

# TESCO

A close-up portrait of a Black man with long dreadlocks, smiling broadly with his eyes closed. He is wearing a dark blue patterned shirt and has small hoop earrings. In the foreground, he is holding a white bowl filled with a vibrant salad, including avocado slices, falafel balls, arugula, and corn. The background is a solid purple color.

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

Strategic Report 2017



# Welcome to our strategic 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

## Supplementary material:

Board of Directors	30
Executive Committee	32
Corporate governance summary	34
Remuneration summary	36
Independent auditor's statement to the members of Tesco PLC	38
Summary financial statements	39
Financial calendar	IBC
Glossary	IBC

The Strategic Report 2017 is a part of the Tesco PLC Annual Report and Financial Statements 2017 and does not contain sufficient information to allow as full an understanding of the results of the Group and the state of affairs of the Company or of the Group as would be provided by the full Annual Report and Financial Statements 2017. The full Annual Report and Financial Statements 2017 is available on our website [www.tescopl.com](http://www.tescopl.com) or shareholders may obtain a printed copy, free of charge, on request to the Company.

The independent auditor's report on the full accounts for the year ended 25 February 2017 was unqualified, and their statement under section 496 (whether the Strategic report and the Directors' report are consistent with the accounts) of the Companies Act 2006 was also unqualified.



### Find out more online

We have produced a number of short videos that are available at [www.tescopl.com/ar2017](http://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**<sup>Δ (a)</sup>

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

**£55.9bn**<sup>(a)</sup>

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

**£1,280m**<sup>Δ (a)</sup>

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

**£1,017m**<sup>(a)</sup>

Operating profit  
(2015/16: £1,072m)

**£145m**<sup>(a)</sup>

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

**7.90p**<sup>Δ (a)</sup>

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

**0.81p**<sup>(a)</sup>

Statutory diluted EPS  
(2015/16: 3.22p)

**£(3.7)bn**<sup>Δ (b)</sup>

Net debt  
(2015/16: £(5.1)bn)

**6,809**<sup>(a),(c)</sup>

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

**79m**<sup>(a)</sup>

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

**23m**

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

**460,000**<sup>(a)</sup>

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

<sup>(a)</sup> Reported on a continuing operations basis.

<sup>(b)</sup> Excludes the net debt of Tesco Bank.

<sup>(c)</sup> Includes franchise stores.

### Δ Alternative Performance Measures

Measures with this symbol Δ are defined in the Glossary on the inside back cover. For further detail see pages 170 to 172 of the Annual Report and Financial Statements 2017.

# 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](http://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.

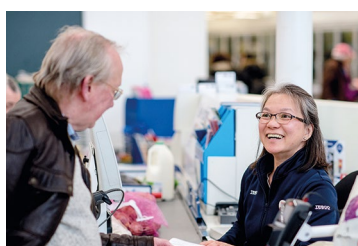
We take pride in the quality of our food, and that's reflected in our 'Food Love Stories brought to you by Tesco' campaign, which aims to set out our food quality credentials and celebrate the passion and care that goes into the meals we all love.



# 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.

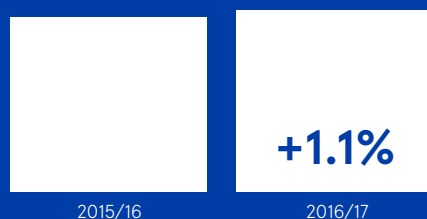
Our business is organised around the three pillars of Customers, Product and Channels. We place customers at the centre of everything we do to deliver our purpose – serving shoppers a little better every day.



# Our Big 6 KPIs.

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

## Sales

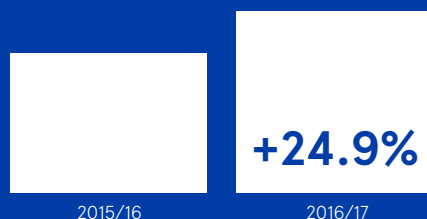


£49.9bn<sup>Δ</sup>

Group sales (exc. VAT, exc. fuel)<sup>(a)</sup>  
(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

