructuring and other exceptional items ^(b)	(80)	(1)
Operating profit	77	161
Net finance costs: movements on derivatives and hedge accounting	6	(8)
Net finance costs: interest	(4)	(4)
Share of profit/(loss) of joint venture ^(c)	(16)	(3)
Management charges	-	(1)
Profit before tax	63	145

^(a) These results are for the 12 months ended 28 February 2017 and the previous period represents the 12 months ended 29 February 2016.

^(b) Restructuring and other exceptional items in 2017 consists of an increase in the provision for customer redress of £45m and business simplification and head office relocation costs of £35m.

^(c) Share of profit/(loss) of joint venture includes a charge of £23m, representing the Group's share of losses incurred by Tesco Underwriting Limited (TU) relating to the impact on TU's insurance reserves of a change in the Ogden tables, which are used to calculate future losses in personal injury and fatal accident cases. The £23m charge has been reported as an exceptional item in the Group income statement.

Glossary

Alternative performance measures

Introduction

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs), previously termed Non-GAAP measures of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this year are as follows:

- Group sales (previously termed Revenue exc. fuel): This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.

Some of our IFRS measures are translated at constant exchange rates. Constant exchange rates are the average actual periodic exchange rates for the previous financial period and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial period.

- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It 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: This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items. Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.
- Retail operating cash flow: This is the operating cash flow of continuing operations, excluding the effects of Tesco Bank's cash flows.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs: This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement				
Revenue measures				
Group sales	Revenue	· Exclude sales made at petrol filling stations	Note 2	· Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	· Consistent with accounting policy	Not applicable	· Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	· Consistent with accounting policy	Not applicable	· 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. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Profit measures				
Operating profit before exceptional items	Operating profit*	<ul style="list-style-type: none"> Exceptional items 	Note 2	<ul style="list-style-type: none"> 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 in order to reflect management's view of the performance of the Group. This is a key management incentive metric.
Operating margin	No direct equivalent	<ul style="list-style-type: none"> Consistent with accounting policy 	Not applicable	<ul style="list-style-type: none"> Operating margin is calculated as operating profit before exceptional items divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Profit before tax before exceptional items and net pension finance costs	Profit before tax	<ul style="list-style-type: none"> Exceptional items Net pension finance costs 	Note 9	<ul style="list-style-type: none"> This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors.
Profits/(losses) arising on property-related items	No direct equivalent	<ul style="list-style-type: none"> Consistent with accounting policy 	Not applicable	<ul style="list-style-type: none"> 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. These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail and financial services operations of the business. They are often one-time in nature and can have a disproportionate impact on profit between reporting periods.
Total finance costs before exceptional items and net pension finance costs	Finance costs	<ul style="list-style-type: none"> Exceptional items Net pension finance costs 	Note 5	<ul style="list-style-type: none"> Total finance costs before exceptional items and net pension finance costs is the net finance costs adjusted for non-recurring one off items, and net pension finance costs, as the costs are impacted by bond yields, which can fluctuate significantly and are reset each year.
Diluted earnings per share from continuing operations before exceptional items	Diluted earnings per share	<ul style="list-style-type: none"> Exceptional items Discontinued operations 	Note 9	<ul style="list-style-type: none"> This relates to profit after tax before exceptional items from continuing operations, attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options. It excludes 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 in order to reflect management's view of the performance of the Group.
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs	Diluted earnings per share	<ul style="list-style-type: none"> Exceptional items Net pension finance costs Discontinued operations 	Note 9	<ul style="list-style-type: none"> This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options. It excludes the impact of certain costs or incomes that fall within the normal activities of the Group but which are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group. It also excludes potentially volatile net pension finance costs.
Tax measures				
Effective tax rate before exceptional items	Effective tax rate	<ul style="list-style-type: none"> Exceptional items and their tax impact 	Note 6	<ul style="list-style-type: none"> 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. This provides an indication of the ongoing tax rate across the Group.
Effective tax rate before exceptional items and net pension finance costs	Effective tax rate	<ul style="list-style-type: none"> Exceptional items and their tax impact Net pension finance costs and their tax impact 	Note 6	<ul style="list-style-type: none"> Effective tax rate before exceptional items and net pension finance costs is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and net pension finance costs divided by the profit before tax before exceptional items and net pension finance costs.

Glossary continued

Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	· Net debt from Tesco Bank	Note 30	· 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. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.
Total indebtedness	Borrowings less cash and related hedges	· Net debt from Tesco Bank · Present value of future minimum lease payments under non-cancellable operating leases · IAS 19 deficit in the pension schemes	Page 18 of the Strategic Report	· Total indebtedness is the 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 to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Cash flow measures				
Retail operating cash flow	Cash generated from operating activities	· Tesco Bank operating cash flow · Discontinued operations	Note 2	· Retail operating cash flow is the cash generated from operations of continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency by the Retail business, recognising that Tesco Bank is run and regulated independently from the retail operations, and a key measure to demonstrate the recovery of the retail operations. This is a key management incentive metric.
Free cash flow	Cash generated from operating activities	· Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale · Purchase of intangible assets	Note 2	· Free cash flow is net cash generated from/(used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets. It is a measure of cash generation, working capital efficiency and capital discipline of the business.

