TESCO

Annual Report and Financial Statements 2015

"I think the store is genuinely trying to improve performance and there is evidence of progress."
Ipswich

"When I shop in Tesco now there is an overall better feel."
Maldon

"Please keep the prices low, the shelves well stocked and the tills manned with enough staff."
Aylesbury

"The store is of vital importance to the local community, long may it continue to be so."
London

"Continue to work on customer service – it makes a big difference."
Newton Abbot

In this report:

FINANCIAL HEADLINES

£69.7bn	£1.4bn	£961m	£(6.4)bn	9.42p	£(8.5)bn
Group sales	Group trading profit	Underlying profit before tax	Statutory profit/(loss) before tax	Underlying diluted earnings per share	Net debt
(13/14: £70.9bn)	(13/14: £3.3bn)	(13/14: £3.1bn)	(13/14: £2.3bn)	(13/14: 32.05p)	(13/14: £(6.6)bn)

The champion for customers

Our business was built with a simple mission: to be the champion for customers – to help everyone who shops with us enjoy a better quality of life and an easier way of living.

Over the years we've done this through lots of little, helpful differences: new stores and ways of shopping; service which saves time and makes life simpler; helping to make great food available to all.

Our mission is the same today. Our customers are hard-pressed for both time and money. They want great value and great service. They expect great products which they can buy easily. Wherever we work, they want us to do the right thing – for them, their communities and the environment. It's our job to work hard to make life easier, every day.

With our reach, our skills, our expertise, our passion and our capabilities, we have everything inside our business we need to succeed in the future. The keys to Tesco's future already exist within our business. Those keys are in the hands of every single colleague who works for us.

Around the world, Tesco is made up of over half a million colleagues. If every one of us gave one customer an experience of Tesco which was better than they expected every day, we'd change the views of millions of people every week. That is the change we want to achieve over the coming years.

Small actions, big difference. Helping to make our customers' lives easier, every day.

In other words: *Every Little Helps*.

We have changed our reporting this year to reflect our approach across the business – that is, to keep it simple. The strategic report is our top level of reporting, with signposting to further detail online at www.tescoplc.com

KEY HIGHLIGHTS

517,802	**7,817**	**Over 80m**	**£18m**	**685,000**
colleagues at year end	shops around the world	shopping trips per week	raised for Diabetes UK	children have learned about food through our Eat Happy Project

First impressions

John Allan
Chairman

It is a genuine privilege to have been appointed Chairman of this company.

I am acutely aware that this has been a difficult year for the company. This is reflected in the financial results contained in this report. As Chairman, my primary duty is to shareholders, and I believe the best way to deliver shareholder value is to regain our absolute focus on customers and on improving the shopping trip.

A key priority for me will be to ensure that the governance of the business is as it should be. Our shareholders expect their company to be run in a responsible, sustainable and transparent manner. On behalf of the Board, I would like to express sincere regret for the impact of the commercial income issue on this company, and would like to assure you that we have moved swiftly and decisively to address this serious matter. An explanation of this issue is set out on page 33. With my colleagues on the Board, I am determined that Tesco will be known for the highest standards of corporate governance and ethical leadership.

I would like to thank my predecessor Sir Richard Broadbent, who has been resolute in addressing the numerous challenges and handled the scrutiny which the company has been under with great dignity. I would also like to thank Patrick Cescau, Jacqueline Tammenoms Bakker, Liv Garfield and Gareth Bullock who have recently retired as Non-executive Directors and also Ken Hanna and Stuart Chambers who have decided not to seek re-election to the Board at the AGM. I'm delighted to welcome Richard Cousins, Mikael Olsson and Byron Grote to the Board.

Tesco is lucky to have an outstanding new management team led by our CEO, Dave Lewis, and our CFO, Alan Stewart. They are supported by a first-class team of people who have begun the hard work of putting this great business back on its feet.

