

**Strategic Report  
2016**



Serving  
shoppers a  
little better  
every day



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The Strategic Report 2016 is a part of the Tesco PLC Annual Report and Financial Statements 2016 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 2016. The full Annual Report and Financial Statements 2016 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 27 February 2016 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.



## Watch our videos

We have produced a number of short videos that are available at [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016) and are featured within our report this year, as indicated by the video screen icon

# Tesco at a glance

As one of the world's largest retailers with 476,000 colleagues, we serve millions of customers every week in our stores and online.

**£48.4bn<sup>1</sup>**

Group sales  
(exc. VAT, exc. fuel)  
(14/15: £49.9bn)

**£944m<sup>1</sup>**

Group operating profit  
before exceptional  
items (14/15: £940m)

**£1,046m<sup>1</sup>**

Statutory operating  
profit/(loss)  
(14/15: £(5,750)m)

**4.97p<sup>1</sup>**

Diluted earnings per share before  
exceptional items and net pension  
finance costs (14/15: 5.46p)

**£(5.1)bn<sup>2</sup>**

Net debt  
(14/15: £(8.5)bn)

**476,000<sup>1</sup>**

Colleagues  
at year-end  
(14/15: 492,000)

**6,902<sup>1,3</sup>**

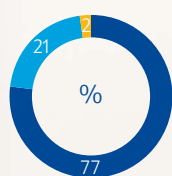
Shops around  
the world  
(14/15: 6,849)

**78m<sup>1</sup>**

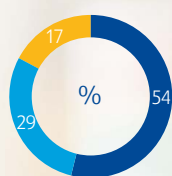
Shopping  
trips per week  
(14/15: 77m)

**18m**

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



Group sales  
(exc. VAT, exc. fuel)



Group operating profit  
before exceptional items

● UK & ROI  
● International  
● Tesco Bank

<sup>1</sup> Reported on a continuing operations basis.

<sup>2</sup> Excludes the net debt of Tesco Bank.

<sup>3</sup> Includes franchise stores.



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016)  
to see a short highlights video  
of 2015/16



## Introduction

# Serving shoppers a little better every day

Last year we made a simple commitment. We set out to get back to what Tesco has always done best: being the champion for customers; putting customers first; and taking small actions to make big differences.

Since then, we have begun to transform our business – from how we are organised to the way we work with our suppliers and ultimately the way that we serve our customers.

One of the most important changes we have made over the past year is to set out a new purpose for Tesco: ‘Serving shoppers a little better every day.’ This purpose guides all our decisions and shapes every action we take.

Alongside our purpose, we have recommitted to three values:

- **No one tries harder for customers**
- **We treat people how they want to be treated**
- **Every little help makes a big difference**

Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than the last – from the quality of the offer to the thoughtfulness of the service. With the skills, expertise and dedication of our 476,000 colleagues worldwide, we are well placed to achieve this. By delivering our purpose, and staying true to our values, we can continue to build on the progress we have made this year.

This has been a year of real change at Tesco. Our ambition now is to go further and do even more to reduce and simplify prices, improve ranges, continue to innovate and deliver excellent customer service.



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016) to see how we built a temporary store in Carlisle

## Chairman's statement

# Strong foundations

**John Allan**  
Non-executive  
Chairman



It has been a very challenging year for Tesco, but I remain extremely positive and confident about the future of this great business. Tesco is an iconic brand, a national institution and an enormous employer, so I'm conscious of the huge responsibilities, not just to our customers, colleagues and shareholders, but to all our other stakeholders, including our supplier partners.

During the past year, there has been a renewed focus on corporate governance and the Board has spent a significant proportion of its time examining and strengthening our processes throughout the Group. Having a solid governance framework is key to rebuilding trust and transparency.

Across the business, we have continued with our wide-ranging corporate renewal plans and I'm pleased to say that these are very much on track. Through making some difficult decisions and putting the customer at the heart of all we do, we are rebuilding the business. It was a difficult decision to sell our Homeplus business in Korea, but it was an important step in repositioning the finances of the Group by generating £3.3bn of funds. The sale enabled us to take a significant step forward on our priority of strengthening the balance sheet. In addition, replacing the UK defined benefit pension scheme with a defined contribution scheme means we have a plan that is both competitive and sustainable for our colleagues over the long-term.

Further information on the work that has taken place during the year can be found in our corporate governance summary on page 28.

The Board and I feel we have the right balance of skills, experience and backgrounds to support and challenge the management team. The recent appointments of Alison Platt, Simon Patterson and Lindsey Pownall as additional independent Non-executive Directors have further strengthened the Board. Between them, they bring a wealth of customer service, IT and supplier relationships experience and

we look forward to working with them to take the Company forward.

On behalf of the Board, I would like to thank Dave Lewis and his senior management team for their continued hard work and dedication. Strong foundations have been laid since we began our turnaround and I believe that we have focused on the right priorities as we continue to rebuild and strengthen the business.

A highlight of my year has been getting out into the business and meeting so many of our colleagues, both in the UK and overseas, and seeing the passion and enthusiasm they have for Tesco. During a recent visit to South East Asia, I was delighted to see the recognition Tesco is receiving as a very attractive employer. I want it to be recognised how hard our colleagues have worked during the past year and thank them for their commitment through difficult times.

It is important that we get Tesco back to investment grade and paying dividends. We are a business of scale and complexity and have the resources to do a lot. But it will be our relentless focus on meeting customers' needs that will help us to achieve our goals for the long-term success of the Company for the benefit of all our stakeholders.

**John Allan**  
Non-executive Chairman



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016) to hear more from John Allan on his first full year at Tesco



## CEO's statement

# A year of significant progress

**Dave Lewis**  
Group Chief  
Executive



This has been a significant year for Tesco. We have delivered unprecedented change over the past 12 months as we have begun to transform our business.

We have taken decisive, immediate action on the challenges we faced. In a very deliberate way we have made the changes needed to re-energise the operation. We have guided our efforts with the three priorities we set out in October 2014:

1. to regain competitiveness in the core UK business;
2. to protect and strengthen the balance sheet; and
3. to rebuild trust and transparency.

As a result, we have stabilised the business and we are on track with where we expected to be. Of course there is still more to do – but we are on the road to recovery and momentum is building across the business.

Our business has always been at its best when we've made customers our absolute priority. Over the past year, we have restored our total commitment to giving the best possible service to our customers. This is reflected in the new purpose we have set out for the business: serving shoppers a little better every day. This is guiding every action we are taking and has been instrumental in making the UK business competitive again.

As well as investing in lower, more stable pricing and improved service and availability, we have reviewed and simplified every one of our food ranges and added thousands of extra colleague hours on the shop floor to improve customer service. On-shelf availability has reached record levels, ensuring customers can get what they want, when they want it.

In October 2015, we became the first – and still only – retailer in the UK to offer customers an immediate price match at the till with Brand Guarantee, so they never pay more for their branded shop if it's cheaper at Asda, Morrisons or Sainsbury's when they buy 10 or more different products.

And just two months ago, we launched a range of exclusive new fresh food brands, which are available only at Tesco and at great prices. These are allowing us to give our customers even more choice in great value, fresh food all under one roof.

International sales have also strengthened despite trading in challenging markets, driven by improvements across our offer. We have built up strong positive sales momentum throughout the year in both Europe and Asia. Our largest international business, in Thailand, performed particularly well, culminating in its highest-ever market share. Our transformation programme in Europe has accelerated growth and reduced operating expense.

Elsewhere in the Group, Tesco Bank continues to give customers a unique banking offer. And in Tesco Mobile, our joint venture with O<sub>2</sub>, we have a successful brand and a business recognised for delivering outstanding customer service.



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016)  
to hear more from Dave Lewis



By focusing on fixing the fundamentals of the shopping trip for customers, we have seen improving like-for-like trends in all our markets and positive like-for-like growth for the Group as a whole in the fourth quarter. Volumes and transactions are increasing across the Group as customers are buying more of what they need at Tesco. We are rebuilding profitability whilst continuing to invest in our offer for customers and have delivered Group operating profit<sup>1</sup> of £944m this year, in line with expectations.

The long-term health of our balance sheet will be determined by our continued ability to improve profitability and generate cash, and I am pleased to say that we generated £2.6bn of cash<sup>2</sup> this year – before taking into account the Korean sale proceeds – a significant improvement on last year. We have also taken some important decisions that – whilst difficult – have enabled us to move more quickly towards protecting and strengthening our balance sheet. These include the transition from a defined benefit pension scheme to a defined contribution scheme. We have also carefully negotiated the buy-back of 70 stores out of sale and leaseback structures, removing some of the burden of increased lease commitments and rental inflation.

Our progress towards rebuilding trust in our brand has been led by the commitment and passion demonstrated by our colleagues. Wherever I travel in our business, I see uplifting evidence of this. I am often humbled at the lengths so many colleagues go to in order to help others. Over the past year, I've spent a lot of time with colleagues in our stores and seen the commitment to serving our customers. Be it on the shop floor or behind the scenes, there are so many examples where colleagues are going the extra mile to serve shoppers a little better every day. Colleagues have faced unprecedented change, yet the resilience and empathy shown to customers and each other is unwavering.

The examples are limitless: from the tiny things that make customers smile to the thoughtful acts that make their day. One of my favourite examples of dedication to our customers is the colleague who spent hours navigating heavy snowfall to hand-deliver shopping to a 96-year-old unable to receive her usual online delivery or to leave her house for groceries.

And there are the community and charity projects we can really be proud of too. We've made a new commitment to ensure all surplus food from Tesco stores in the UK goes to charity and not waste by 2017. Our work with Community Food Connection continues to redistribute surplus food from our stores to local charities to help feed those most in need and we have extended it to over 100 large stores, with plans to roll out to all large stores by the end of 2016.

Our charity partnership with Diabetes UK and the British Heart Foundation is the first of its kind and on its way to raising our target of £30m to promote healthy living. And customers have chosen specific community projects to receive £11.5m raised from the sale of Tesco bags in the UK since October 2015, donated through Bags of Help – one of the biggest environmental improvement drives the UK has ever seen.

As this report describes, we have made significant progress from where we were a year ago. The actions we've taken to reaffirm our competitiveness in the UK, protect the balance sheet, and rebuild trust and transparency have stabilised our business.

As a team, we are committed to serving shoppers a little better every day, in what remains a challenging, deflationary and uncertain market. We are confident that the investments we are making are leading to sustainable improvements for customers whilst creating long-term value for our shareholders.

I am sure that it will be another busy year and I'm confident that with the customer at the heart of everything we do, we will continue to rebuild our fortunes as a business.

*Dave*

**Dave Lewis**  
Group Chief Executive

<sup>1</sup> Group operating profit is shown before exceptional items.  
<sup>2</sup> Cash generated from retail operations.





## Turnaround priorities

# Regaining competitiveness

Over the course of this year, we have worked hard to regain our competitiveness – particularly in the UK. To do this, we first listened to our customers and understood what it was that they needed from their shopping trip.

They highlighted three main themes:

- they wanted their shopping trip to be easier;
- they wanted better availability on the products that matter most, every day; and
- they wanted lower, more stable prices they can trust all of the time.

Over the past year, we have responded. We simplified our store structures, investing in 9,000 more customer-facing roles in store. We have reviewed the range of products we sell in every one of our 33

food categories, reducing the total number of product lines by 18%. As well as making the range easier for customers to shop, this has helped us to increase on-shelf availability to record levels by providing more space for the products which are purchased most frequently.

These changes have been delivered by working closely with our supplier partners. Together, we have moved to a more efficient and sustainable way of working, helping us to further reduce prices for customers. In total, in the year we have brought down the cost of an average weekly shop by over 3%. In addition, by removing inefficiencies in the supply chain, we have been able to provide up to two days' more freshness in our fruit and vegetables.

As well as lower, more stable prices, customers want complete peace of mind that they won't lose out at Tesco – even if the products they wish to buy are available on promotion elsewhere. They also prefer simple, immediate value rather than vouchers. In October, we launched our unique Brand Guarantee, reassuring customers that if their branded shop could be found more cheaply elsewhere, we would take the money immediately off their bill.

The progress we have made is being recognised. We measure customer satisfaction through our Customer Viewpoint Survey – a weekly measure that captures direct customer feedback in every store. In total, we have seen an improvement of 5% in the proportion of customers rating overall service and colleague helpfulness as excellent, and every individual measure below this has also improved.

The clearest sign that we are more competitive again is that more customers are buying more things at Tesco. We have seen sales volumes and weekly transactions improve throughout the year, generating annual positive volume growth for the first time in five years. Volumes were up 3.3% and transactions were up 2.8% in the fourth quarter.

We are encouraged by our progress but we know that there is a lot more we can do and that we can continue to become even more competitive by putting the customer at the heart of every decision we make.

### Brand Guarantee

If a customer's branded grocery shop is cheaper at Asda, Morrisons or Sainsbury's, when they buy 10 or more different products, we instantly take the money off the bill at the till. We even compare branded promotions, so customers can check out with confidence there and then. No vouchers, no waiting, no wondering if there's a better deal elsewhere. We've introduced this because it's the right thing for customers – and we're very proud of it.

For more information visit  
[www.tesco.com/brandguarantee](http://www.tesco.com/brandguarantee)





# Protecting the balance sheet

We have made significant progress towards our aim of protecting and strengthening the balance sheet this year, reducing our total indebtedness by £6.2bn. A strong balance sheet gives us more flexibility to invest in improving the shopping trip for customers.