* Operating profit is not defined per IFRS, however is a generally accepted profit measure.

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.

Five-year record

Figures below reflect the latest published information. For years prior to 2016/17, these figures represent the comparatives from the following years' financial statements. During the financial year, the Group decided to sell its operations in Turkey. Accordingly, these operations have been treated as discontinued in 2017. The 2016 statistics have been re-presented to be consistent with 2017. Prior years have not been re-presented. Korea was first classified as a discontinued operation in 2015/16. China was first classified as a discontinued operation in 2013/14. US was first classified as a discontinued operation in 2012/13. The Group has determined new segments and defined new alternative performance measures for 2015/16 onwards. Refer to Note 1 and Note 2. 2014/15 data for these new measures and segments has been presented, but prior historic data has not.

	2013	2014	2015 ^(a)	2016	2017
Financial statistics (£m)					
Sales					
UK & ROI			38,228	37,189	37,692
International			10,678	9,715	11,163
Tesco Bank	1,021	1,003	947	955	1,012
Group sales^(c)			49,853	47,859	49,867
Revenue					
UK & ROI			45,062	43,080	43,524
International			10,916	9,898	11,381
Tesco Bank	1,021	1,003	947	955	1,012
Group revenue	63,406	63,557	56,925	53,933	55,917
Operating profit/(loss) before exceptional items^(c)					
UK & ROI			498	503	803
International			254	320	320
Tesco Bank			188	162	157
Group operating profit/(loss) before exceptional items^(c)			940	985	1,280
Operating profit margin before exceptional items			1.7%	1.8%	2.3%
Operating profit/(loss)					
UK & ROI			(5,334)	597	519
International			(569)	314	421
Tesco Bank			153	161	77
Group operating profit/(loss)	2,382	2,631	(5,750)	1,072	1,017
Share of post-tax profits/(losses) of joint ventures and associates	72	60	(13)	(21)	(107)
Net finance costs	(397)	(432)	(571)	(849)	(765)
Profit/(loss) before tax	2,057	2,259	(6,334)	202	145
Taxation	(529)	(347)	670	54	(87)
Profit/(loss) for the year from continuing operations	1,528	1,912	(5,664)	256	58
Discontinued operations	(1,504)	(942)	(102)	(127)	(112)
Profit/(loss) for the year	24	970	(5,766)	129	(54)
Attributable to:					
Owners of the parent	28	974	(5,741)	138	(40)
Non-controlling interests	(4)	(4)	(25)	(9)	(14)
Profit before tax before exceptional items and net pension finance costs^(c)			490	490	842
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations			(69.56)p	3.22p	0.81p
Diluted earnings per share – continuing operations before exceptional items ^(c)			4.14p	4.05p	6.75p
Diluted earnings per share – continuing operations before exceptional items and net pension finance costs ^(c)			5.46p	5.61p	7.90p
Dividend per share ^(b)	14.76p	14.76p	1.16p	–	–
Cash generated from retail operating activities (£m)	3,888	4,607	1,860	2,581	2,278
Return on capital employed (ROCE) ^(c)	14.5%	13.6%	4.0%	6.2%	8.1%
Total shareholder return ^(c)	2.1%	3.7%	(9.5)%	(11.8)%	(7.5)%
Net debt (£m) ^(c)	6,597	6,597	8,481	5,110	3,729
Discounted operating lease commitments – continuing operations (£m)	10,182	9,419	9,353	7,814	7,440
Pension deficit, net of deferred tax – Group (£m)	1,839	2,559	3,885	2,612	5,504
Total indebtedness (£m)^(c)	18,618	18,575	21,719	15,536	16,673
Enterprise value (£m) ^(c)	36,578	33,597	28,415	20,101	19,262
Group retail statistics					
Number of stores ^(d)	6,653	7,305	6,849	6,733	6,809
Total sales area – '000 sq. ft. ^(d)	106,040	109,572	95,811	91,195	89,041
Average employees	506,856	510,444	480,607	475,399	464,520
Average full-time equivalent employees (FTE)	388,375	391,868	362,370	351,289	342,770
UK & ROI retail statistics					
Number of stores ^(d)	3,288	3,524	3,710	3,743	3,739
Total sales area – '000 sq. ft. ^(d)	43,950	45,300	45,946	45,253	43,610
Average full-time equivalent employees (FTE)			225,192	225,378	218,522
Revenue (exc. fuel) per FTE – £			169,757	165,007	172,486
Weekly revenue (exc. fuel) per sq. ft. – £			15.81	15.68	16.31

^(a) 53 weeks.