As I have visited stores and other sites I have been struck by the commitment, enthusiasm and capability of Tesco's people. I am very confident that with their support Tesco will be successful in refocusing on customers, rebuilding trust and over time delivering progressively better returns.

The challenges Tesco faces remain significant and fixing them will take time. However, I firmly believe we have the right team and the right strategy to deliver the longer-term performance our shareholders expect and deserve.

John Allan
Chairman

Visit **www.tescoplc.com/ar2015** to hear more from John Allan on his first months at Tesco

A fresh start

Dave Lewis
Group Chief Executive

Tesco has always been a champion for customers. It's in our DNA. The last few years have been challenging, but we are confident that if we get back to doing an unbeatable job for customers, our best days lie ahead.

It was a huge honour for me to be asked to lead Tesco. It's a business I had worked with for 27 years. As a supplier, I always had enormous admiration for Tesco – its people, passion, and expertise. So when I was invited to come in and lead this great organisation, it was an opportunity not to be missed.

I arrived at a time of significant challenge. Clearly, for a number of years, the global retail market has been highly competitive. We were losing market share in our critical home market and the growth momentum we had enjoyed internationally had faltered. The channel shift to online and convenience presented both challenge and opportunity, but the bottom line was that we had stopped growing.

In addition, or perhaps as a result of this lack of growth, we had significant internal challenges. The commercial income issue identified in September was a significant blow and has resulted in a SFO regulatory inquiry. We have been cooperating fully with the inquiry and as we work on a programme of change across Tesco, we must ensure this never happens again.

Alongside these issues is a deeper challenge of trust. For customers to choose to shop with us, they have to place their trust in us – on price, quality, service and as a brand. But over a number of years, we've seen a gradual erosion of that trust for a number of reasons. Earning that trust back is fundamentally important to Tesco. We will do this not by any quick fix or short term initiative, but rather by continuous and lasting changes in what we do and how we behave.

Despite the challenges, at no point during these first few months has my belief in the potential of Tesco diminished. As I got to know the different parts of our business across Europe and Asia, I have found an energy and engagement by colleagues which is incredible – beyond anything I had expected. That passion to do the right thing for customers and the expertise to make it happen still beats strongly within our business.

I am extraordinarily proud of the way that colleagues have responded to the challenges we face. The business has started a long journey of renewal and change. In particular, the way colleagues from across the business worked so hard to deliver a fantastic Christmas showed me the strength and depth of retailing expertise which exists within our business.

The action we have taken so far has helped to reset the business and restore our customer focus. The reality is that it will require concerted action to get Tesco back to where it should be.

In this report we are publishing losses of £6.4bn for 2014/15. These losses were largely the result of a series of one-off charges representing our past performance. They recognise a number of issues: the value of the property we own has fallen; the cost of dealing with our excess stock levels and restructuring costs, as well as the cost of the retail sites we are no longer developing. Our reduced trading profit of £1.4bn reflects the challenges we have seen in the UK and in our overseas markets.

While these results reflect the difficulties our business has faced over a number of years, we are also beginning to see early promising signs from the changes we have made. By focusing on the fundamentals of availability, service and targeted price reductions over the last six months, we have seen a steady increase in footfall, transactions and, most significantly, volumes. Our like-for-like sales volumes are now up for the first time in four years. Every day we are seeing our customers recognise this. Put simply, more customers are now buying more things at Tesco.

Our task now is to build on this and nourish these small green shoots of recovery. We need to continue to listen to our customers and they will guide us. Tesco became a great business by putting our customers at the heart of everything we do and we shall do that again.

Customers today are hard pressed for both time and money. They want prices which are simple and stable, as well as low. Wherever they shop, they want great choice and outstanding service which makes their shopping easier. Above all they want help to make life a little simpler, every step of the way.

With our reach, our footprint, our skills and capabilities, we are perfectly placed to lead and offer this kind of service. When I look at our business, I see a sea of opportunity. What we need to do now is unlock the potential which exists within Tesco – and to do that, we need to do some key things differently.