We have taken a number of actions to strengthen our position:

- repositioned the finances of the Group through the sale of our Homeplus business in Korea, which itself reduced total indebtedness by £4.1bn;
- provided sustainable benefits for colleagues and a greater certainty on future cash requirements by replacing the UK defined benefit pension scheme with a defined contribution scheme;
- improved the potential for medium-term returns by consolidating the Central European businesses;
- taken a much more disciplined approach to capital investment and delivered, as planned, a significant reduction in total expenditure;

- adopted a new approach to cash payments to suppliers as part of our efforts to build trusted and transparent relationships; and
- increased our ownership of freehold property, reducing exposure to index-linked and fixed-uplift leases.

We have begun to make a big cultural shift in the way colleagues think about the finances of the business, with a much improved understanding of the importance of cash. All colleagues are asked to think about the impact they can have on improving the cash flow in the business, whether that be through reducing slow-moving stock in our warehouses or making our shop floor operations more efficient.

Our firm focus on generating cash from our trading activities and maintaining discipline in our capital expenditure will be key to making further progress in protecting and strengthening the balance sheet going forward.

## Property ownership

Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift inflation.

In March 2015, we completed an asset swap with British Land, regaining sole ownership of 21 superstores and in February 2016, we regained sole ownership of 49 large stores and two distribution centres from Phoenix Life Assurance and the British Airways Pension Fund.

These transactions increased our freehold ownership ratio in the UK & ROI by 6% to 47% and generated a saving in fixed-uplift and index-linked rent of £115m per annum at current rental levels.

We continue to evaluate opportunities to further reduce our exposure to indexed rent inflation.



## Turnaround priorities continued



# Rebuilding trust and transparency

Sadly, trust in our brand has been eroded in recent years. Trust should never be taken for granted and it will take time and perseverance to restore it fully.

We are working hard to rebuild that trust with our colleagues, customers, suppliers and other key stakeholders and want to build more open and transparent relationships.

We are giving customers lower, simpler and more stable prices to ensure they can trust Tesco to deliver the best shopping trip at the best price. And having listened to customer feedback, we are redirecting promotional spend into shelf-edge prices.

In addition, we have completely reorganised our relationships with suppliers. In October 2014, we drew a line under our past and started to reset the way we work. We refocused on new performance measures and retrained our teams.

We have fundamentally changed the way we operate and have implemented significant initiatives that improve the way we work with suppliers and our commercial culture, and simplify how we buy and sell.

We have completely changed our Product team structure, focusing on getting the offer right for customers and prioritising sales and total profit over margin rate.

We also became the first UK retailer to publish payment terms with suppliers.

The Supplier Network which we launched at the start of 2015 has now grown to more than 5,000 members, and we set up a special helpline for suppliers to solve any issues that may arise within 48 hours.

Our latest Supplier Viewpoint measure of how suppliers view their relationships with Tesco recognises the positive impact of all these changes. The results show a significant improvement year-on-year, increasing from 51% to 68% in the UK and from 58% to 70% for the Group as a whole.

We have also made a number of changes which aim to help shareholders and other stakeholders understand our performance. These include much greater alignment between the way we run the business internally and the way we report our results externally and a move to operating profit as our headline performance measure, adjusted only for any large and distorting impacts.

Tesco today is a very different business. We are proud of how our colleagues and suppliers have responded to the changes we have made. Our customers are noticing the differences too – they're enjoying better service and buying more of what they need at Tesco. And our journey will continue, guided by our commitment to serve shoppers a little better every day.

### Dairy farmers

The groundbreaking Tesco Sustainable Dairy Group, set up in 2007, continues to give farmers fair prices and deals for their milk.

In our commitment to dairy farmers, all Tesco own-label standard-tier yoghurt is now made with milk sourced from Britain with the exception of those with protected origins – including authentic Greek yoghurt and French fromage frais. This has seen us increase the amount of British milk in our standard-range yoghurts from two-thirds to 100% and has increased the demand for milk from farms across the whole country.

We have also extended our financial support for First Milk farmers who supply milk for our own-label cheese to help cover production costs throughout the winter and into the spring.



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016) to see more about our supplier relationships







## Business model

# Keeping it simple

**Our business is organised around the three pillars of Customers, Product and Channels. The way we work is now much simpler and clearer.**

**At Tesco, we focus on the little things to make a big difference. Customers are the priority. We place them at the centre of everything we do to deliver our purpose – serving shoppers a little better every day.**





## Customers

Tesco exists to serve customers – and our business model has customers at its core.

We listen to our customers and act on what is important to them to deliver the best shopping trip: price, service, range and availability.

## Reinvest

Our main focus is to improve Tesco for customers. We are committed to becoming more efficient and reinvesting some of the savings we make to improving the shopping trip.

The reason for this reinvestment is clear: the better a job we do for customers, the more we will improve sales; the more our sales improve, the more we can reinvest.

## Channels

To bring the best products to customers, we work through a range of channels – from small shops to large shops and through our growing online business.

As part of improving our offer, we are investing in making our channels even more efficient and convenient for our customers.

## Product

The offer we create for customers is developed by our Product team. Our ways of working in this team have been rewritten with an absolute focus on fair, transparent, mutually beneficial relationships with suppliers. The Product team work with our suppliers to source the best-possible range of quality products that meet and anticipate our customers' needs.



## KPIs

# The Big 6

We aim to serve shoppers a little better every day and have six simple, key business performance measures.

On every KPI, we have made good progress. As a team, we are doing a better job for our customers and improving our relationships with our suppliers, whilst creating long-term sustainable value for shareholders.

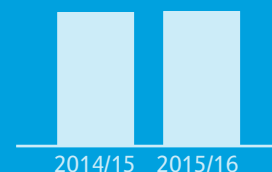
**£48.4bn**

**Group sales (exc. VAT, exc. fuel)<sup>1</sup>**

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.

Grow  
**sales**

**+0.1%**



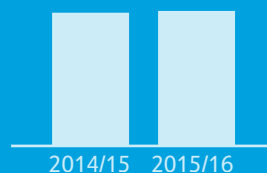
**£944m**

**Group operating profit before exceptional items<sup>1</sup>**

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

Deliver  
**profit**

**+1.1%**



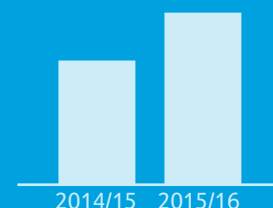
**£2,581m**

**Retail cash generated from operations<sup>2</sup>**

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.

Improve operating  
**cash flow**

**+39%**





**Customers**  
recommend us and come  
back time and again

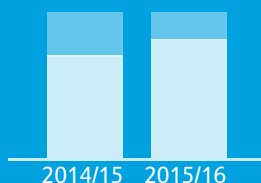
**+1.2%  
loyalty**

### Group customer loyalty<sup>3</sup>

By putting customers first and making them our main focus, more shoppers are choosing to shop at Tesco. There is more progress to be made but the improvements are positive so far.

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

**+11%**



**81%**

**Great place to work<sup>4</sup>**

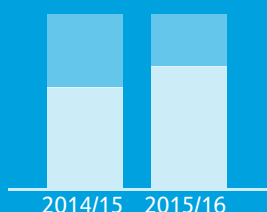
**41 NPS**

**Great place to shop<sup>5</sup>**

It's been a year of substantial change for colleagues, but their commitment, passion and energy has remained focused on serving shoppers a little better every day.

We build trusted  
**partnerships**

**+12%**



**70%**

**Group supplier satisfaction<sup>6</sup>**

We have simplified our relationships with suppliers and seen a sharp improvement in supplier satisfaction since last year.

<sup>1</sup> Reported on a continuing operations basis. Growth is at a constant exchange rate, on a comparable 52-week basis.

<sup>2</sup> Includes Korea to the point of disposal. Growth is at a constant exchange rate, on a comparable 52-week basis.

<sup>3</sup> We define loyal customers based on their frequency of shopping with us and average weekly spend.

<sup>4</sup> Based on our internal 'What Matters To You?' survey. Percentage increase relates to the 'Great place to work' measure.

<sup>5</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>6</sup> Based on the question "Overall, how satisfied are you with your experience of working with Tesco?" in our Supplier Viewpoint Survey.



# Financial review

**Alan Stewart**  
Chief  
Financial  
Officer



**“This has been a transformational year for Tesco, in which we have reset the business on a road of recovery.”**

## Group results 2015/16

52 weeks ended 27 February 2016			Year-on- year change <sup>1</sup> (Constant exchange rates)	Year-on- year change <sup>1</sup> (Actual) exchange rates)	Change vs 53-week 2014/15 statutory results
On a continuing operations basis	2015/16	2014/15			
<b>Group sales (exc. VAT, exc. fuel)</b>	<b>£48,352m</b>	<b>£49,853m</b>	<b>0.1%</b>	<b>(1.6)%</b>	<b>(3.0)%</b>
Fuel	£6,081m	£7,072m	(11.3)%	(10.9)%	(14.0)%
Revenue (exc. VAT, inc. fuel)	£54,433m	£56,925m	(1.3)%	(2.8)%	(4.4)%
<b>Group operating profit before exceptional items<sup>2</sup></b>	<b>£944m</b>	<b>£940m</b>	<b>1.1%</b>	<b>0.0%</b>	<b>0.4%</b>
– UK & ROI <sup>3</sup>	£505m	£498m	1.4%	0.6%	1.4%
– International	£277m	£254m	11.4%	9.1%	9.1%
– Tesco Bank	£162m	£188m	(13.8)%	(13.8)%	(13.8)%
Include exceptional items	£102m	£(6,690)m			
Group statutory operating profit/(loss)	£1,046m	£(5,750)m	n/m	n/m	n/m
Group profit before tax before exceptional items and net pension finance costs	£435m	£490m		(11.9)%	(11.2)%
Group statutory profit/(loss) before tax	£162m	£(6,334)m		n/m	n/m
Diluted EPS before exceptional items	3.41p	4.14p			(17.6)%
Diluted EPS before exceptional items and net pension finance costs	4.97p	5.46p			(9.1)%
Diluted EPS	2.76p	(69.56)p			n/m
<b>Capex</b>	<b>£1.0bn</b>	<b>£1.8bn</b>			down 45.4%
<b>Net debt<sup>4,5</sup></b>	<b>£(5.1)bn</b>	<b>£(8.5)bn</b>			down 39.7%
<b>Cash generated from retail operations<sup>4</sup></b>	<b>£2.6bn</b>	<b>£1.9bn</b>			up 38.8%

<sup>1</sup> Change is shown on a comparable 52-week basis.

<sup>2</sup> Exceptional items are excluded by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

<sup>3</sup> The elimination of intercompany transactions between continuing operations and the Korea discontinued operation, as required by IFRS 5 and IFRS 10, has resulted in a reduction to the prior period UK & ROI operating profit of £(9)m.

<sup>4</sup> Includes both continuing and discontinued operations.

<sup>5</sup> Net debt excludes the net debt of Tesco Bank.

This has been a transformational year for Tesco, in which we have reset the business on a road of recovery. We delivered sales excluding VAT, excluding fuel, of £48.4bn in the year, 0.1% above last year on a 52-week basis at constant exchange rates and saw improving like-for-like sales trends in all areas of the Group. This year we moved to a simpler profit measure

based on operating profit before exceptional items and, on that basis, profits were £944m as we started to rebuild profit momentum whilst continuing to invest in the customer offer. Our statutory profit before tax was £162m. We generated £2.6bn cash from retail operations, a 39% increase year-on-year and reduced our total indebtedness by £6.2bn to £(15.5)bn.



## Segmental results

### UK & ROI

	This year	52 week change at constant exchange rates	52 week change at actual exchange rates
Sales (exc. VAT, exc. fuel)	£37,189m	(0.5)%	(0.9)%
Like-for-like sales (exc. VAT, exc. fuel)	(0.7)%		
Revenue (exc. VAT, inc. fuel)	£43,080m		
Revenue includes: fuel	£5,891m		
Operating profit before exceptional items	£505m	1.4%	0.6%
Operating profit margin before exceptional items	1.17%	4bp	4bp

In the UK and the Republic of Ireland, there was a marked improvement in like-for-like sales performance from (1.3)% in the first half to (0.1)% in the second half.

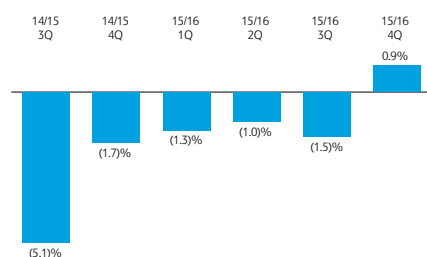
In the UK, customers are responding well to changes we have made in all aspects of our offer and we have seen an improving

trend through the year in both customer numbers and volume growth. Full-year UK sales declined by (0.4)% on a 52-week basis, reflecting both an improving trajectory in our like-for-like sales performance and a declining contribution from net new store space, due to store closures.

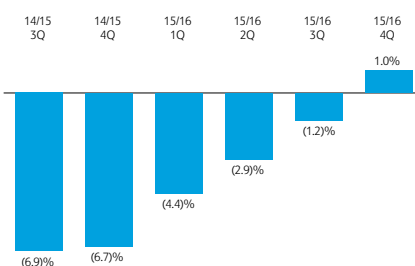
UK like-for-like sales, excluding VAT and excluding fuel, fell by (0.6)% in the year but improved over the course of the year, rising by 0.9% in the fourth quarter driven by a strong performance across all our store formats and product categories. High levels of deflation persisted due to our own price investments in addition to commodity price decreases.