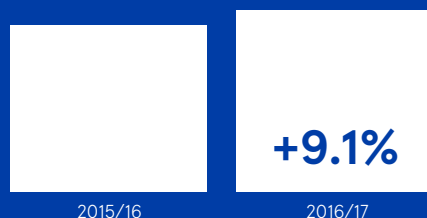


£1,280m<sup>Δ</sup>

Group operating profit before exceptional items<sup>(a)</sup>  
(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<sup>Δ</sup>

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

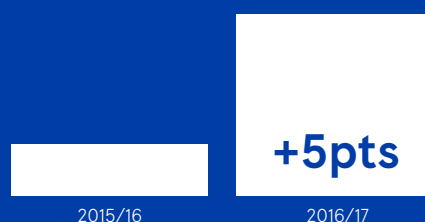
Strong operating cash flow is needed to keep the business running and allows us to reinvest. These positive figures show our financial position is improving.

### Δ Alternative Performance Measures

Measures with this symbol Δ are defined in the Glossary on the inside back cover. For further detail see pages 170 to 172 of the Annual Report and Financial Statements 2017.



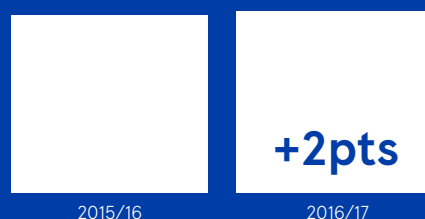
## Customers recommend us and come back time and again



**7pts**  
Group Net Promoter Score<sup>(c)</sup>  
(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

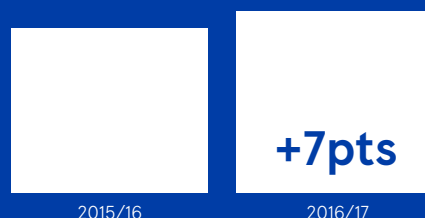


**83%**  
Great place to work<sup>(d)</sup>  
(2015/16: 81%)

**48pts**  
Great place to shop<sup>(e)</sup>  
(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<sup>(e)</sup>  
(2015/16: 70%)

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

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

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

<sup>(c)</sup> 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.

<sup>(d)</sup> Based on our internal 'What Matters To You?' survey. Chart shows the movement in 'Great place to work'.

<sup>(e)</sup> 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](http://www.tescopl.com/ar2017) to find PDF and Excel downloads of our financial statements.

## Group results 2016/17

52 weeks ended  
25 February 2017

On a continuing operations basis

	2016/17	2015/16	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
<b>Group sales (exc. VAT, exc. fuel)<sup>(a)</sup></b>	<b>£49,867m</b>	<b>£47,859m</b>	<b>1.1%</b>	<b>4.3%</b>
Fuel	£6,050m	£6,074m	(1.0)%	(0.4)%
<b>Revenue (exc. VAT, inc. fuel)</b>	<b>£55,917m</b>	<b>£53,933m</b>	<b>0.8%</b>	<b>3.7%</b>
<b>Group operating profit before exceptional items<sup>(b)</sup></b>	<b>£1,280m</b>	<b>£985m</b>	<b>24.9%</b>	<b>29.9%</b>
UK & ROI <sup>(c)</sup>	£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		
<b>Group operating profit</b>	<b>£1,017m</b>	<b>£1,072m</b>	<b>(11.8)%</b>	<b>(5.1)%</b>
Group profit before tax before exceptional items and net pension finance costs	£842m	£490m		71.8%
<b>Group statutory profit before tax</b>	<b>£145m</b>	<b>£202m</b>		<b>(28.2)%</b>
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		
<b>Capex<sup>(d)</sup></b>	<b>£1.2bn</b>	<b>£1.0bn</b>		
<b>Net debt<sup>(e),(f)</sup></b>	<b>£(3.7)bn</b>	<b>£(5.1)bn</b>		
<b>Cash generated from retail operations<sup>(e)</sup></b>	<b>£2.3bn</b>	<b>£2.1bn</b>		

<sup>(a)</sup> Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis.

<sup>(b)</sup> Excludes exceptional items by virtue of their size and nature in order to reflect management's view of the performance of the Group.

<sup>(c)</sup> 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.

<sup>(d)</sup> Capex is shown excluding property buybacks.

<sup>(e)</sup> 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.

<sup>(f)</sup> 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 of the Annual Report and Financial Statements 2017. A detailed analysis of discontinued operations can be found in Note 7 to the Annual Report and Financial Statements 2017.