In October, we set out our three strategic priorities:

1. Regaining competitiveness in core UK business

2. Protecting and strengthening the balance sheet

3. Rebuilding trust and transparency

Visit **www.tescoplc.com/ar2015** to hear more from Dave Lewis

“We firmly believe that if we give colleagues more power to choose the right actions, we’ll do a better job for customers”

Over the last six months we have taken action to deliver on each of these priorities – sharpening our focus on availability, service and selectively on price; undertaking a significant programme of restructuring and financial discipline; and launching a programme of renewal to restore trust in every aspect of the brand. A key part of our early work has been to simplify our organisation in all our markets and to make sure that customers are the absolute focus of all parts of the Group.

In many cases this has involved very difficult decisions. The consequence on our business and importantly on our colleagues has been significant. In the face of these changes they have been brilliant at all times, putting the needs of the customer and the business first, and I would like to thank them for that. Through these difficult changes we are confident that we give ourselves the chance to be great again.

The changes we are making are significant and are likely to result in an increased level of volatility in our performance over the short term. We are still in an extremely challenging market and face tough trading conditions in the UK and overseas. The benefit of at least some of the changes we are making will only be seen over time. Crucially, however, the approach we are taking now is based on a clear commitment to reinvest any savings or outperformance in the shopping trip. The better our offer is for customers, the more customers will shop with us, and the stronger our business will be over the long term.

As we continue the work of transforming Tesco, my overriding message to the business is this: work as one team and keep it simple. Too often in the past we have added in layers of complexity where simplicity was needed. The result is that we have sometimes lost focus on what our customers think and feel. This needs to change.

A crucial part of that is about giving more power to colleagues – empowering them to do the right thing for customers. We firmly believe that if we give colleagues more power to choose the right actions, we’ll do a better job for customers and achieve greater success for our business. And one of the reasons I believe this, are the stories I receive each day of colleagues going out of their way and doing exceptional things for our customers.

A few months after I arrived at Tesco, I was asked what had most surprised me since joining the business. My answer was how big its heart is. I have never met a business with so many colleagues doing so many things to help customers and communities on a daily basis. Whether it’s raising millions for charity, taking hundreds of thousands of children on food education tours, or leading the charge against food poverty, the work colleagues do is simply awe-inspiring. This kindness and spirit is also in the DNA of Tesco and I’d like us to show it just a little more.

As we embark on this journey of renewal and change, we recognise the responsibility and opportunity that comes with the choices we make. Doing the right thing for customers in a way that supports communities and the environment will be crucial to our future success.

Tesco is a great British success story. We grew into a successful business by focusing on the customer and helping him and her with both the big and the little things. These are challenging times, and we must be prepared for further volatility in the coming months, but we are emerging stronger and we believe our destiny is in our own hands. If we keep focusing on our customers, and challenging ourselves to make every single customer experience better every day, we know we can succeed.

Dave

Dave Lewis
Group Chief Executive

regain

Our starting point is the market where we serve the most customers: the UK.

The UK represents more than two-thirds of our sales. So if we regain our competitiveness and do a better job for customers in this market, it will have a dramatic impact on the performance of the Group.

We have been focusing on four things for our customers:

- **Service. Our business is based on great service, but we haven't got this right in recent years. To help fix this, we have invested in 4,652 new colleagues in customer-facing roles. We have also asked everyone who works in our offices to spend time working in store.**
- **Range. Over the last few years, we have significantly increased the number of products in our ranges. This has put extra pressure on our store colleagues – and it's also left many customers confused. So over the course of this year and into the next we have started to review our ranges across all categories to make them simpler. As part of this we've already met with over 100 suppliers.**
- **Availability. Partly because of an increasing range, we did not leave enough space for the most popular products and important items have not been available at peak times. We have now given more space to the top 1,000 lines in each store, resulting in marked improvements in product availability at peak times during the day.**
- **Price. Along with great service and availability, we want to make those products which are most important to our customers as affordable as we can. As an example of this, we focused on the 'Festive Five', the five vegetables people most want with their Christmas lunches. Since January, we have dropped prices on hundreds of branded products and essential own-brand products. We are also committed to simpler, lower and more stable prices wherever we can.**

As a result of these changes, our customers are responding. Although we have work still to do, since October we have improved our competitiveness and every day more people are choosing to shop at Tesco.