In the Republic of Ireland, we made a significant investment to ensure our customers receive the most competitive offer possible. Like-for-like sales performance turned positive in the fourth quarter for the first time since 2012.

UK like-for-like sales performance<sup>1</sup>



ROI like-for-like sales performance<sup>1</sup>



<sup>1</sup> Exc. Vat, exc. fuel.

Our full-year UK & ROI operating profit before exceptional items was £505m, with margin growth of 81 basis points between the first and the second half. This improvement marks the next stage of our journey to rebuild profitability from the losses we made in the second half of 2014/15. We have made permanent reductions to our cost base, transformed the way we work with suppliers, started to generate leverage through increasing sales volumes and begun to improve productivity throughout our operations.

### International

	This year	52 week change at constant exchange rates	52 week change at actual exchange rates
Sales (exc. VAT, exc. fuel)	£10,208m	1.8%	(4.3)%
Like-for-like sales (exc. VAT, exc. fuel)	2.3%		
Revenue (exc. VAT, inc. fuel)	£10,398m		
Revenue includes: fuel	£190m		
Operating profit before exceptional items	£277m	11.4%	9.1%
Operating profit margin before exceptional items	2.66%	23bp	34bp

International sales grew by 1.8% at constant exchange rates. We achieved positive like-for-like sales growth in both Asia and Europe in the second half, driven by improvements across our offer with a particular emphasis on price and fresh foods. We delivered market share gains in five of our seven international markets.

In Central Europe, the restructure of the management team for Czech Republic, Hungary, Poland and Slovakia is complete and moves us from operating as four individual country teams to one single regional team. We are in the process of moving to an operating model which will create substantial buying and operational

synergies and help us to fund further improvements in the customer offer.

International profits increased by 11.4% at constant exchange rates to £277m, with margin growth of 138 basis points between the first and the second half. The 'food supervision fee' which had been proposed in Hungary was not introduced and therefore has no impact on these results. We continue to be cautious about potential legislative changes in our European markets. Following investments in the offer in both Asia and Europe, we have seen improving like-for-like sales growth and we are beginning to generate positive operational gearing.



# Financial review continued

## Segmental results continued

### Tesco Bank

	This year	Year-on-year change
<b>Revenue</b>	<b>£955m</b>	<b>0.8%</b>
<b>Operating profit before exceptional items</b>	<b>£162m</b>	<b>(13.8)%</b>
Lending to customers	£8,542m	10.6%
Customer deposits	£7,397m	7.0%
Net interest margin	4.2%	0.0%
Risk asset ratio	20.0%	1.2%

Tesco Bank continues to offer customers a differentiated banking and insurance offer, with 7.6 million accounts at the year-end. Active customer account numbers have grown by 1.0%, supported by a strengthened customer proposition including higher value personal loan

products, 95% loan-to-value mortgages and the removal of monthly current account fees. Customer lending increased by 10.6% to £8.5bn, with strong growth in mortgage balances. Operating profit before exceptional items reduced by (13.8)% to £162m. This decline was

primarily due to the introduction of European Commission caps on interchange income from December 2015, following the initial reduction driven by MasterCard's agreement with the Competition and Markets Authority last April. The full-year effect of this change will be felt in the 2016/17 financial year.

Risk-weighted assets have risen in line with lending and the Core Tier 1 ratio has improved to 16.6%. 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

	This year	Last year
Net impairment of property, plant and equipment, onerous lease provisions, intangible assets and investments in joint ventures and associates	£(408)m	£(5,389)m
Net restructuring and redundancy	£(126)m	£(406)m
Property transactions	£156m	–
Past service credit and associated costs arising on UK defined benefit pension scheme closure	£480m	–
Stock-related	–	£(500)m
Reversal of commercial income recognised in prior years:		
– Recognised in 13/14	–	£(53)m
– Recognised in years prior to 13/14	–	£(155)m
Other	–	£(187)m
<b>Total exceptional items in operating profit</b>	<b>£102m</b>	<b>£(6,690)m</b>

Exceptional items are excluded from our headline performance measures by virtue of their size and nature, in order to better reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £102m, with a mix of both charges and credits:

- An information technology impairment and asset write-off of £(275)m, as we move towards a single online platform for customers and a net non-cash property impairment and onerous lease provision of £(133)m, including write-downs of construction-in-progress and non-trading sites of £(109)m.

- A UK & ROI net restructuring and redundancy charge of £(126)m relates principally to store colleague structures and working practices changes and business rationalisation, and is partially offset by the release of a prior year provision.

- We generated net profits (pre-tax) of £156m from property transactions. In order to increase our freehold ownership and reduce our exposure to indexed rent reviews, we regained sole ownership of 70 stores and two distribution centres in transactions with British Land in March 2015, and Phoenix Life Assurance and the British Airways Pension Fund in February 2016.

In October 2015, we agreed the sale of 14 sites in the south of England to Meyer Bergman for mixed-use and residential development, generating cash proceeds of £218m in the year.

- Following the closure of our UK defined benefit pension scheme in November, a non-cash actuarial credit of £538m has been recognised, as all accrued deferred pension benefits now increase in line with the consumer price index, rather than the retail price index. This was partly offset by a £(58)m charge related to the scheme closure, including a payment to members, equivalent to one week's pay and capped at £500 per colleague, paid directly into a new defined contribution scheme.

Last year, we recognised exceptional items of £(6.7)bn, of which around £(0.6)bn was linked to a direct future cash outflow.





## Joint ventures, interest and tax

### Joint ventures and associates

Losses from joint ventures and associates increased by £(8)m to £(21)m, due to a higher level of losses from our partnership with CRH in China in addition to a lower initial level of

dunnhumby profitability following the restructure of our relationship with Kroger in April 2015. These impacts were partially offset by increased profits recognised on our UK property joint ventures.

### Finance costs and income

	This year	Last year
Interest receivable and similar income	£29m	£80m
<b>Finance income</b>	<b>£29m</b>	<b>£80m</b>
Interest payable	£(504)m	£(535)m
Capitalised interest	£6m	£44m
IAS 32 and 39 'Financial instruments' – fair value remeasurements	£(19)m	£(26)m
IAS 19 net pension finance costs	£(155)m	£(134)m
<b>Finance costs</b>	<b>£(672)m</b>	<b>£(651)m</b>
Exceptional charge: Translation of Korea proceeds	£(220)m	–
Statutory finance costs	£(892)m	£(651)m

Interest receivable and other income decreased by £(51)m to £29m, due to reduced income from debt-hedging swaps. Finance costs increased by £21m to £(672)m. Interest payable includes an overall reduction

of £49m in interest costs on bonds and medium term notes, which was largely offset by the unwinding of the discount on onerous lease provisions. The prior year also included set-up costs relating to new credit facilities.

Capitalised interest reduced by £38m, reflecting a lower level of work-in-progress. Net pension finance costs of £(155)m rose in line with the opening pension deficit, offset in part by a lower opening discount rate.

An exceptional non-cash loss of £(220)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea, which are held in GBP money market funds in a non-Sterling denominated subsidiary. This does not represent any economic cost to the Group.

### Taxation

Tax on profit before exceptional items was £(8)m with an effective rate of tax for the Group of 3%. This tax rate is lower than the UK statutory rate primarily due to a lower book value than tax value of property assets disposed of in the year, partially offset by unrecognised tax losses.

On a statutory basis, including an exceptional credit of £86m relating to a release of provisions in respect of uncertain tax positions following settlement of a number of historic enquiries relating to years up to 2011, there is a tax credit of £54m.

The effective underlying tax rate for the 2016/17 financial year is expected to be around 30%.

### Earnings per share

Diluted earnings per share before exceptional items were 3.41p, down (17.6)% on last year despite a lower tax charge due to higher net finance costs. Diluted

earnings per share before exceptional items and net pension finance costs were 4.97p, (9.1)% lower year-on-year. Statutory diluted earnings per share from

continuing operations were higher than last year at 2.76p reflecting significant exceptional items in the prior year.



# Financial review continued

## Protecting and strengthening our balance sheet

### Summary of total indebtedness

	This year	Last year	Movement
Net debt (excludes Tesco Bank)	£(5,110)m	£(8,481)m	£3,371m
Discounted operating lease commitments	£(7,814)m	£(9,353)m	£1,539m
Pension deficit, IAS 19 basis (post-tax)	£(2,612)m	£(3,885)m	£1,273m
<b>Total indebtedness</b>	<b>£(15,536)m</b>	<b>£(21,719)m</b>	<b>£6,183m</b>

We have made significant progress over the course of this year to reduce our total indebtedness from £(21.7)bn to £(15.5)bn. In this measure of indebtedness, we include net debt, discounted lease commitments and our net pension liability as measured by IAS 19.

Our firm focus on generating cash from our trading activities and maintaining discipline in our capital expenditure will be key to making further progress in protecting and strengthening the balance sheet going forward.

### Retail cash flow and net debt<sup>1</sup>

	This year	Last year
<b>Cash flow from operations excluding working capital</b>	<b>£2,231m</b>	<b>£715m</b>
(Increase)/decrease in working capital		
– impact from exceptional items	£(91)m	£1,805m
– cash impact of new approach to supplier payments	£(231)m	£(1,073)m
– underlying decrease in working capital	£672m	£413m
<b>Cash generated from operations</b>	<b>£2,581m</b>	<b>£1,860m</b>
Interest paid	£(422)m	£(609)m
Corporation tax received/(paid)	£125m	£(347)m
<b>Net cash generated from retail operating activities</b>	<b>£2,284m</b>	<b>£904m</b>
Cash capital expenditure	£(1,004)m	£(2,244)m
<b>Free cash flow</b>	<b>£1,280m</b>	<b>£(1,340)m</b>
Other investing activities	£543m	£253m
Net cash (used in)/from financing activities and intra-Group funding and intercompany transactions	£(854)m	£239m
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>£969m</b>	<b>£(848)m</b>
Include/(exclude) cash movements in debt items	£4,219m	£(1,010)m
Fair value and other non-cash movements	£(1,817)m	£(26)m
<b>Movement in net debt</b>	<b>£3,371m</b>	<b>£(1,884)m</b>

<sup>1</sup> Includes both continuing and discontinued operations.

We generated £2.2bn cash from continuing and discontinued retail operations and improved working capital by £0.4bn. On an underlying and continuing operations basis, working capital improved by £0.4bn driven by a £0.3bn reduction in inventory with improvements evident in all areas of the Group and a £0.1bn inflow from trade

balances, including an improvement from an increased focus on up-front unit price. Additionally, there was a £0.3bn inflow generated by our discontinued business in Korea up to the point of disposal. The overall reduction in working capital also includes the net impact of exceptional items of £(0.1)bn and the first half £(0.2)bn

outflow relating to the new approach to cash payments to suppliers which we outlined last year.

Interest paid was £187m lower than last year as three medium term notes which matured in the prior year were refinanced at lower rates. In addition, timing differences resulted in a lower number of instalments requiring payment in 2015/16 than the prior year.

Cash tax was a net refund of £125m, which arose primarily as tax losses made in the 2014/15 financial year were carried back to offset against taxable profits from 2013/14.

Cash movements of £4.2bn in debt items primarily reflect the proceeds from the sale of our Homeplus business in Korea, which have been placed in short-term investments.

Fair value and other non-cash movements include £1.5bn of debt acquired when we regained sole ownership of 70 stores and two distribution centres.

### Discounted operating lease commitments

Discounted operating lease commitments reduced by £1.5bn in the year, including a £0.8bn reduction arising from the sale of our Homeplus business in Korea.

We completed three property transactions, regaining ownership of 70 stores and two distribution centres which reduced discounted lease commitments by a further £0.6bn.

With some of our lease agreements, we have an option on a specific date to buy

back the property or to buy back the equity of our joint venture partner at market value. As we are not obliged to make lease payments after the buy-back date, we do not include these as part of our indebtedness. If we were to include them, it would increase our lease commitments by £2.6bn.

### Pension

In November 2015, we replaced our defined benefit pension scheme with a defined contribution scheme, providing sustainable benefits for colleagues and greater certainty on future cash requirements.

On an accounting basis, the Group's net pension deficit after tax decreased from

£(3.9)bn last year to £(2.6)bn at the year-end. This was driven by a recalculation of the deficit following the closure of the UK defined benefit scheme and an increase of 30 basis points in real corporate bond yields, leading to a corresponding increase in the discount rate used to measure our long-term liabilities. In accordance with the long-term deficit funding agreement

with the Trustee of £270m per annum in place since April 2015, a cash contribution of £249m was made to the scheme. Following the significant reduction in future pension risk, by closing the defined benefit scheme, the Trustee is now working with its advisers and the Company to reduce risk further, by beginning to implement an asset derisking strategy.





## Capital expenditure

	This year	Last year
UK & ROI	£0.7bn	£1.3bn
International	£0.3bn	£0.4bn
Tesco Bank	–	£0.1bn
<b>Group</b>	<b>£1.0bn</b>	<b>£1.8bn</b>

Capital expenditure was £1.0bn, a decrease of £0.8bn year-on-year, with lower spend in each region. Group capital expenditure in 2016/17 will be

around £1.25bn including an increased spend to refresh UK stores and an accelerated store-opening programme in Thailand.