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.

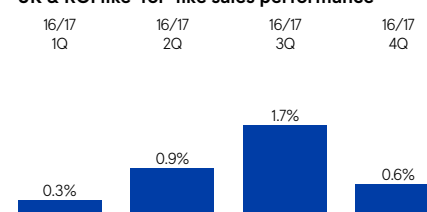


## Segmental results

### 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				
<b>Sales (exc. VAT, exc. fuel)</b>	<b>£37,692m</b>	<b>£37,189m</b>	0.6%	1.4%
Like-for-like sales (exc. VAT, exc. fuel)	0.9%	(0.7)%		
<b>Statutory revenue (exc. VAT, inc. fuel)</b>	<b>£43,524m</b>	<b>£43,080m</b>		
Statutory revenue includes: fuel	£5,832m	£5,891m		
<b>Operating profit before exceptional items</b>	<b>£803m</b>	<b>£503m</b>	57.7%	59.6%
Operating profit margin before exceptional items	1.84%	1.17%	67bp	68bp
<b>Operating profit</b>	<b>£519m</b>	<b>£597m</b>		

#### UK & ROI like-for-like sales performance<sup>(a)</sup>



<sup>(a)</sup> 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.

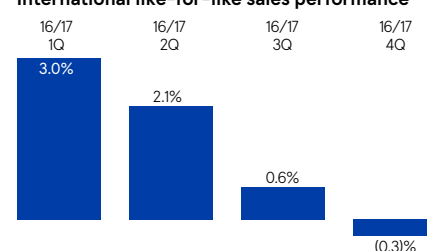
In the Republic of Ireland, like-for-like sales fell by (0.1)% as we continued to invest in lowering prices. We have a leading position in the market in volume terms and have further grown volume share by making improvements across our customer offer, with a focus on fresh produce, meat and bakery.

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				
<b>Sales (exc. VAT, exc. fuel)</b>	<b>£11,163m</b>	<b>£9,715m</b>	2.1%	15.2%
Like-for-like sales (exc. VAT, exc. fuel)	1.3%	2.0%		
<b>Statutory revenue (exc. VAT, inc. fuel)</b>	<b>£11,381m</b>	<b>£9,898m</b>		
Statutory revenue includes: fuel	£218m	£183m		
<b>Operating profit before exceptional items</b>	<b>£320m</b>	<b>£320m</b>	(12.5)%	0.0%
Operating profit margin before exceptional items	2.81%	3.23%	(46)bp	(42)bp
<b>Operating profit</b>	<b>£421m</b>	<b>£314m</b>		

#### International like-for-like sales performance<sup>(a)</sup>



<sup>(a)</sup> 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<sup>(a)</sup>. 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.

<sup>(a)</sup> 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
<b>Revenue</b>	<b>£1,012m</b>	<b>£955m</b>	<b>6.0%</b>
<b>Operating profit before exceptional items</b>	<b>£157m</b>	<b>£162m</b>	<b>(3.1)%</b>
<b>Operating profit</b>	<b>£77m</b>	<b>£161m</b>	<b>(52.2)%</b>
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
<b>Total exceptional items in operating profit</b>	<b>£(263)m</b>	<b>£87m</b>

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	–
<b>Finance income</b>	<b>£109m</b>	<b>£29m</b>
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
<b>Finance costs</b>	<b>£(630)m</b>	<b>£(658)m</b>
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
<b>Total indebtedness</b>	<b>£(16,673)m</b>	<b>£(15,536)m</b>	<b>£(1,137)m</b>

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
<b>Cash flow from continuing operations excluding working capital</b>	<b>£1,695m</b>	<b>£2,033m</b>
(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
<b>Cash generated from operations</b>	<b>£2,278m</b>	<b>£2,581m</b>
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
<b>Free cash flow</b>	<b>£368m</b>	<b>£1,280m</b>
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
<b>Net increase in cash and cash equivalents</b>	<b>£646m</b>	<b>£969m</b>
Include/(exclude) cash movements in debt items	£1,114m	£4,219m
Fair value and other non-cash movements	£(379)m	£(1,817)m
<b>Movement in net debt</b>	<b>£1,381m</b>	<b>£3,371m</b>