In addition, we have identified cost savings across the Group of £400m. We have also taken a difficult decision to close 43 unprofitable stores in the UK, and not to proceed with plans for 49 new stores. These decisions have been difficult but have been made to put the needs of the business and customers first.

protect

We need to protect and strengthen our financial position so that we can maintain the flexibility to invest in a better shopping trip for customers.

As a business we have too much debt with total leverage of £(22)bn. We need to reduce that, both to deliver value for our shareholders, but also to free up money to invest in the shopping trip.

In October we began an end-to-end review of all costs in the business. This has led to a number of significant decisions, including the decision not to pay a final dividend for 2014/15.

Other key areas of focus include:

- Capital spending. We are committed to stronger financial discipline around capital spending. This year, we will be reducing capital expenditure to £1bn.
- Pension fund. We have started a consultation to replace our defined benefit pension scheme for all colleagues. We are committed to protecting the pensions that colleagues have earned, and also to continuing to provide a competitive pension scheme for all colleagues.
- Property. We have undertaken a detailed review of our property portfolio, including the leases which drive our £1.5bn annual rent bill. As an example of this, we have completed an asset swap with British Land to regain sole ownership of 21 superstores, increasing the proportion of owned stores within our estate.
- Portfolio. As part of our review of the portfolio, all three Blinkbox businesses (movies, music and books) and Tesco Broadband have been sold or closed. We have also appointed advisors to consider our options for dunnhumby.

Alongside these structural changes is a cultural shift. Every pound we spend needs to be considered from the point of view of our customers. We want every spending decision to be weighed up against how many hours of store service the same investment would provide.

rebuild

Our third priority is to rebuild trust and transparency.

We rely on the trust customers, suppliers, communities and shareholders place in us. Regrettably, this trust has been undermined, following the commercial income issue identified in September.

What happened is a matter of profound regret for everyone at Tesco. We have acted swiftly and decisively to ensure that it can never happen again. Across the business, we have brought in a wide ranging programme of change and renewal, which includes:

- **New management who are transforming our commercial model to create long-term, mutually beneficial partnerships, with a greater focus on cost prices than on the commercial income we receive back from suppliers for promoting their products.**
- **A new Code of Business Conduct, supported by a company-wide training programme to help colleagues follow key policies.**
- **A speak-up culture, with a stronger focus on ethics and compliance. Code compliance and ethical leadership are now key factors in performance management and reward. In addition, we now have protector lines for both colleagues and suppliers, so any concerns with business conduct can be raised confidentially.**

Restoring trust is not just about process and structure. It's about culture and individual actions. In the same way that every colleague holds the key to better customer service, so every colleague can help us to be a better active corporate citizen.

We recognise the impact we can have on the lives of many – not just through our global reach but also in the way we run our business. For our customers, communities and the environment, we want our actions to make a big difference for everyone – and we are restless to build on the foundations we have in place.

Key highlights this year include:

- **Helping on health. In 1994 we were the first supermarket to take sweets off checkouts in our big stores. This year we became the first to do it in every UK store, including Express. We also announced our partnership with Diabetes UK and the British Heart Foundation to help tackle these diseases. It builds on our partnership with Diabetes UK which started in 2013 and raised over £18m.**
- **Helping to tackle food poverty. Over the last three years we have pioneered a national programme of food collections working with FareShare and the Trussell Trust. Together with customers we've now provided over 21.5m meals for those in need.**

Our business model

Tesco grew into a big business by focusing on the little things.