This year, we closed more selling space than we opened, leading to a net reduction of (1.2)m sq. ft., of which (0.8)m sq. ft. was in the UK & ROI. Internationally, we reduced net space by (0.4)m sq. ft. as repurposing of (0.4)m sq. ft. of existing space in Asia and (0.3)m sq. ft. of closures in Europe more than offset our reduced opening programme.

## Property

	UK & ROI	International	Group
<b>Property<sup>1</sup> – fully owned</b>			
– Estimated market value	£13.3bn	£6.4bn	£19.7bn
– Net book value <sup>2</sup>	£12.6bn	£5.0bn	£17.6bn
% net selling space owned	52%	71%	61%
% total property owned – by value <sup>3</sup>	47%	75%	54%

<sup>1</sup> Stores, malls, investment properties, offices, distribution centres, fixtures and fittings and work-in-progress.

Excludes joint ventures.

<sup>2</sup> Property, plant and equipment excluding vehicles.

<sup>3</sup> Excludes fixtures and fittings.

Our long-term aim is to increase the ownership of our property and reduce our exposure to index-linked and fixed-uplift inflation. The March 2015 asset swap with British Land and February 2016 transactions with Phoenix Life Assurance and the British Airways Pension Fund, through which we regained sole ownership of 70 large stores and two distribution centres, enabled us to increase the proportion of freehold property in the UK & ROI by

6% to 47%. These transactions resulted in a combined saving in fixed-uplift and index-linked rent of £115m per annum at current rental levels.

The sale of our property assets within the disposal of our business in Korea drove the year-on-year reduction of £3.2bn in the estimated market value of fully-owned property across the Group to £19.7bn at year-end. This valuation gives an

estimated surplus of £2.1bn over the net book value, with our Group freehold ownership percentage now 54% by value and 61% by selling space, an increase of 5% by value and 3% by selling space on last year.

This estimated market value excludes our share of property joint ventures. Including this, the valuation would increase by £0.2bn, net of the debt in the joint ventures.

The Group operating lease charge reduced by 10% in the year to £1.2bn and we continue to evaluate opportunities to further reduce our exposure to index-linked and fixed-uplift rent inflation. Based on current rent, around three-quarters of our UK lease charge relates to fixed-uplift or index-linked rental agreements.

## Outlook

We have made good progress over the last year. We are continuing to invest in our customer offer in order to improve our competitiveness in what remains a challenging, deflationary and uncertain market. This will be reflected in the pace of improvement in profitability in the current year, particularly in the first half.

We are increasingly confident that the actions we are taking are leading to sustainable improvements for customers and will result in a continued improvement in profitability and the creation of long-term value for shareholders.

**Alan Stewart**  
Chief Financial Officer



# Environmental and social review

**Every little help makes a big difference – it's the value we live by to ensure we serve our customers, colleagues and their communities a little better every day.**

## Our approach

Our purpose is to serve shoppers a little better every day and an important part of delivering this purpose is about ensuring we tackle the social and environmental challenges affecting the communities we operate in and source from.

This year we reviewed our third value to ensure we capture the bigger impact we can have on these challenges through the cumulative impact of small, thoughtful actions. After consulting our colleagues we decided 'Every little help makes a big difference' was the best way of articulating what we are trying to achieve. It sits alongside our other two values: 'No one tries harder for customers' and 'We treat people how they want to be treated'. It reminds us nothing is too small – covering the little things we do every day as well as linking these things together to contribute to the bigger global initiatives in which we are involved.

If our colleagues live this value they can all play a role in making it easier for both

customers and colleagues to make healthier choices; reduce food waste wherever it occurs and tackle food poverty with any surpluses; and work with our suppliers to source responsibly and develop sustainable supply chains.

## Our reporting

This report looks at our business across all of our functions and sets out our focus; our corporate responsibility is a fundamental part of this.

Rather than a separate, printed corporate responsibility report, we publish further details on our corporate responsibility, our policies and our key data online.

This year, we became signatories of the United Nations Global Compact (UNGC) – an initiative that encourages businesses worldwide to adopt sustainable and socially responsible policies, and to report on their implementation. The initiative is centred on a commitment to 10 principles in the areas of human rights, labour rights, environment and anti-corruption.

Becoming signatories of the UNGC is another sign of our commitment to these areas and we are proud of the action we have taken to date.

## Our governance

We have a clear and robust governance framework for corporate responsibility. This is provided in two ways: internally, through our Board Committees; and externally, through advice and critical feedback.

Our Corporate Responsibility Committee is chaired by our PLC Chairman, John Allan. More information on the activities of the Corporate Responsibility Committee this year can be found in the corporate governance report in the Annual Report and Financial Statements 2016.



Visit [www.tescopl.com/society](http://www.tescopl.com/society) for information on:

- Our approach
- Ongoing activities
- Our latest case studies



## Our people

### Our approach

In order to serve shoppers a little better every day, we need to continue to provide our colleagues with the best support and opportunities. We have introduced more flexible working, enhanced training opportunities and have a more open and transparent way of working.

Despite challenging times within our business, our colleagues have remained the beating heart of Tesco and have continued to put customers first while delivering outstanding service. Every day this is evident with colleagues going above and beyond their roles – one colleague, Susan McGuckin, even helped deliver a baby in the car park of our Dundee Kingsway store!

Throughout our transformation at Tesco, we have made sure colleagues are the first to know of any changes within the business that will affect them. This commitment to be open and transparent will continue once the transformation is complete.

Diversity in the broadest sense remains critical to our business, and the ratio of male to female colleagues at year-end is outlined in the table below.

We believe that monitoring the pay gap between men and women is an important step towards ensuring everyone is fairly rewarded for their work and enjoys the same opportunities, which is why we've monitored gender pay since 2002 and were one of the first companies to voluntarily report it publicly in 2012.

The government has published draft regulations requiring large employers to report their gender pay gap from 2018, which may mean changes to the way we currently calculate our gender pay gap. We have therefore postponed calculating these figures while the government finalises their requirements. Our most recent data from 2014 shows our overall gender pay gap was less than 1%.

### Respecting human rights

We always respect the human rights of our customers, colleagues and the people who work in our supply chains. We are committed to upholding basic human rights and 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 support our suppliers to work towards fully implementing its Base Code.

We want everyone to have their human rights upheld and we know our customers, colleagues and suppliers do too.

Our customers want to buy great products, produced safely and responsibly. By protecting human rights we can give customers this confidence, as well as ensuring we are a good neighbour wherever we operate.

We have strong, consistent people policies designed to make Tesco a great place to work; a business where everyone is welcome and feels confident to be themselves in a safe environment.

We continue to build strong, trusted partnerships with our suppliers so we can deliver great, safe products that are responsibly produced.

### Moving from compliance to due diligence

Historically, our Ethical Trading programme was based on audits by independent companies, with compliance-based corrective action plans followed up by the same audit companies. Over time, we realised we could be even more effective by changing this model, particularly when the most important human rights challenges often occur in the lower tiers of long, global supply chains.

As a result we have been developing our own capability to identify human rights risk through a due diligence process that looks end-to-end in the supply chain and seeks to address systemic challenges, such as modern slavery, wherever they occur.

Rather than relying only on an audit model, we will be looking to focus our resource on collaborating with supplier partners, civil society, union and worker representation groups, and government bodies. We will also be looking to develop new grievance mechanisms.

We are now developing risk metrics to assess potential human rights impacts, and a range of tools and KPIs to help us address and, if necessary, remedy any abuses. We are doing this work in close consultation with the Ethical Trading Initiative, NGOs and trade unions.

### Governance and monitoring

Our Company-wide Code of Business Conduct, supported by a training programme, helps colleagues follow key policies. This includes a section on our approach to human rights.

Our Governance Committees consider financial and non-financial risks to our business and the Compliance and Corporate Responsibility Committees in particular consider risks related to our Human Rights Policy, which are maintained on our Company risk register.

We have a large number of in-house, locally based labour-standards experts around the world who work with our suppliers every day to get to the bottom of the real issues in the supply chain, and offer support to address these issues.

We now have protector lines for both colleagues and suppliers so any concerns with business conduct can be raised efficiently and confidentially.

Visit [www.tescopl.com/humanrights](http://www.tescopl.com/humanrights) for more detail on our full policy

Our diversity	Male		Female	
Board of Directors	8	73%	3	27%
Senior managers – Directors	506	76%	156	24%
Senior managers – Directors and managers	3,119	68%	1,490	32%
All employees	205,795	43%	270,658	57%



# Environmental and social review continued

**To show how every little help can make a big difference, you can look at our work on both health and food waste.**

## Health

We want to make it easier for customers, colleagues and our wider community to live more healthily. One way we can do this is by creating partnerships with health experts like Diabetes UK and the British Heart Foundation that support prevention and cure for the biggest health challenges we face.

By working together, we're combining the charities' expertise in health with Tesco's ability to reach people in local communities across the UK. This gives us a unique opportunity to encourage the nation to make healthier choices in the way they live their lives. This year we have raised £7.89m and this is going towards prevention projects and important health research.

We have also now reached over 1.3 million children as part of The Tesco Eat Happy Project, which includes Let's Cook courses and Farm to Fork Trails. These are helping children to learn more about where their food comes from and to obtain the skills to get more involved in cooking at home. And to help customers we have continued

our reformulation work where for example on soft drinks we have removed 4.6 billion calories and over 1,480 tonnes of sugar.

## Food waste

We have continued to make progress on trying to prevent food waste from farm to fork.

### With suppliers

Our overall approach has always been to make as much use of the edible crop as possible and we've included produce of different shapes and sizes for many years now. In some cases, we believe that our specifications can be broadened to accommodate more of the crop. This year, we introduced a new range to use parts of the crop that currently fall outside our specifications. The range will begin with potatoes and parsnips and we plan to add a number of other fruit and vegetables. In addition, we're developing a range of new ways to change how we forecast and order to help suppliers reduce waste. For example, we are trialling flexible ordering, where we work with our growers to offer them a range of volumes to supply, rather than a specific number.

### Own operations

Another vital area of work for us is the way we tackle food waste within our own operations. The Community Food Connection (CFC), run in partnership with FareShare FoodCloud, aims to deliver our overall goal at Tesco to never throw away food that could be eaten. The CFC programme allows stores to alert local charities and community groups to how much surplus food is available at the end of each day, through the FareShare FoodCloud app. Charities simply respond by text message to confirm that they will collect the surplus food.

We have now expanded the CFC to over 100 large stores and we expect to be able to roll out around 100 stores a month to be in all large stores by the end of 2016. We have been donating surplus food from our distribution centres since 2012. In total, nearly 9 million meals have been donated with over 4.6 million in the past 12 months. We are confident that with CFC we now have the solution to donate this food to people in need and stop it going to waste.

When you add the food provided from our surplus redistribution work to the food donated by our customers and topped up by Tesco through the Neighbourhood Food Collection, we have donated food equivalent to over 18 million meals to help people in need in the UK.



Visit [www.tescopl.com/ar2016](http://www.tescopl.com/ar2016) to see more about our Community Food Connection programme

## International

Tesco is a global retailer and we have programmes in place to tackle food waste in each of our markets. All of our Central European markets are donating surplus food to local foodbank partners and we are planning trials in Malaysia and Thailand. We are also keen to show leadership on the issue at a global level, which is why Dave Lewis, our Chief Executive, has agreed to chair Champions 12.3; a coalition of leaders from government, business, research institutions and civil society. The coalition will be dedicated to accelerating progress towards achieving the UN Sustainable Development Goal Food Waste Target 12.3 to halve per capita global food waste at the retail and consumer level and reduce food losses along production and supply chains (including post-harvest losses) by 2030.

## UK operations food waste data

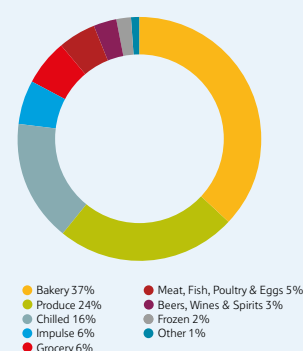
We are the only UK retailer to publish independently assured food waste data for our own operations and we will continue to do so annually. In 2015/16, 59,400 tonnes of food went to waste, primarily in our stores which is equivalent to 1% of the number of food products we sold in our stores over the same period. The basis for our definition of food waste is that if we are unable to redistribute surplus food to human consumption it becomes waste. Last year we sent 17,800 tonnes of bakery

waste to animal feed with the remainder sent to anaerobic digestion and incineration with energy recovery. We have not sent any food waste direct to landfill since 2009.

The food waste figure for this year shows a net increase of 4% on last year (for information on previous years data and calculations please see [www.tescopl.com/foodwastefigures](http://www.tescopl.com/foodwastefigures)). The benefit of collecting and analysing our data is that it enables us to highlight where exactly increases have occurred so we can develop plans to address hotspot areas. Whilst we have seen an increase overall we have also seen reductions in some categories. Where we have seen an increase in a particular category we will work with the teams to ensure we add to the programmes already in place across our stores to find ways to reduce this level of waste. Importantly, we have also invested in a nationwide rollout of Community Food Connection with FareShare FoodCloud, which will redirect millions of meals of Tesco surplus food to charity by the end of 2017.