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
<b>Group</b>	<b>£1,180m</b>	<b>£970m</b>

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
<b>Property<sup>(a)</sup> – fully owned</b>						
Estimated market value	£13.1bn	£6.7bn	<b>£19.9bn</b>	£13.3bn	£6.4bn	<b>£19.7bn</b>
Net book value <sup>(b)</sup>	£12.6bn	£5.1bn	<b>£17.8bn</b>	£12.6bn	£5.0bn	<b>£17.6bn</b>
% net selling space owned	52%	74%	<b>63%</b>	52%	71%	<b>61%</b>
% total property owned – by value <sup>(c)</sup>	50%	78%	<b>57%</b>	47%	75%	<b>54%</b>

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

<sup>(b)</sup> Property, plant and equipment excluding vehicles.

<sup>(c)</sup> 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.

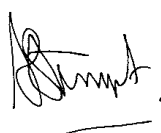
In April 2017, we regained ownership of a further seven large stores in the UK with a freehold valuation of £219m in a transaction with British Land. Including the effect of this transaction, we have now increased our proportion of freehold ownership by value in the UK & ROI to 51%, up by 10% over two 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

# 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 of the Annual Report and Financial Statements 2017.



Visit [www.tescopl.com/society](http://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](http://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](http://www.tescopl.com/modernslavery) for our Modern Slavery Statement and [www.tescopl.com/humanrights](http://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](http://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.

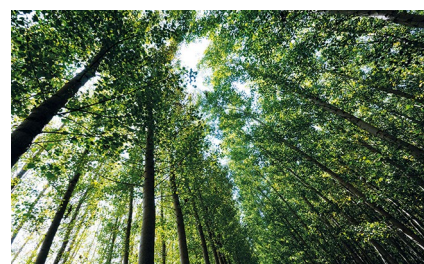


Visit [www.tescopl.com/environment](http://www.tescopl.com/environment) for further information on our strategy.



### 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.



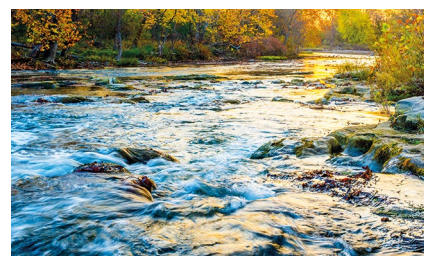
### Marine

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 CO<sub>2</sub>e.

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 <sub>2</sub> e		
	2016/17	2015/16	Base year 2006/07
Scope 1	1,236,980*	1,301,746	1,345,507
Scope 2 <sup>(a)</sup>			
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 <sub>2</sub> 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 <sub>2</sub> 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 <sub>2</sub> 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](http://www.tescopl.com/carbonfigures).

<sup>(a)</sup> 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](http://www.tescopl.com/carbonfigures).

### Tackling food waste from farm to fork

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

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%<sup>o</sup>.

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

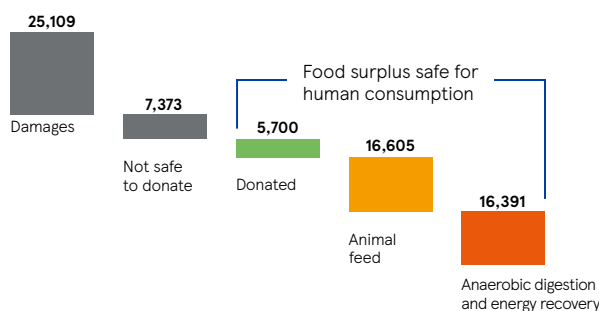
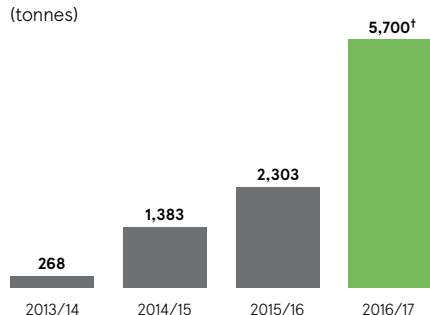
Total food sales