Not because we developed a highly complex business strategy. Nor because we developed a radical, revolutionary business model. We were successful because customers were our number one priority and everything we did was about doing the right thing for them.

Our aim today is to regain that total focus on serving customers. We have refocused our business under three operational headlines:

- listening to, understanding and reaching out to customers to create the best possible offer
- working with growers and suppliers to make great products, and helping to deliver the best value to customers
- and working across different channels to get those products to customers in the most convenient way possible.

Our aim is to make sure everything in the business is set up in the most efficient way to create value for customers.

By refocusing on these three areas – and with the capabilities, reach, insight and skills we have within our business – we are uniquely placed to deliver the best offer we can and in doing so earn our customers' loyalty. By creating value for our customers, we will create sustainable value for our shareholders too.

Customers

Tesco exists to serve customers – and our business model has customers as our number one priority.

Our scale and reach mean we have the expertise to really understand our customers; allowing us to focus on the delivery of an offer with real value in all areas of price, quality, range and service. This focus means that we will champion our customers at every level and earn their loyalty.

Reinvest

Our clear priority is to improve Tesco for customers. As we do this, we have committed to reinvest any savings or outperformance into further improvements in our shopping trip.

The reason for this reinvestment is clear: the better job we do for customers, the more we will improve our sales, and the more our sales improve, the more we can invest further in the shopping trip.

Product

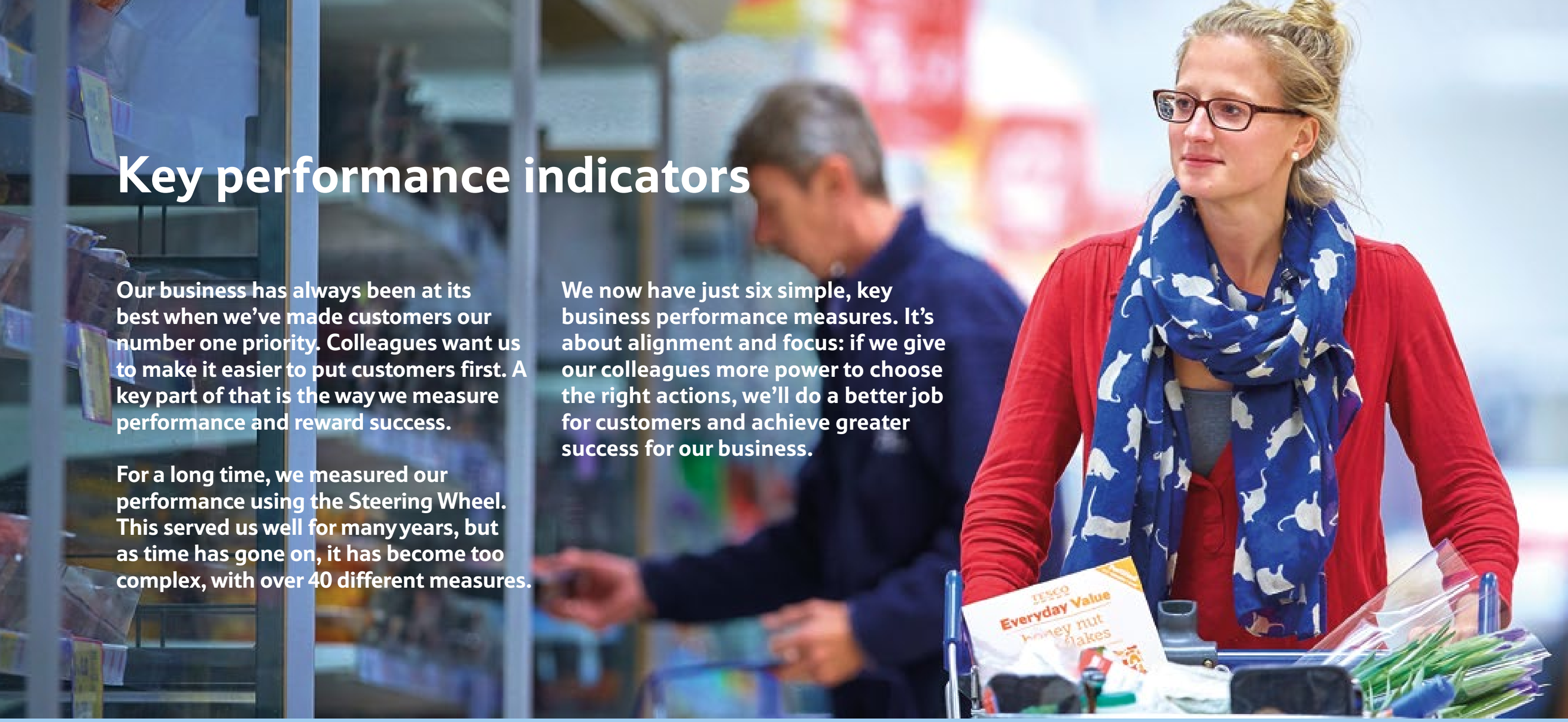
The offer we create for customers is developed by our Product team. They work with our suppliers to source the best possible range of quality products which meet and anticipate our customers' needs.