Visit [www.tescopl.com/disclosures](http://www.tescopl.com/disclosures) for more detail on our methodologies, assurance statements and other disclosures

**Tesco UK food waste by category breakdown**  
(% breakdown of total tonnage value)



## Greenhouse gas emissions

Our carbon footprint is calculated according to the Greenhouse Gas Protocol. Our net carbon footprint in 2015/16 was 5.1 million tonnes of CO<sub>2</sub>e. This year we

have reduced our net carbon intensity per sq. ft. of retail and distribution floor space by 1.8% compared to last year, and 41.7% since 2006/07.

	Global tonnes of CO <sub>2</sub> e		
	2015/16	2014/15	Base year 2006/07
Scope 1	1,347,150 ■	1,317,812	1,372,394
Scope 2*			
Location-based method	2,624,322 ■	2,730,228	2,281,727
Market-based method	2,033,658 ■	2,125,885	Not Available
Scope 1 and 2 carbon intensity (kg CO <sub>2</sub> e/sq. ft. of stores and distribution centres)	30.54	30.70	51.20
Scope 3	1,129,072 ■	1,216,740	1,142,013
Total gross emissions	5,100,544	5,264,780	4,796,134
CO <sub>2</sub> e from renewable energy exported to the grid	1,513 ■	1,205	–
Total net emissions	5,099,031	5,263,575	4,796,134
Overall net carbon intensity (total net emissions kg CO <sub>2</sub> e/sq. ft. of stores and distribution centres)	39.21 ■	39.91	67.20

\* Tesco has historically only presented performance using the location-based method for calculating Scope 2 emissions. The market-based method is shown in accordance with the Greenhouse Gas Protocol Scope 2 Guidance and all intensity, net and gross emissions shown are calculated using the location-based method. This year we have also updated our historic emissions to account for business changes and conversion factor updates. For further details see [www.tescopl.com/carbonfigures](http://www.tescopl.com/carbonfigures).

■ Independent limited assurance for both food waste and greenhouse gas emissions data has been provided by KPMG LLP using the assurance standards ISAE 3000 (and for data marked with ■, ISAE 3410). KPMG has issued an unqualified opinion over the data highlighted in this report with a □ and ■ and their respective full assurance opinions are available at: [www.tescopl.com/foodwastefigures](http://www.tescopl.com/foodwastefigures) and [www.tescopl.com/carbonfigures](http://www.tescopl.com/carbonfigures).



# Principal risks and uncertainties

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.

We maintain a Group Risk Register of the principal risks faced by the Group. Our risk management process is operated throughout the Group. All business units perform regular risk assessments that consider and assess the Group’s principal risks and specific local risks pertinent to the market in which they operate. This process ensures a consistent approach to the assessment of risk across the Group as well as informing the Group risks from a bottom-up perspective. 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.

As part of a wider and ongoing process to enhance our risk management activities and capabilities, we have refreshed the process by which Tesco evaluates and reports principal risks and uncertainties. We show the alignment of our risks to our priorities by principal risk in the table on page 25. In some cases a change of emphasis in the risk reflects both the external and internal business environment, including wider economic factors facing our Group that have also been considered as part of this process.

This development of our risk process has resulted in the inclusion of liquidity risk as a principal risk in this section. In our Annual Report 2015, this risk was included as part of a separate financial risks review, now set out in Note 22 to the financial statements in the Annual Report and Financial Statements 2016.

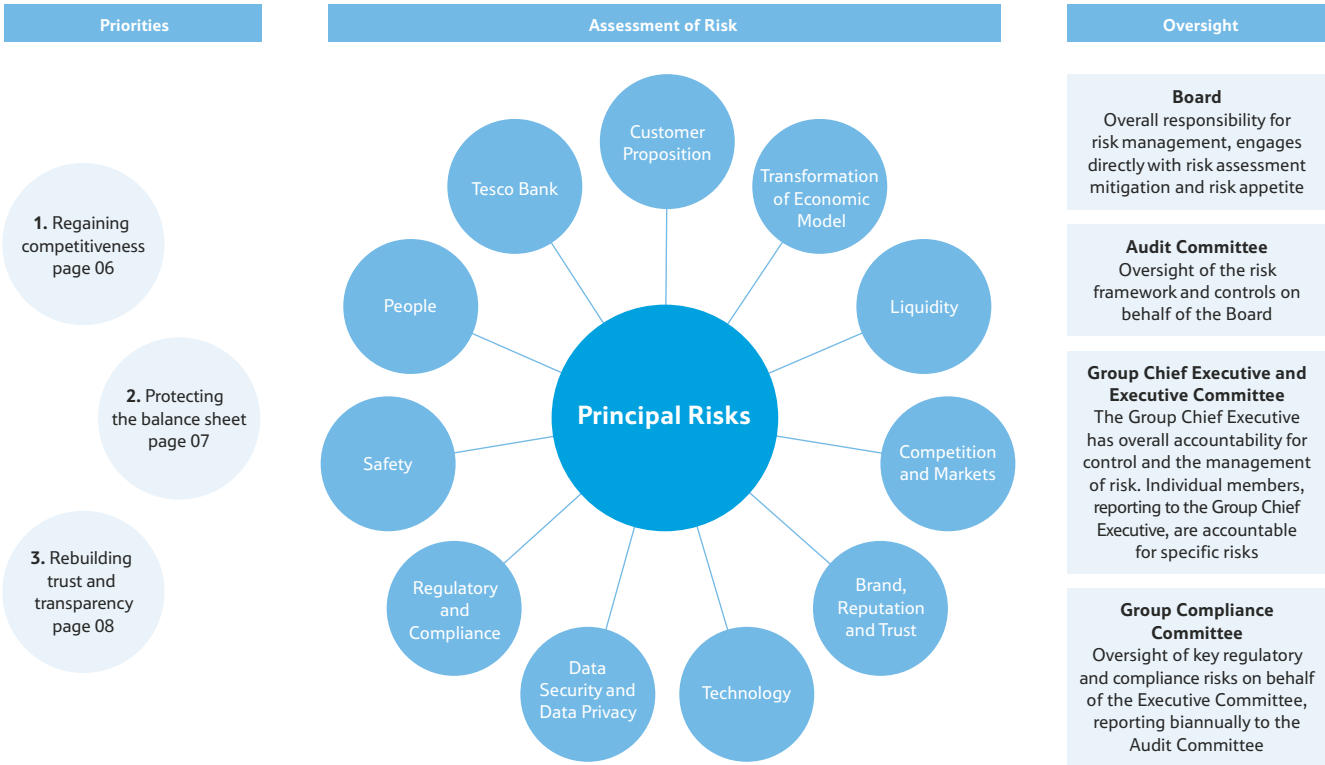
Our process for identifying and managing risk is set out in more detail in the corporate governance report in the Annual Report and Financial Statements 2016. The table on page 25 sets out our principal risks, their movement during the year and examples of controls and mitigating factors. A significant process for the enhancement of our internal control environment is under way.

The risks identified do not comprise all of the risks associated with our business and are not set out in priority order. Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

### Key to risk movement

- ⬆ Risk increasing
- ↔ No risk movement
- ⬇ Risk decreasing


### Risk Management Framework









Principal risk	Risk movement	Key controls and mitigating factors
<b>Customer proposition</b>		
<p>Failure to listen to our customers and to understand the changing marketplace leads to a loss of market share as customer purchases are made with competitors. We are unable to build and sustain loyalty resulting in an adverse impact on our financial results.</p> <p>Link to priorities </p>	<p>We are addressing the challenge of changing customer wants and increased customer choice as a result of heightening competitive activity. The customer need is central to our decision-making.</p> <p></p>	<p>We have developed strategic plans to enhance our understanding of our customer needs. Customer insight supports development of customer-focused strategies across each market and we have developed strategic customer profiles to understand specific market expectations.</p> <p>We have invested in the customer experience by increasing colleague hours on the shop floor and by providing further customer service training for colleagues across all stores. We continue to invest in availability and price as well as running our Feet on the Floor programme – whereby non-store colleagues spend a day on the shop floor to ensure customer focus is maintained.</p>
<b>Transformation of economic model</b>		
<p>The transformation of our economic model does not allow us to respond to changes in the external economic environment, nor does it progress sufficiently quickly to maintain or increase operating margin, to generate sufficient cash to meet business objectives. This may result in an adverse impact on the business and shareholder confidence.</p> <p>Link to priorities </p>	<p>We are in the process of transforming our business and how we operate to drive improvement and better performance.</p> <p></p>	<p>Significant transformation programmes are being undertaken across the Group, including organisational design, data strategy, reset of supplier relationships, cost reduction and people &amp; capability.</p> <p>There is Executive Committee and Board overview of key strategic initiatives to improve sales and margin, and to reduce cost. Periodic sales margin planning and forecasting activity are reviewed by Group and local finance functions.</p>
<b>Liquidity</b>		
<p>Business performance does not deliver cash as expected; access to funding markets or facilities is restricted; failures in operational liquidity management; Tesco Bank cash call; or adverse changes to the pension deficit funding requirement, create calls on cash higher than anticipated, leading to impacts on financial performance, cash liquidity or the ability to continue to fund operations.</p> <p>Link to priorities </p>	<p>We have a strong focus on improved liquidity management and have taken a number of steps to address this.</p> <p></p>	<p>The funding plan and its key elements (e.g. debt issuance, cash resources, available credit facilities and cash flow forecasting) are subject to regular executive review, supported by rolling liquidity updates and key financial metrics. Treasury and debt-related policies covering UK and International markets are in place and periodic reviews of the Going Concern and Longer Term Viability Statement is undertaken by the Audit Committee and the Board. Following the significant reduction in future pension risk by closing the UK defined benefit scheme, we are implementing a derisking strategy to further reduce pension risk and better match our cash flows. Specific activities have been undertaken to reduce our debt-level with enhanced cost control measures in place. Further information on these risks can be found in Note 22 to the financial statements in the Annual Report and Financial Statements 2016.</p> <p>Whilst Tesco Bank is financially separate from Tesco PLC, there is a regular review of Tesco Bank's risk appetite by Tesco Bank Board and the Tesco PLC Board. This sets out Tesco Bank's key risks, their optimum ranges, alert limits, controls and tolerance limits and ensures ongoing awareness of any potential risk to Tesco PLC.</p>
<b>Competition and markets</b>		
<p>We do not have an effective, coherent and consistent strategy to respond to our competitors and changing markets, resulting in a loss of market share and failure to improve profitability.</p> <p>Link to priorities </p>	<p>We face the ongoing challenge of a changing competitive landscape and price pressure across most of our markets.</p> <p></p>	<p>Executive oversight and ownership of business plans provide strategic direction for the Group with plans regularly reviewed and challenged. Dedicated Board strategy days are held to develop and challenge strategic direction. The use of market scanning and ongoing competitor analysis provides insight, an ability to anticipate market movements and develop an effective proposition. We remain closely aligned with local trade associations, governments and other policy makers across our markets.</p> <p>We have realigned our individual European businesses to sit within a simplified Central European structure under a single management team to provide greater clarity and a consistent strategic approach.</p>



# Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
<b>Brand, reputation and trust</b>		
<p>Failure to manage our brand means we are unable to consolidate loyalty and rebuild trust, creating a perception among customers, colleagues, communities and suppliers that result in a loss of market share or unfavourable effects on our ability to do business.</p> <p>Link to priorities </p>	<p>We are working to ensure that we rebuild trust and transparency across our stakeholders through initiatives such as price transparency, Brand Guarantee and the launch of new fresh-food brands. This helps to ensure that our brand perception reflects the values that we demonstrate.</p> <p></p>	<p>Brand guidelines have been updated to provide Group-wide consistency over the use of the Tesco brand. Group commercial and corporate affairs policies and procedures have been updated. Communications, media relations and corporate responsibility plans are in place and include internal and external stakeholder engagement. There is a Group Corporate Responsibility Committee that oversees corporate responsibility activity.</p> <p>The Code of Business Conduct has been refreshed with specific guidance over brand, social media and communications, ethical trading and the establishment of a tone at the top with defined consequences in the event of non-compliance.</p>
<b>Technology</b>		
<p>A significant failure of IT infrastructure or key IT system results in loss of information, inability to operate effectively and/or financial or other regulatory penalties.</p> <p>Link to priorities </p>	<p>Our IT landscape requires further investment in core infrastructure and data centres, as well as to support the store environment.</p> <p></p>	<p>Controls include a technology strategy outlining a number of approved technology policies and procedures. The Technology leadership team provides central governance across major project approval, configuration changes, application updates and the development of new systems.</p> <p>We are increasing our investment in IT with a fully-funded development plan covering a range of back office and customer systems. Technology assessments are performed on an ongoing basis to identify further areas of need and opportunities for improvement.</p>
<b>Data security and data privacy</b>		
<p>Failure to maintain control over customer, colleague, commercial and/or operational data leads to a loss of data, either through deliberate targeted action or inadvertent error. The misuse of personal data, for example without the customer's consent or retaining for longer than is necessary, may also result in reputational harm, regulatory investigations and potential fines.</p> <p>Link to priorities </p>	<p>We operate a large number of disparate IT systems, some of which are legacy systems and we hold significant amounts of sensitive data in a number of locations.</p> <p></p>	<p>Our systems are secured with access controls, while regular vulnerability and penetration testing provides additional security. Compliance assessments are executed across UK and international business units against the information security policies.</p> <p>We are strengthening our data-related controls as part of a significant IT security improvement programme. The strengthening includes enhanced information security policies and governance, review of defence measures against attacks and continued migration away from unsupported systems.</p> <p>A Group-wide, comprehensive privacy compliance programme is being developed, which covers governance, risk assessment, policies and processes, training, incident management, monitoring and review. This is designed to drive the right behaviours and ensure obligations are met with regards to the handling of personal data.</p>
<b>Regulatory and compliance</b>		
<p>Failure to comply with legal or regulatory requirements relating to our business activities, resulting 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>Link to priorities </p>	<p>Our regulatory and legal landscape continues to evolve in all of our locations, and across each of our businesses. There is a risk of breach of existing legal or regulatory requirements, and of not adapting our business as demands change. There are specific actions under way to address matters identified last year relating to commercial income and supplier relationships.</p> <p></p>	<p>The Group-wide Code of Business Conduct has been refreshed, with specific compliance programmes existing around key legislation (e.g. UK Bribery Act), built around a risk and compliance model. Colleagues in high-risk areas receive annual training and a communications programme supports ongoing awareness of Code and other regulatory risks. Leadership teams are trained on their regulatory duties and receive management data on compliance risks and breaches.</p> <p>Groceries Supply Code of Practice (GSCOP) compliance is addressed in a number of ways, including through a GSCOP audit and monitoring programme and the appointment of a Code Compliance Officer. Equivalent legislation will be issued in ROI in 2016 and steps are being taken to prepare for this. There is an externally managed whistleblowing service across the Group for colleagues and suppliers (except Thailand, where it is internally managed) and a supplier helpline for the anonymous reporting of inappropriate conduct.</p> <p>Tesco Bank's Board oversees Tesco Bank's compliance with regulatory requirements.</p>