9,957,374 tonnes

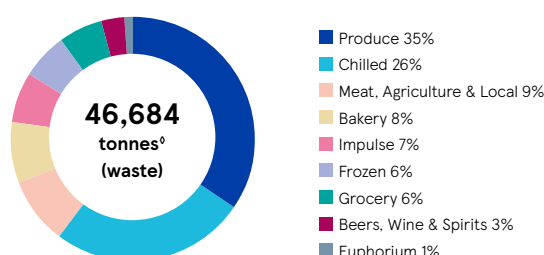
Total food surplus

71,178 tonnes

Approximately to scale

2016/17 food surplus: progress against our target  
(tonnes)Surplus donations since 2013/14  
(tonnes)

<sup>†</sup> 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)<sup>(c)</sup>Food waste recalculation<sup>(b)</sup>(surplus minus donations and animal feed)<sup>(c)</sup>

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 <sup>(c)</sup>	18,794	26
Anaerobic digestion <sup>(c)</sup>	38,653	54
Energy recovery <sup>(c)</sup>	8,031	11
Landfill	–	0

\* % do not total 100% due to rounding.

<sup>◊</sup> 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 ◊ and the full assurance opinion is available at: [www.tescopl.com/foodwastefigures](http://www.tescopl.com/foodwastefigures).

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

<sup>(b)</sup> Due to our change in definition, we have restated previous years' waste figures. See [www.tescopl.com/foodwastefigures](http://www.tescopl.com/foodwastefigures) for further details.

<sup>(c)</sup> 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](http://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.

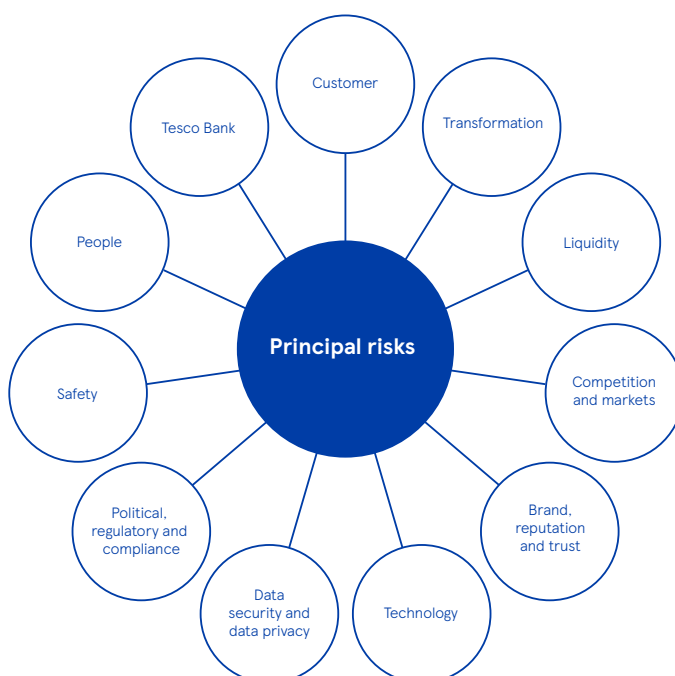
Our risk management process is cascaded down the Group. The content of the Group Risk Register is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee and the Board. Our process for identifying and managing risk is set out in more detail on 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 28 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.



## Key to risk movement

 Risk increasing
  No risk movement
  Risk decreasing

Principal risk	Risk movement	Key controls and mitigating factors
<b>Customer</b> 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. 1 2 3 4 6		Customer insight management is undertaken Group-wide to understand customer behaviours, expectations and experience. 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. 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. We have well established product development and quality management processes, which keep the needs of our customers central to our decision making. Ongoing monitoring allows us to react quickly and appropriately.
<b>Transformation</b> 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. 2 3 4 6		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. Transformation programmes are supported by experienced resource from within the business and externally as required reporting directly to the Executive Committee.
<b>Liquidity</b> 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. 2 3 4 5		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. We are managing corporate debt through the implementation of a strategy to reduce our debt level. Updates on the funding strategy are regularly provided to the Pension Trustees, with whom there is regular communication and engagement. 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. The Audit Committee reviews and approves annually the going concern and viability statements and reports into the Board.
<b>Competition and markets</b> 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. 1 2 6		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. 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.
<b>Brand, reputation and trust</b> 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. 1		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. 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. 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. There is a Board-level Corporate Responsibility Committee in place to oversee all corporate responsibility activities and initiatives.
<b>Technology</b> 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. Failure to build in resilience capabilities at the time of investing in and implementing new technology. 1 6		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. Closer alignment of business continuity and technology disaster recovery via the planned establishment of a business continuity forum.

## Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
<p><b>Data security and data privacy</b></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 28 addressing the Tesco Bank incident of November 2016.</p>
<p><b>Political, regulatory and compliance</b></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. 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>
<p><b>Safety</b></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><b>People</b></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><b>Tesco Bank</b></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"> <li>Brand, reputation and trust</li> <li>Competition and markets</li> <li>Customer</li> </ul>	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"> <li>Brand, reputation and trust</li> <li>Data security and data privacy</li> <li>Political, regulatory and compliance</li> </ul>	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"> <li>Competition and markets</li> <li>Political, regulatory and compliance</li> </ul>	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 of the Annual Report and Financial Statements 2017) 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

## 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

## 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 30.



**Alan Stewart**  
Chief Financial Officer

Alan joined the Board and the Executive Committee on 23 September 2014. His full biography appears on page 31.



**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.



# Corporate governance summary

The full corporate governance report can be found in the Annual Report and Financial Statements 2017.

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.

## 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 the Annual Report and Financial Statements 2017.

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

### Governance framework

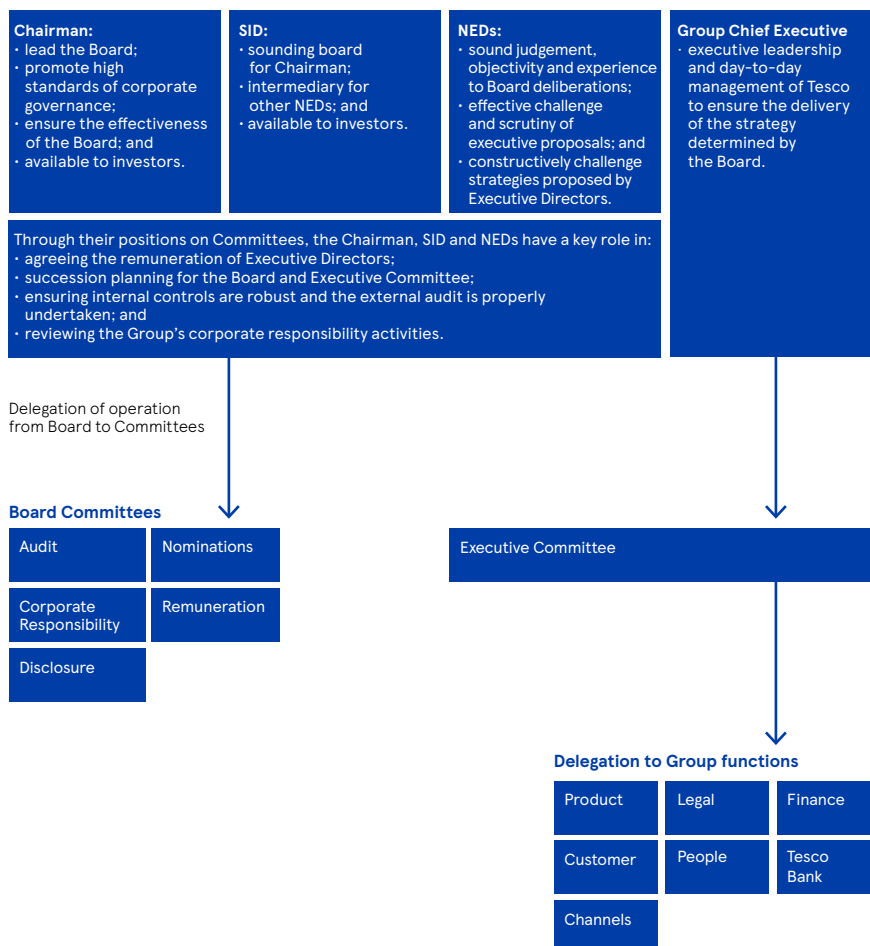
The Board and Executive Committee operate within a wider governance framework at Tesco. This ensures that decisions are taken at the right level of the business by the colleagues best placed to take them. Our framework provides clear direction on decision-making without creating burdensome processes 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](http://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.