^(b) Dividend per share relating to the interim and proposed final dividend.

^(c) See glossary for definitions.

^(d) Including franchise stores.

Shareholder information

Annual General Meeting 2017

This year's Annual General Meeting will be held on Friday 16 June 2017 at the ICC Capital Suite, ExCel London, 1st Floor, One Western Gateway, Royal Victoria Dock, London E16 1XL. The meeting will start at 2.00pm and registration will be open from 1.00pm.

A separate notice convening the meeting has been sent to our shareholders, which includes details of the ordinary and special business to be considered at the meeting. A copy of the Notice of Meeting can be found on our website at www.tescopl.com/investors.

Managing shares online

Many of our shareholders find that the easiest way to manage their shareholding is online by setting up a Shareview portfolio at www.shareview.co.uk. This is a free, easy and secure service provided by the Company's registrars, Equiniti.

Some of the benefits of having a Shareview portfolio are:

- monitor your shareholding;
- access shareholder information;
- elect to receive shareholder communications electronically;
- vote on the resolutions at the Annual General Meeting, and any other shareholder meetings;
- use real-time market news and data to help research your investment decisions;
- keep your contact details up to date; and
- elect to receive any future returns on your investment directly into your bank account.

For more information and to register for this service, please visit www.shareview.co.uk. Registration can be completed within minutes in just four easy steps. Please note, you will need your Shareholder Reference Number.

E-comms

We encourage our shareholders to accept all shareholder communications and documents electronically, in place of receiving traditional paper form copies by post. This helps us to reduce the environmental impact of our business and to reduce costs. If you would like to sign up to receive all future shareholder communications electronically, please register with Shareview, the internet-based platform provided by Equiniti, by visiting www.shareview.co.uk. Once you have signed up, you will receive an email to let you know when shareholder documents become available on our website, including our annual and half-yearly financial results, notices of shareholder meetings and other shareholder documents.

Tesco Share Account

We offer our shareholders a service to help them hold and manage their Tesco shares in a safe and simple way. With the Tesco Share Account (TSA) you can enjoy the convenience and reassurance of holding shares electronically, avoiding the need to hold paper share certificates, which can be lost or stolen and expensive to replace.

The TSA also offers shareholders access to preferential dealing rates and up-to-date market information through the Equiniti Share Dealing service. You can track your shares online and you will also receive an annual statement detailing your shareholding and trading activity.

The TSA is a nominee service sponsored by Tesco and provided by Equiniti Financial Services Limited (Equiniti), which is authorised and regulated by the Financial Conduct Authority (FCA). Your shares are held on your behalf by Equiniti on a private register. You remain the beneficial owner of your shares and continue to have the right to receive shareholder communications, vote at general meetings and to receive any dividends paid on your shares.

It is free to join the TSA and there are no annual fees to pay. Please note that there may be a charge for transferring shares out of the TSA. Further details can be found in the TSA Terms and Conditions available from www.shareview.co.uk/info/csn.

If you would like to join the TSA please contact Equiniti on 0371 3284 2977 (or +44 (0) 121 415 7053 if outside of the UK).

Duplicate documents

Some of our shareholders hold multiple accounts on the share register and therefore receive duplicate copies of shareholder documentation as a result. If you have been receiving duplicate copies of shareholder documentation, please contact Equiniti on 0345 300 0430 to arrange for your accounts to be combined.

Share dealing service

Equiniti offer Shareview Dealing, which is a real-time telephone and internet share dealing service in Tesco PLC shares available to all UK residents.

Further information about the Shareview Dealing service can be found at www.shareview.co.uk/dealing or by calling 0345 603 7037 between 8.00am and 4.30pm (UK time), Monday to Friday (excluding public holidays in England and Wales).

Please remember that dealing fees vary between brokers and you are recommended to check that you are being charged the most competitive rate.

Changes to personal details

In order to avoid missing important correspondence relating to your shareholding, please inform Equiniti as soon as possible if:

- you have recently moved house; or
- there are any changes to your bank details.

These changes can be made quickly and easily online via your Shareview portfolio. Or you can write to Equiniti to confirm your changes. Please remember to include your Shareholder Reference Number on all written communications.

Share price information

Details of our current and historical share price data and other share price tools are available at www.tescopl.com/investors.

ShareGift

If you have a small shareholding which would cost more to sell than the shares are worth, you may wish to consider donating them to the charity ShareGift (Registered Charity 1052686), a charity that specialises in the donation of such shares for good causes. There are no implications for capital gains tax purposes on gifts of shares to charity. Further information about ShareGift can be found by visiting www.sharegift.org or by calling +44 (0) 20 7930 3737.