Principal risk	Risk movement	Key controls and mitigating factors
<b>Safety</b>		
<p>We do not meet safety standards in relation to workplace or product, resulting in death, injury or illness to customers, colleagues, or third parties.</p> <p>Link to priorities </p>	<p>We continue to focus our efforts on controls to ensure workplace and product safety.</p> <p></p>	<p>For workplace safety, controls include Group safety policies and procedures, Group safety standards and rapid escalated incident-reporting to the CEO. Implementation is driven by a dedicated Group Safety function, which provides advice to the Group on safety matters across geographies. A framework for standardised safety risk assessments has been developed.</p> <p>An extensive programme of technical product testing and reporting is in place with country teams responsible for the delivery and implementation of product safety policies and systems. We are proud to make the results of our provenance-testing publicly available. A supplier audit programme is in place to monitor product integrity and labour standards, which includes unannounced specification inspections of supplier facilities and products.</p>
<b>People</b>		
<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>Link to priorities </p>	<p>Our people are our most valuable asset. We continue to manage and consider diversity and inclusion as well as colleague engagement.</p> <p></p>	<p>Standardised recruitment policies and processes have been established and a Board-sponsored people strategy is being implemented to attract and retain the best people. Diversity and inclusion are key elements of our people agenda. Remuneration policies and succession planning are subject to periodic benchmarking to ensure they remain appropriate for the Group.</p> <p>We provide ongoing opportunities for personal and professional development through our established leadership development and graduate programmes. 'Our Tesco' and 'What Matters To You?' initiatives allow us to connect, listen and respond to our colleagues. The consolidation of our UK offices into a single campus and the restructure of our Central European businesses has created an environment that fosters improved communication and collaboration between teams.</p>
<b>Tesco Bank</b>		
<p>Continual and progressive changes in the regulatory environment in which the Bank operates could impact the level of capital and liquidity that is expected to be held. Regulatory uncertainty could also impact the future earnings profile of the Bank.</p> <p>Link to priorities </p>	<p>The Bank actively manages its response to proposed regulatory changes and has a track record of adapting activities in advance of the implementation of regulatory change.</p> <p></p>	<p>There is Bank Board reporting throughout the year in line with relevant regulatory requirements, 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>The Bank has formed good working relationships with the Prudential Regulation Authority and the Financial Conduct Authority and is also a member of the British Bankers Association. Through these relationships, the Bank is able to adopt a proactive approach to engaging in proposed regulatory change. The Bank monitors proposed regulatory guidance and changes during consultation and implementation phases. As a result, the Bank would expect to have sufficient time to respond and adapt its funding and business plans as appropriate.</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>

### Longer Term Viability Statement

The Directors have assessed the viability of the Company over a three-year period, taking into account the Company's current position and the potential impact of scenarios arising from the principal risks set out above. Based on the results of our testing of a number of severe but plausible scenarios, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due during this period.

The Directors have determined that a three-year period is an appropriate timeframe for assessment given the dynamic nature of the retail sector and is in line with the Company's strategic planning period.

We have based our assessment on our current long-term plan, which makes assumptions relating to: the prevailing economic climate and global economy; the structural challenges facing our sector; and the costs associated with delivering our strategy. Against this we have conducted sensitivity analysis and modelled a range of scenarios (including reverse stress-testing) based on the materialisation of principal risks, including market and competition, economic and technology failure, which would result in declining sales and increased margin pressures.

Our principal risks are identified through our risk management process, which relies on our judgement of risk likelihood and their potential impacts, whilst also understanding the existing mitigations and developing further appropriate controls. The principal risks faced by the Company are recorded on a Group Risk Register, which is considered and discussed through regular meetings with senior management and reviewed by the Executive Committee, relevant sub-committees and the Board. We have considered our principal risks and risk appetite against our strategic objectives.

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.



**Paul Moore**  
Company Secretary  
12 April 2016



# Corporate governance summary

The full corporate governance report can be found in the Annual Report and Financial Statements 2016.



**John Allan**  
Non-executive Chairman

## Chairman's Introduction

During the past year, there has been a renewed focus on corporate governance at Tesco and the Board has spent a significant proportion of its time examining and strengthening our processes during this turnaround period for the Group. Having a solid governance framework is key to rebuilding trust and transparency. I am therefore pleased to confirm that the Company was fully compliant with the UK Corporate Governance Code this year.

A central pillar of our governance framework is our Schedule of Group Delegated Authorities as it sets out who is authorised to take decisions on which matters. The Board reviewed this key schedule during the year, scrutinising the authority granted to different individuals across the business. We are pleased to have created a more comprehensive document that better reflects our structure and operations and that has contributed to a culture of improved adherence to Group policies. This has been both a top-down and bottom-up exercise to ensure that the right people are making the right decisions at Tesco.

We have also taken additional action to promote a positive culture and tackle unfavourable business practices. Our new Code of Business Conduct was relaunched in March 2015, to promote responsible and ethical behaviours at all levels of our business. We have also fundamentally changed the way we work with our suppliers in order to further build trusted relationships with these key stakeholders for our business. The report earlier this year from the Grocery Code Adjudicator ('GCA') examining Tesco's compliance with the GCA Code of Practice set out conclusions about our historic business practices that coincided with the results of our own independent investigations. We are encouraged that our latest Supplier Viewpoint measure of how suppliers view their relationship with Tesco recognises the positive impact of the changes we have made. The results show a significant improvement year-on-year, increasing from 51% to 68% in the UK and from 58% to 70% for the Group as a whole. As previously disclosed, the commercial income issue identified in September 2014 resulted in a Serious Fraud Office regulatory inquiry. The inquiry is ongoing, and we continue to co-operate fully with it.

Our initiatives contribute to our aim of improving trust and transparency by ensuring that all colleagues understand their role and duties and by creating a culture where individuals feel empowered to speak up and voice concerns.

Succession planning was a key priority for the Board even before the end of the previous financial year when a number of Directors retired. This year, the Nominations Committee scheduled additional meetings in order to progress the selection of three new Non-executive Directors. Conscious that following changes to our Board composition, female representation among our Directors had dropped below the 2014 AGM level of 30%, we were keen to attract high-calibre candidates who could provide balance to our Board. We are delighted with the capabilities of our chosen candidates and are pleased that we now have 27% female representation at Board level, which exceeds the 25% level recommended by Lord Davies in 2011.

In addition, we continue to seek to improve opportunities for talented women to progress throughout the Company and particularly to the ranks of senior and executive management. We recognise that providing opportunities for all of our colleagues to develop provides access to a broader talent pool that will support our strategic focus on regaining competitiveness.

We continue to strive towards excellent governance at Tesco and to rebuild trust and transparency across our business.

A handwritten signature in black ink, appearing to read 'John Allan'.

**John Allan**  
Non-executive Chairman

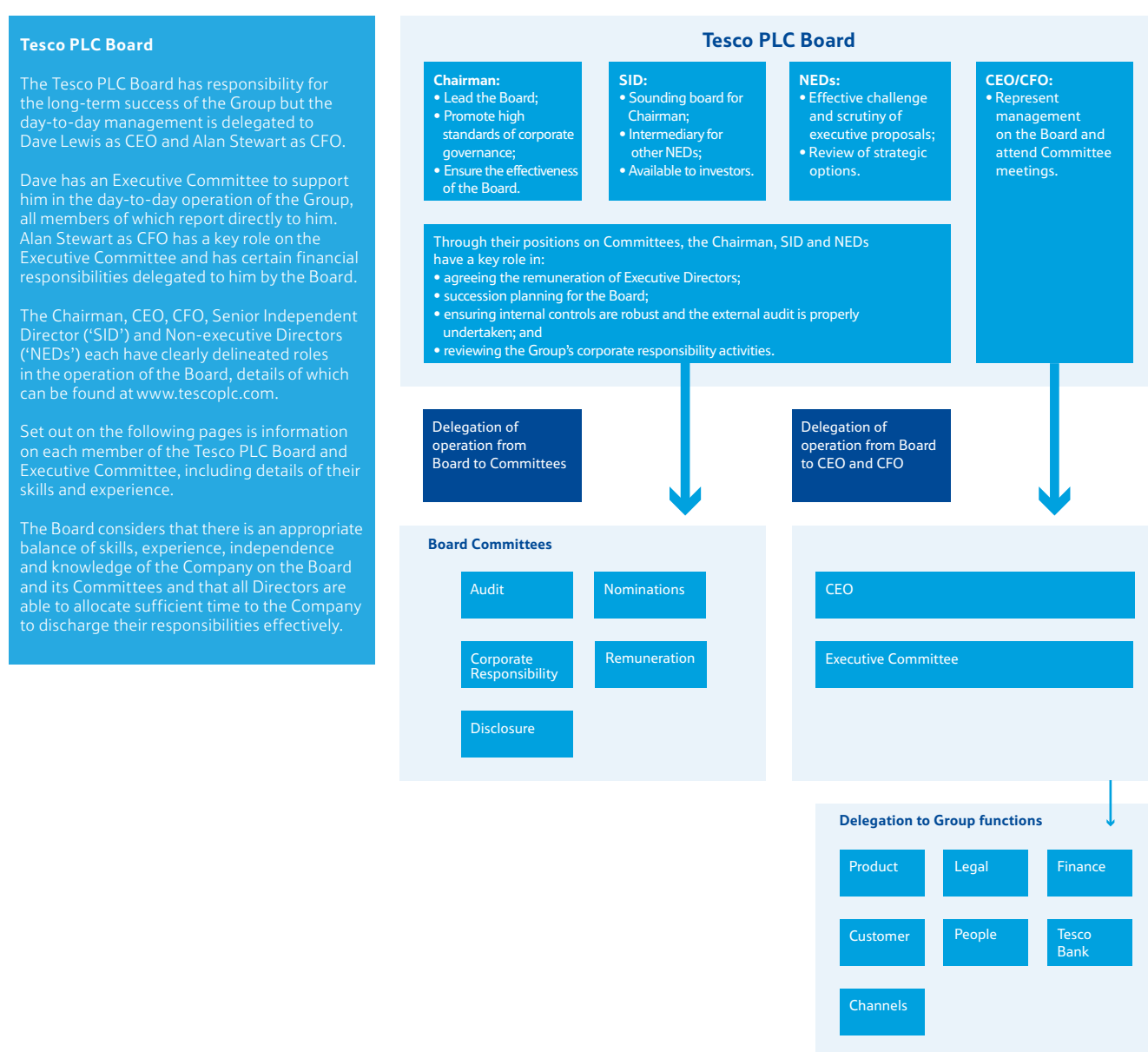
## Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code ('Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance. The 2014 version of the Code applies to the Company for the year ended 27 February 2016. A copy of the Code is available at [www.frc.org.uk](http://www.frc.org.uk). The Board considers that the Company complied in full with the Code during the year.

## Governance framework

The Tesco PLC 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 people 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. Having delegated the detailed operation of the business to the CEO and CFO, the Board holds them to account for their responsibilities. In order to do this effectively, the Board operates through a number of Committees, each made up entirely of members of the Board. Each Committee meets separately to the Board during the year, providing time to focus in depth on the particular key matters of audit, remuneration, nominations and corporate responsibility.

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





# Board of Directors



## John Allan Non-executive Chairman ▲◆

John was appointed to the Board as Non-executive Chairman on 1 March 2015. Age: 67

**Career** John's early career was with Lever Bros and Bristol-Myers in a variety of marketing roles. Having held a number of executive positions in different organisations, John joined the Board of Deutsche Post when it acquired Exel in 2005 and managed the integration of the two businesses. John held the post of CFO from 2007 to 2009 with Deutsche Post.

John became Chairman of Dixons Retail PLC in September 2009 and held this role during a comprehensive turnaround programme during which a friendly merger of equals was completed with Carphone Warehouse in August 2014 to form Dixons Carphone.