## Remuneration summary

The full Directors' remuneration report can be found in the Annual Report and Financial Statements 2017.

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.

### 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.

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

### 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.

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

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

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

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.

### 2016/17 pay

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

#### Single total figure of remuneration – Executive Directors

	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

### Single total figure of remuneration – Non-executive Directors

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
<b>Former Director</b>							
Richard Cousins	2016/17	107	–	–	–	–	107
	2015/16	115	–	–	–	–	115

<sup>(a)</sup> 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.

<sup>(b)</sup> 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.

<sup>(c)</sup> 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.

### 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.

### 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

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

We have examined:

- the summary financial statements contained within the Strategic report for the 52 weeks ended 25 February 2017 which comprise the Summary Group income statement, Summary Group balance sheet, Summary Group cash flow statement, Reconciliation of net cash flow to movement in Net debt and Dividends note; and
- the table of the single total figure for Directors' remuneration contained within the Remuneration summary.

This report is made solely to the Company's members, as a body, in accordance with the terms of our letter of engagement with the Company dated 8 September 2016. Our work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, for our audit report, or for the opinions we have formed.

### Respective responsibilities of directors and auditor

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

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

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

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

### Opinion

In our opinion, the summary financial statements contained within the Strategic report are consistent with the full annual financial statements for the 52 weeks ended 25 February 2017 and the table of the single total figure for Directors' remuneration contained within the supplementary material accompanying the Strategic report is consistent with that table in the full Directors' Remuneration report.

We have not considered the effects of any events between the date on which we signed our report on the full annual financial statements (11 April 2017) and the date of this statement.

### Deloitte LLP

Chartered Accountants and Statutory Auditor  
London  
21 April 2017



# Summary financial statements

## Summary Group income statement

	52 weeks ended 25 February 2017			52 weeks ended 27 February 2016		
	Before exceptional items £m	Exceptional items* £m	Total £m	Before exceptional items £m	Exceptional items* £m	Total £m
<b>Continuing operations</b>						
<b>Revenue</b>	<b>55,917</b>	<b>–</b>	<b>55,917</b>	<b>53,933</b>	<b>–</b>	<b>53,933</b>
Cost of sales	(52,899)	(116)	(53,015)	(51,124)	35	(51,089)
<b>Gross profit/(loss)</b>	<b>3,018</b>	<b>(116)</b>	<b>2,902</b>	<b>2,809</b>	<b>35</b>	<b>2,844</b>
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
<b>Operating profit/(loss)</b>	<b>1,280</b>	<b>(263)</b>	<b>1,017</b>	<b>985</b>	<b>87</b>	<b>1,072</b>
Share of post-tax profits/(losses) of joint ventures and associates	(30)	(77)	(107)	(21)	–	(21)
Finance income	109	–	109	29	–	29
Finance costs	(630)	(244)	(874)	(658)	(220)	(878)
<b>Profit/(loss) before tax</b>	<b>729</b>	<b>(584)</b>	<b>145</b>	<b>335</b>	<b>(133)</b>	<b>202</b>
Taxation	(185)	98	(87)	(8)	62	54
<b>Profit/(loss) for the year from continuing operations</b>	<b>544</b>	<b>(486)</b>	<b>58</b>	<b>327</b>	<b>(71)</b>	<b>256</b>
<b>Discontinued operations</b>						
Profit/(loss) for the year from discontinued operations	(37)	(75)	(112)	26	(153)	(127)
<b>Profit/(loss) for the year</b>	<b>507</b>	<b>(561)</b>	<b>(54)</b>	<b>353</b>	<b>(224)</b>	<b>129</b>
<b>Attributable to:</b>						
Owners of the parent	515	(555)	(40)	359	(221)	138
Non-controlling interests	(8)	(6)	(14)	(6)	(3)	(9)
	<b>507</b>	<b>(561)</b>	<b>(54)</b>	<b>353</b>	<b>(224)</b>	<b>129</b>
<b>Earnings/(losses) per share from continuing and discontinued operations</b>						
Basic	6.32p		(0.49)p	4.42p		1.70p
Diluted	6.31p		(0.49)p	4.40p		1.69p
<b>Earnings/(losses) per share from continuing operations</b>						
Basic	6.76p		0.81p	4.06p		3.24p
Diluted	6.75p		0.81p	4.05p		3.22p

\* For further information refer to Note 4 on page 106 of the Annual Report and Financial Statements 2017.