American Depositary Receipt (ADR)

The Company has a sponsored Level 1 ADR programme in place for which Deutsche Bank acts as depositary bank. The ADRs are traded on the US over the counter (OTC) market and one ADR represents three Ordinary shares. The ADR programme confers the right to receive dividends in US Dollars.

American Depositary Receipt details:

Symbol	TSCDY
CUSIP	881575302
Exchange	OTC Pink
Ratio	1 ADR:3 Ordinary shares

All enquiries relating to the ADR programme should be directed to:

AST
Operations Centre
6201 15th Avenue
Brooklyn
New York, NY 11219
USA

Email: DB@astfinancial.com
Telephone: +1 866 249 2593 (toll free from within the US and Canada). International: +1 718 921 8124 (from outside the US and Canada)
Website: www.adr.db.com

Shareholder security

In recent years, we have become aware that some of our shareholders have received unsolicited phone calls or correspondence concerning investment matters. These are typically from overseas-based 'brokers' who target UK shareholders, offering to sell them what often turn out to be worthless or high-risk shares in US or UK investments. These operations are commonly known as 'boiler rooms'. These 'brokers' can be very persistent and extremely persuasive. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports. Details of any share dealing facilities that we endorse are included in our mailings and on our website.

If you receive any unsolicited investment advice:

- make sure you note the correct name of the person and the organisation they claim to be calling from;
- make a record of all information they give you;
- check the Financial Services Register by visiting <http://register.fca.org.uk> to see if the person and firm contacting you are authorised by the FCA;
- search the list of unauthorised firms to avoid at www.fca.org.uk/consumers/unauthorised-firms-individuals; and
- report the matter to the FCA using the share fraud reporting form at www.fca.org.uk/consumers/report-scam-unauthorised-firm or by calling the Consumer Helpline on 0800 111 6768.

Information on the latest investment scams can be found at <http://scamsmart.fca.org.uk/warninglist>.

Corporate website

You can access the corporate website at www.tescopl.com.

The corporate website provides useful information including Annual Reports, results announcements and share price data, as well as background information about the Company and current issues.

Shareholders are encouraged to sign up to receive email notifications of results and press announcements as they are released by registering at www.tescopl.com/investors/regulatory-news/regulatory-news-email-alerts.

Useful contacts

Tesco PLC Registered Office:

Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA
General queries switchboard: +44 (0) 1992 632222

Registrars:

Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA

Telephone: (UK) 0371 384 2977 (outside UK) +44 (0) 121 415 7053
Calls to 03 numbers cost no more than a national rate call to a 01 or 02 number. Calls from a mobile device may incur network extras.
Website: www.shareview.co.uk

Corporate Brokers

Barclays Bank PLC
Citigroup Global Markets Limited

Independent Auditors

Deloitte LLP

Group Company Secretary

Robert Welch

Investor Relations

Investor Relations Department
Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA

Telephone: +44 (0) 1707 912922

Shareholder information continued

Share register analysis

As at 25 February 2017, the Company had 8,174,932,553 Ordinary shares in issue (27 February 2016: 8,141,083,114) and 270,372 registered holders of Ordinary shares (27 February 2016: 247,387). Shareholdings are analysed below.

Range of shareholding	Number of holdings	%	Number of shares	%
1 – 500	165,439	61.19	22,007,918	0.27
501 – 1,000	27,767	10.27	20,575,303	0.25
1,001 – 5,000	54,489	20.15	127,537,599	1.56
5,001 – 10,000	12,325	4.56	86,501,867	1.06
10,001 – 50,000	8,699	3.22	161,977,058	1.98
50,001 – 100,000	611	0.23	41,259,831	0.50
100,001 – 500,000	505	0.19	114,990,273	1.41
500,001 – 1,000,000	137	0.05	98,101,493	1.20
1,000,001 – 5,000,000	229	0.08	506,854,984	6.20
5,000,001+	171	0.06	6,995,126,227	85.57
Total	270,372	100.00	8,174,932,553	100.00

Category of shareholders	Number of shareholders	% of total shareholders	Number of shares	% of issued share capital
Private	203,679	75.33	354,999,248	4.34
Institutional and corporate	6,597	2.44	7,717,825,169	94.41
Employees	60,096	22.23	102,108,136	1.25

Financial calendar

Financial year end 2016/17	25 February 2017
Q1 interim management statement	16 June 2017
Annual General Meeting	16 June 2017
Half-year end 2017/18	26 August 2017
Interim results announcement	4 October 2017
Q3 and Christmas trading statement	January 2018
Financial year-end 2017/18	24 February 2018

Please note that these dates are provisional and subject to change, with the exception of the financial year end and half-year end.



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Tesco PLC
Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA

www.tescopl.com