**Skills and competencies** John has substantial experience in marketing, buying and retail operations in addition to substantial executive leadership experience both in the UK and overseas.

**External appointments** John is currently Chairman of Barratt Developments PLC and Non-executive Director of Worldpay Group PLC.



## Dave Lewis Group Chief Executive

Dave was appointed to the Board as Group Chief Executive on 1 September 2014. Age: 51

**Career** Dave completed a BA in Business Studies in 1987 and went on to complete the Advanced Management programme at Harvard Business School.

Dave joined Unilever in 1987 and worked in a variety of different roles over nearly three decades, which took him across Europe, Asia and the Americas.

**Skills and competencies** During his career, Dave has been responsible for a number of business turnarounds. He has experience across many sectors both in the UK and overseas, and has significant experience in brand marketing, customer management and general management roles.

**External appointments** Dave is currently a Non-executive Director of Sky PLC, and a Director and a member of the Governance Committee of the Consumer Goods Forum. He is also Chair of Champions 12.3, a UN programme formed of a voluntary coalition of 30 leaders across the globe, coming together to increase the momentum to achieve the UN Sustainable Development Target 12.3 by 2030.



## Alan Stewart Chief Financial Officer

Alan Stewart was appointed to the Board as Chief Financial Officer on 23 September 2014. Age: 56

**Career** A qualified accountant, Alan started his career in investment banking with HSBC. He became CFO at Thomas Cook Holdings in 1998 and was appointed UK CEO in 2001. From there he moved to WHSmith as Group CFO. In 2008, he was appointed CFO at AWAS, a leading aircraft leasing business before moving to Marks & Spencer in 2010 to take up the role of CFO.

**Skills and competencies** Alan brings extensive corporate finance and accounting experience in industries as varied as retail, travel and banking. He has held a number of senior roles and has significant listed company experience at Board level.

**External appointments** Alan is currently a Non-executive Director of Diageo plc, a member of the CIMA Advisory Board and Chairman of the Pensions Committee at The 100 Group.



## Richard Cousins Senior Independent Director ■▲

Richard Cousins was appointed as Non-executive Director on 1 November 2014 and became the Senior Independent Director on 7 April 2015. Age: 57

**Career** Richard worked for BPB PLC for 15 years and was Group Chief Executive from 2000 to 2005. Richard was a Non-executive Director of Reckitt Benckiser Group PLC from 2009 to 2014 and of HBOS PLC and Bank of Scotland from 2007 to 2009.

**Skills and competencies** Richard brings valuable UK and international corporate expertise to the Board. He has experience in operational research, strategic planning and has held a number of key management roles.

**External appointments** Richard has been the Group CEO of Compass Group PLC since 2006 and is also a member of the Advisory Board of Lancaster University Business School.



## Deanna Oppenheimer Non-executive Director ◆◆

Deanna was appointed to the Board as Non-executive Director on 1 March 2012. Age: 58

**Career** Deanna held various senior roles at Barclays, including Vice Chair of Global Retail Banking and Chief Executive of Europe Retail and Business Banking. She has also served as a Non-executive Director of Catellus and Plum Creek Timber.

**Skills and competencies** Deanna has strong banking and retail experience. She also has expertise in brand management.

**External appointments** Deanna is the founder of CameoWorks LLC (a financial services advisory firm) and a Non-executive Director at the AXA Group. She is a Non-executive Director of Tesco Bank and a Non-executive Director and Chair of the Risk Committee of Worldpay Group PLC.



## Byron Grote Non-executive Director ■

Byron Grote joined the Board as a Non-executive Director with effect from 1 May 2015. Age: 68

**Career** Byron spent nine years at Standard Oil of Ohio prior to it being acquired by BP PLC in 1987. From 1988 to 2000, he worked across BP in a variety of commercial, operational and executive roles and was appointed CFO of BP PLC in 2002, a role that he held until 2011. Byron then served as BP's Executive Vice President, Corporate Business Activities.

**Skills and competencies** Byron brings extensive executive and Non-executive financial and strategic experience to the Board.

**External appointments** Byron is currently a Non-executive Director on the Boards of Anglo American PLC, Standard Chartered PLC and Akzo Nobel NV, and was previously a Non-executive Director of Unilever PLC. He is also a member of the European Audit Committee Leadership Network and an emeritus member of the Cornell Johnson School Advisory Council at Cornell University.



**Mikael Olsson** Non-executive Director ●✚  
Mikael joined the Board as a Non-executive Director on 1 November 2014. Age: 58

**Career** Mikael was CEO and President of the IKEA Group from 2009 until 2013. During his time at IKEA, he held a wide range of roles across the business and was a member of the Executive Management Group of IKEA from 1995 until 2013.

**Skills and competencies** With close to 35 years in leading roles at the world's largest home furnishings retailer, Mikael brings valuable retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment.

**External appointments** Mikael has been a Non-executive Director of Volvo Cars Group since 2013 and Vice Chairman of the Board since November 2013. Mikael is also Non-executive Director of Ikano S.A., Lindengruppen AB and The Schiphol Group and a Board member of the Global Child Forum.



**Mark Armour** Non-executive Director ■  
Mark joined the Board as a Non-executive Director on 2 September 2013. Age: 61

**Career** Mark was CFO of Reed Elsevier Group PLC (now RELX Group PLC) from 1996 until 2012 and of its two parent companies, Reed Elsevier PLC and Reed Elsevier NV. Prior to joining Reed Elsevier in 1995, Mark was a Partner at Price Waterhouse in London. Mark is a fellow of the Institute of Chartered Accountants.

**Skills and competencies** Mark brings significant financial and international experience to the Board, gained from his long career as a CFO for a major global business. He also has considerable experience of digital business transition, which is relevant for our progress on multi-channel initiatives.

**External appointments** Mark is a Non-executive Director of the Financial Reporting Council and a Non-executive Director and Chairman of the Audit Committee of SABMiller PLC.



**Alison Platt** Non-executive Director ●  
Alison joined the Board as a Non-executive Director on 1 April 2016. Age: 53

**Career** Alison is the Chief Executive of Countrywide PLC and was previously Managing Director at Bupa, responsible for International Development Markets. She has held a range of senior posts including Chief Operating Officer of the UK private hospitals business at Bupa and a number of senior positions in British Airways.

She was previously chair of 'Opportunity Now', which seeks to accelerate change for women in the workplace and was also a Non-executive Director of the Foreign & Commonwealth Office between 2005 and 2010.

**Skills and competencies** Alison has a wealth of relevant experience of the property sector and customer service delivery. She also has significant business-to-business and international commercial experience.

**External appointments** Alison is a Non-executive Director of Cable & Wireless Communications PLC.



**Simon Patterson** Non-executive Director ■●  
Simon joined the Board as a Non-executive Director on 1 April 2016. Age: 42

**Career** Simon is a Managing Director of Silver Lake Partners, a leading global technology investment firm, having joined the firm in 2005. Prior to joining Silver Lake, he was a member of the founding management team of the logistics software company GF-X (acquired by Descartes) and worked in various management roles at the Financial Times. He has previously served on the Boards of Skype, MultiPlan and Gerson Lehrman.

**Skills and competencies** Simon has significant management experience and has held various leadership roles in established and start-up digital media and software businesses.

**External appointments** Simon is currently a Board member of Dell Inc. and Intelsat S.A. and a Trustee of the Natural History Museum in London.



**Lindsey Pownall** Non-executive Director ✚  
Lindsey joined the Board as a Non-executive Director on 1 April 2016. Age: 54

**Career** Lindsey Pownall was, until 31 December 2015, Chief Executive of Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined Samworths as a Commercial Manager over 20 years ago and was promoted to Sales Director of a key division in 1997. Lindsey was then promoted in 1999 to Managing Director of Samworth's largest chilled food business, manufacturing sandwiches for the high street, before joining the Samworth Board in 2001.

**Skills and competencies** Lindsey has significant experience in food, grocery and retail brand development as well as a wealth of experience in supply leadership and strategic development.

**External appointments** None.

#### Committee membership (at 12 April 2016)

- ▲ = Nominations Committee
- = Audit Committee
- = Remuneration Committee
- ✚ = Corporate Responsibility Committee

**Stuart Chambers** and **Ken Hanna** retired as Non-executive Directors on 26 June 2015.

**Patrick Cescau** retired as a Non-executive Director on 7 April 2015.

**Gareth Bullock** retired as a Non-executive Director on 5 March 2015.

**Sir Richard Broadbent** retired as Chairman on 1 March 2015.



## 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.



### **Dave Lewis** Group Chief Executive

Dave was appointed to the Board as Group Chief Executive on 1 September 2014. His full biography appears on p.30.



### **Alan Stewart** Chief Financial Officer

Alan was appointed to the Board as Chief Financial Officer on 23 September 2014. His full biography appears on p.30.



### **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 Halfords Group PLC, where he became CEO, a role he held until 2015.

Matt served as a Non-executive Director at Dunelm Group PLC from 2012 to 2015.



### **Trevor Masters** International CEO

Trevor joined the Executive Committee in 2007.

As International CEO, Trevor is responsible for Tesco's businesses in Asia, Central Europe and Turkey.

Trevor joined Tesco in 1979, starting his Tesco career as a Store Manager and later becoming a Store Director.

Trevor held the role of Operations Director for Extra format stores in the UK during a period which saw the expansion of the Extra estate from 9 to 200 stores. He has also served as CEO Central Europe and CEO Asia.





**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 pension trustee.

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



**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 Chief Executive 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.



**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 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.



**Robin Terrell** Chief Customer Officer

Robin joined the Executive Committee on 25 February 2013.

As Chief Customer Officer, Robin is responsible for ensuring that Tesco responds effectively to the needs and interests of our customers.

From 1999, Robin worked at Amazon, ultimately as VP & Managing Director, with responsibility for Amazon's UK and French businesses. Robin has also held senior e-commerce and multi-channel roles at Figleaves.com, John Lewis and House of Fraser.

Since joining Tesco in February 2013, he held the position of Group Multi-channel Director prior to being appointed as the Chief Customer Officer.

Robin is a Non-executive Director at Karen Millen.



# Remuneration summary

The full Directors' remuneration report can be found in the Annual Report and Financial Statements 2016.

## 2015/16 reward outcomes

Stretching 2015/16 annual bonus targets were set last year in the context of significant uncertainty and volatility for both Tesco and the retail sector, at a time when nearly all key indicators in the business were on a steep negative trend. In determining the final level of bonus payable, the Committee considered the wider performance of the Group and agreed management has reversed the negative trajectory and were making strong progress in delivering the turnaround plan. In particular, the Group has achieved increased volumes and positive like-for-like sales, reduced costs, increased cash flow, and completed significant disposals and business restructuring to strengthen the balance sheet.

As a result, financial targets for sales and operating profit, representing 80% of the bonus, were met almost fully for both Dave Lewis and Alan Stewart. In combination with strong performance against personal objectives from both of our Executive Directors this means the 2015/16 annual bonus will pay out at 95.7% of the maximum for the CEO and CFO respectively with 50% deferred into shares, in line with our policy. The Executive Directors believe that their remuneration should demonstrate their commitment to the business at this early stage of the turnaround. As such, for the 2015/16 bonus, they offered to defer a further 50% of their cash bonus into shares, vesting on the earlier of 3 years or the resumption of dividend payments. This increases to 75% the proportion of the bonus that is deferred into shares and creates a further direct alignment with shareholders through the link to resuming dividend payments and the long-term value creation opportunity of the business.

## 2015/16 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 before buyouts (£'000)	Buyouts <sup>1</sup> (£'000)	Total (£'000)
Dave Lewis	2015/16	1,250	80	2,989	–	313	4,632	–	4,632
	2014/15	570	97	–	–	143	810	3,323	4,133
Alan Stewart	2015/16	750	40	1,614	–	188	2,592	–	2,592
	2014/15	297	42	–	–	74	413	1,724	2,137

<sup>1</sup> The single figure total for 2014/15 includes one-off buyout awards made to Dave Lewis and Alan Stewart to compensate them for awards forfeited from their previous employers. The awards were made based on the expected value of the awards forfeited, taking into account performance at their previous employers and delivered in restricted shares, which vest subject to continued employment by Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15. The awards have no impact on the single figure for 2015/16 nor any future years. Alan Stewart received a payment in respect of his 2014/15 bonus forfeited based on the payment he would have received had he remained in post at his previous employer (pro-rated for time). The actual amount was unknown when the 2014/15 remuneration report was published, therefore an estimated amount of £400,000 was shown. The final amount was £236,232, therefore a negative adjustment of £(163,768) has been applied to the 2014/15 single figure.

### 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	2015/16	650	–	–	–	10	660
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Mark Armour	2015/16	82	–	–	–	–	82
	2014/15	82	–	–	–	–	82
Richard Cousins	2015/16	115	–	–	–	–	115
	2014/15	23	–	–	–	–	23
Mikael Olsson	2015/16	94	–	4	–	–	98
	2014/15	25	–	2	–	–	27
Deanna Oppenheimer	2015/16	119	82	25	7	–	233
	2014/15	96	82	56	8	–	242
Byron Grote	2015/16	85	–	1	–	–	86
	2014/15	n/a	n/a	n/a	n/a	n/a	n/a
Gareth Bullock	2015/16	4	72	–	1	–	77
	2014/15	82	82	–	–	–	164
Patrick Cescau	2015/16	19	–	–	–	–	19
	2014/15	132	–	–	–	–	132
Stuart Chambers	2015/16	34	–	–	–	–	34
	2014/15	110	–	5	–	–	115
Ken Hanna	2015/16	45	–	–	–	–	45
	2014/15	124	–	3	–	–	127

The figures in this table show the amount receivable in the year and are from the date of appointment or until the date that each Director ceased to be a Director of Tesco PLC. Gareth Bullock, Patrick Cescau, Stuart Chambers and Ken Hanna left the Board during the year. The figures in this table include fees paid to Gareth Bullock and Deanna Oppenheimer in respect of their membership of the Board and Committees of Tesco Personal Finance Group Limited (Tesco Bank). The Chairman's benefits are made up of security costs and medical insurance. 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.