## Summary financial statements continued

### Summary Group balance sheet

	25 February 2017 £m	27 February 2016 £m
<b>Non-current assets</b>	<b>30,436</b>	<b>29,220</b>
Current assets (including assets of the disposal group and non-current assets classified as held for sale)	15,417	14,684
Current liabilities (including liabilities of the disposal group classified as held for sale)	(19,405)	(17,866)
<b>Net current liabilities</b>	<b>(3,988)</b>	<b>(3,182)</b>
<b>Total assets less current liabilities</b>	<b>26,448</b>	<b>26,038</b>
Non-current liabilities	(20,034)	(17,422)
<b>Net assets</b>	<b>6,414</b>	<b>8,616</b>
Equity attributable to owners of the parent	6,438	8,626
Non-controlling interests	(24)	(10)
<b>Total equity</b>	<b>6,414</b>	<b>8,616</b>

### Summary Group cash flow statement

	52 weeks 2017 £m	52 weeks 2016 £m
<b>Cash flows generated from/(used in) operating activities</b>		
Cash generated from/(used in) operations	2,558	2,434
Interest received/(paid)	(522)	(426)
Corporation tax received/(paid)	(47)	118
<b>Net cash generated from/(used in) operating activities</b>	<b>1,989</b>	<b>2,126</b>
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)
Other investing activities	1,653	423
<b>Net cash generated from/(used in) investing activities</b>	<b>279</b>	<b>(615)</b>
<b>Net cash generated from/(used in) financing activities</b>	<b>(1,387)</b>	<b>(604)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>881</b>	<b>907</b>
Cash and cash equivalents at beginning of the year	3,082	2,174
Effect of foreign exchange rate changes	(131)	1
<b>Cash and cash equivalents including cash held in disposal group at the end of the year</b>	<b>3,832</b>	<b>3,082</b>
Cash held in disposal group	(11)	-
<b>Cash and cash equivalents at the end of the year</b>	<b>3,821</b>	<b>3,082</b>

### 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	1,114	4,219
<b>Change in Net debt resulting from cash flow</b>	<b>1,760</b>	<b>5,188</b>
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)
<b>(Increase)/decrease in Net debt for the year</b>	<b>1,381</b>	<b>3,371</b>
<b>Opening Net debt</b>	<b>(5,110)</b>	<b>(8,481)</b>
<b>Closing Net debt</b>	<b>(3,729)</b>	<b>(5,110)</b>

### Dividends

No dividend has been paid or is proposed in respect of the financial year ended 25 February 2017 (2016: £nil).

# 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.

## Glossary

### Alternative performance measures

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). For further detail see pages 170 to 172 of the Annual Report and Financial Statements 2017.

#### Group sales

Group sales, previously termed Revenue exc. fuel, excludes the impact of sales made at petrol filling stations.

#### Growth in sales

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

#### Like-for-like

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

#### Operating profit before exceptional items

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

#### Operating margin

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

#### Profit before tax before exceptional items and net pension finance costs

This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit.

#### Profits/(losses) arising on property-related items

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

#### Total finance costs before exceptional items and net pension finance costs

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.

#### Diluted earnings per share from continuing operations before exceptional items

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 income 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.

#### 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. It excludes the impact of certain costs or income that fall within the normal activities of the Group but which are excluded by virtue of their size and nature, and net pension finance costs.

#### Effective tax rate before exceptional items

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

#### Effective tax rate before exceptional items and net pension finance costs

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.

#### Net debt

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

#### Total indebtedness

Total indebtedness is 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.

#### Retail operating cash flow

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

#### Free cash flow

Free cash flow is net cash generated from/(used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

### 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 groups 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 closing share price at year-end.

#### MTN

MTN refers to Medium Term Note.

#### Net Promoter Score (NPS)

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

#### Return on capital employed (ROCE)

Return divided by the average of opening and closing capital employed.

#### Return

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

#### RPI

RPI refers to Retail Price Index.

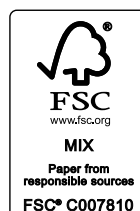
#### Total shareholder return

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





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