## Remuneration framework for 2016/17

In the 2014/15 Directors' remuneration report, the Committee's stated intention was to undertake a further review of incentives in 2015/16 to ensure future arrangements continue to closely align to Tesco's long-term strategy and deliver value to shareholders and other key stakeholders. We completed this review and, following discussions with our major shareholders, the Committee has decided that some changes to the remuneration of senior executives, including Executive Directors, were appropriate. These changes apply to the operation of the Performance Share Plan only and are within existing policy approved by shareholders at the 2015 AGM. They are summarised below:

Overall remuneration – There are no changes to the overall % levels of remuneration.

Annual bonus – The Committee believes that the current annual bonus plan measures, focused on sales, profit and individual measures, remain appropriate for 2016/17 and so no changes are to be made.

Performance Share Plan (PSP) – The following changes have been made to the PSP for 2016/17 within the existing Remuneration Policy:

- We are changing the comparator group against which Total Shareholder Return will be measured to a sector-based index comprising constituents of the FTSE350 Food & Drug and FTSE350 General Retail sectors. This ensures our measurement of comparative TSR performance is more closely aligned to the competitive markets in which Tesco operates and reflects the intense focus the Board believes that Tesco needs to have within the challenging retail market at this time. This also reflects feedback from shareholders last year, which expressed a preference for the use of well-established industry classifications in the selection of peers.
- We have introduced a new component for the PSP relating to Tesco's key stakeholder metrics of customers, suppliers, and colleagues, with a 20% weighting. Building increased trust in these constituencies is critical to delivering our strategy and the importance of this focus is reflected in the Big 6 KPIs on which Tesco regularly reports to shareholders. The weighting of the relative TSR measure will therefore be reduced to 50% (previously 70%) as a result of this change.
- Retail cash generated from operations will be retained with a 30% weighting, as generating quality cash flow remains a key area of focus for the business and is a measure of performance that is critical to Tesco's position as a long-term, sustainable retailer. These changes ensure that the remuneration arrangements are tightly connected to Tesco's strategic priorities. As such, they will be clear and motivating to management and will support execution of strategy in line with shareholder interests.

## How the remuneration policy will be applied in 2016/17

	Element	Operation and opportunity	Performance measures
Fixed pay	Base salary	<ul style="list-style-type: none"> <li>• CEO – £1,250,000.</li> <li>• CFO – £750,000.</li> <li>• Next review due 1 July 2017.</li> </ul>	• n/a
	Pension (Cash in retirement)	<ul style="list-style-type: none"> <li>• 25% of base salary cash allowance in lieu of pension.</li> </ul>	• n/a
	Benefits	<ul style="list-style-type: none"> <li>• Core benefits include car benefits, driver, security, life assurance, disability and health insurance, and colleague discount.</li> <li>• Executive Directors are eligible to participate in the Company's all-employee share schemes, Sharesave and the Share Incentive Plan, on the same terms as UK colleagues. Sharesave is an HMRC-approved savings-related share option scheme. The Share Incentive Plan is an HMRC-approved plan comprising free shares and partnership shares.</li> </ul>	
Performance-related pay	Annual bonus (One-year performance) (Cash and shares)	<ul style="list-style-type: none"> <li>• CEO – stretch opportunity of 250% of base salary.</li> <li>• CFO – stretch opportunity of 225% of base salary.</li> <li>• 50% in cash.</li> <li>• 50% in shares, which are deferred for three years.</li> <li>• Malus applies to deferred shares to allow the Committee discretion to scale back awards made prior to the satisfaction of those awards in certain circumstances.</li> <li>• Clawback applies to cash payments to allow the Committee discretion to take back cash bonuses for a period of three years from payment in certain circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>• 50% based on sales.</li> <li>• 30% based on profit.</li> <li>• 20% based on individual measures.</li> </ul>
	Performance Share Plan (Three-year performance) (Shares)	<ul style="list-style-type: none"> <li>• CEO – stretch award of 275% of base salary.</li> <li>• CFO – stretch award of 250% of base salary.</li> <li>• Malus provisions apply to awards, allowing the Committee discretion to scale back awards made prior to the satisfaction of awards in certain circumstances.</li> <li>• Clawback provisions also apply to allow the Committee discretion to take back exercised awards up to the fifth anniversary of the grant of awards in certain circumstances.</li> </ul>	<ul style="list-style-type: none"> <li>• Shares vest in three years' time subject to performance targets being met.</li> <li>• For awards made in 2016/17, performance will be assessed based on Tesco's TSR performance compared with an index of retail companies, 30% on cumulative Retail Cash Generated from Operations and 20% based on key stakeholder metrics.</li> </ul>

## Summary

As the Company proceeds through a period of considerable change, the Remuneration Committee, working with senior management, will continue to align incentive arrangements with Tesco's strategy, business results and market demands.

**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 27 February 2016 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 24 September 2015. 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 27 February 2016 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 (12 April 2016) and the date of this statement.

## Deloitte LLP

Chartered Accountants and Statutory Auditor  
London  
21 April 2016

# Summary financial statements

## Summary Group income statement

	52 weeks ended 27 February 2016			53 weeks ended 28 February 2015		
	Before exceptional items £m	Exceptional items* £m	Total £m	Before exceptional items £m	Exceptional items* £m	Total £m
<b>Continuing operations</b>						
Revenue	54,433	–	54,433	56,925	–	56,925
Cost of sales	(51,629)	50	(51,579)	(54,247)	(4,881)	(59,128)
<b>Gross profit/ (loss)</b>	<b>2,804</b>	<b>50</b>	<b>2,854</b>	<b>2,678</b>	<b>(4,881)</b>	<b>(2,203)</b>
Administrative expenses	(1,874)	22	(1,852)	(1,690)	(884)	(2,574)
Profits/ (losses) arising on property-related items	14	30	44	(48)	(925)	(973)
<b>Operating profit/ (loss)</b>	<b>944</b>	<b>102</b>	<b>1,046</b>	<b>940</b>	<b>(6,690)</b>	<b>(5,750)</b>
Share of post-tax losses of joint ventures and associates	(21)	–	(21)	(13)	–	(13)
Finance income	29	–	29	80	–	80
Finance costs	(672)	(220)	(892)	(651)	–	(651)
<b>Profit/ (loss) before tax</b>	<b>280</b>	<b>(118)</b>	<b>162</b>	<b>356</b>	<b>(6,690)</b>	<b>(6,334)</b>
Taxation	(8)	62	54	(28)	698	670
<b>Profit/ (loss) for the year from continuing operations</b>	<b>272</b>	<b>(56)</b>	<b>216</b>	<b>328</b>	<b>(5,992)</b>	<b>(5,664)</b>
<b>Discontinued operations</b>						
Profit/ (loss) for the year from discontinued operations	81	(168)	(87)	188	(290)	(102)
<b>Profit/ (loss) for the year</b>	<b>353</b>	<b>(224)</b>	<b>129</b>	<b>516</b>	<b>(6,282)</b>	<b>(5,766)</b>
<b>Attributable to:</b>						
Owners of the parent	359	(221)	138	524	(6,265)	(5,741)
Non-controlling interests	(6)	(3)	(9)	(8)	(17)	(25)
	<b>353</b>	<b>(224)</b>	<b>129</b>	<b>516</b>	<b>(6,282)</b>	<b>(5,766)</b>
<b>Earnings/ (losses) per share from continuing and discontinued operations</b>						
Basic	4.42p		1.70p	6.46p		(70.82)p
Diluted	4.40p		1.69p	6.46p		(70.82)p
<b>Earnings/ (losses) per share from continuing operations</b>						
Basic	3.42p		2.77p	4.14p		(69.56)p
Diluted	3.41p		2.76p	4.14p		(69.56)p

\* For further information refer to Note 4 on pages 101 and 102 of the Annual Report and Financial Statements 2016.



# Summary financial statements continued

## Summary Group balance sheet

	27 February 2016 £m	28 February 2015 £m
Non-current assets	29,076	32,256
Current assets (including assets of the disposal groups and non-current assets classified as held for sale)	14,828	11,958
Current liabilities (including liabilities of the disposal groups classified as held for sale)	(19,714)	(19,810)
Net current liabilities	(4,886)	(7,852)
Total assets less current liabilities	24,190	24,404
Non-current liabilities	(15,574)	(17,333)
<b>Net assets</b>	<b>8,616</b>	<b>7,071</b>
Equity attributable to owner of the parent	8,626	7,071
Non-controlling interest	(10)	–
<b>Total equity</b>	<b>8,616</b>	<b>7,071</b>

## Summary Group cash flow statement

	52 weeks 2016 £m	53 weeks 2015 £m
<b>52 weeks ended 27 February 2016</b>		
<b>Cash flows from operating activities</b>		
Cash generated from operations	2,434	1,467
Interest paid	(426)	(613)
Corporation tax received/ (paid)	118	(370)
<b>Net cash generated from operating activities</b>	<b>2,126</b>	<b>484</b>
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(871)	(1,989)
Purchase of intangible assets	(167)	(329)
Other investing activities	423	303
<b>Net cash used in investing activities</b>	<b>(615)</b>	<b>(2,015)</b>
<b>Net cash (used in)/ from financing activities</b>	<b>(604)</b>	<b>814</b>
<b>Net increase/ (decrease) in cash and cash equivalents</b>	<b>907</b>	<b>(717)</b>
Cash and cash equivalents at beginning of the year	2,174	2,813
Effect of foreign exchange rate changes	1	78
<b>Cash and cash equivalents including cash held in disposal groups at the end of the year</b>	<b>3,082</b>	<b>2,174</b>
Cash held in disposal groups	–	(9)
<b>Cash and cash equivalents at the end of the year</b>	<b>3,082</b>	<b>2,165</b>

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

	52 weeks 2016 £m	53 weeks 2015 £m
Net increase/ (decrease) in cash and cash equivalents	907	(717)
Elimination of Tesco Bank movement in cash and cash equivalents	62	(131)
Retail cash movement in other net debt items	4,219	(1,010)
<b>Change in net debt resulting from cash flow</b>	<b>5,188</b>	<b>(1,858)</b>
Retail net interest charge on components of net debt	(447)	(443)
Retail fair value and foreign exchange movements	113	241
Debt disposed on disposal of Chinese operations	–	255
Debt disposed on disposal of Korean operations	97	–
Debt acquired on business combinations	(1,545)	–
Retail other non-cash movements	(35)	(79)
<b>Decrease/ (increase) in net debt for the year</b>	<b>3,371</b>	<b>(1,884)</b>
<b>Opening net debt</b>	<b>(8,481)</b>	<b>(6,597)</b>
<b>Closing net debt</b>	<b>(5,110)</b>	<b>(8,481)</b>

## Dividends

	2016		2015	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	–	–	10.13	819
Current financial year interim dividend	–	–	1.16	95
<b>Dividends paid to equity owners in the financial year</b>	<b>–</b>	<b>–</b>	<b>11.29</b>	<b>914</b>

No dividend has been paid or is proposed in respect of the financial year ended 27 February 2016.



# Financial calendar

Financial year end 2015/16	27 February 2016
Annual General Meeting/1Q interim management statement	23 June 2016
Half-year end 2016/17	27 August 2016
Interim Results	5 October 2016
Financial year-end 2016/17	25 February 2017

Please note that these dates are provisional and subject to change, with the exception of the financial year-end and half-year-end.

## Glossary

### 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.

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

Profit after tax before exceptional items attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

### Diluted earnings per share from continuing operations before exceptional items and net pension finance costs

Profit after tax before exceptional items 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 year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

### Enterprise Value

This is calculated as Market capitalisation plus Net debt.

### Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's non-GAAP performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

### FTE

FTE refers to full-time equivalents.

### 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.

### Growth in sales

The YoY% (year-on-year) movement in revenue exc. fuel for continuing operations excluding fuel for 52 weeks at constant foreign exchange rate.

### Like-for-like

Like-for-like is the growth in sales from stores that have been open for at least a year at a constant foreign exchange rate and includes online sales.

### 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 debt

Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. 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.

### 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.

### Operating margin

Operating margin is based on operating profit before exceptional items and on revenue.

### Operating profit before exceptional items

This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items.

### Pension deficit, IAS 19 basis (post tax)

This is post-employment benefit obligations net of the related deferred tax.

### 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 as the costs are impacted by corporate bond yields, which can fluctuate significantly.

### Retail cash flow

Cash generated from/ (used in) operations for retail activities.

### 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).

### Revenue exc. fuel

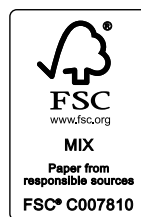
This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

### RPI

RPI refers to Retail Price Index.

### Total indebtedness

Net debt plus IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.



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