Our relationships with suppliers are crucial to delivering our customer offer. Since October, we have been reviewing our partnerships to make sure we focus on delivering the best possible value to customers.

Channels

To bring the best products to customers easily, we work through a range of channels – from small shops to large shops, and through our growing online business. We were the first retailer to offer 24-hour shopping and today we have thousands of Click & Collect points across the country.

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



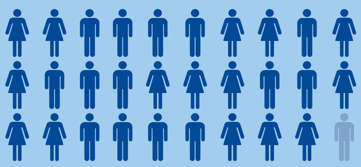
Key performance indicators

Our business has always been at its best when we've made customers our number one priority. Colleagues want us to make it easier to put customers first. A key part of that is the way we measure performance and reward success.

For a long time, we measured our performance using the Steering Wheel. This served us well for many years, but as time has gone on, it has become too complex, with over 40 different measures.

We now have just six simple, key business performance measures. It's about alignment and focus: if we give our colleagues more power to choose the right actions, we'll do a better job for customers and achieve greater success for our business.

1. Customers recommend us and come back time and again

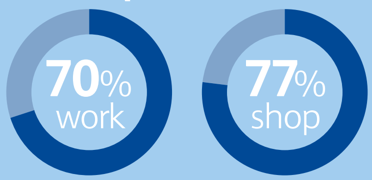


The best result we can ever achieve is that our customers are so pleased with their experience at Tesco that they recommend us to friends and shop with us again and again.

We define loyal customers based on their frequency of shopping with us and average weekly spend. Over the past year, we have seen a (2.5)% decline in this measure.

Going forward, this measure will provide a clear indication of our progress in regaining competitiveness.

2. Colleagues recommend us as a great place to work and shop

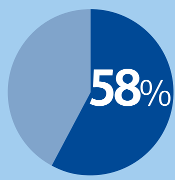


For customers to recommend us, we need to start with our colleagues and make sure Tesco is a great place to work.

In our latest survey, 70% of colleagues told us they would recommend Tesco as a great place to work, and 77% said they would recommend us as a great place to shop.

As part of our business transformation plan, we are committed to being more open, transparent and responsive to what really matters to colleagues. We are already making important changes, including new weekly calls between all store managers and senior leadership teams.

3. We build trusted partnerships



Our business is built on strong partnerships. At a national level, we need to build trusted partnerships with suppliers to provide the best offer for customers. We also rely at a local level on partnerships with communities and wider society as part of our licence to operate.

We survey our suppliers to capture how they feel about their relationship with Tesco and the latest figures indicate that 58% feel satisfied. We have already started to make significant changes to the way we work with suppliers as part of our goal of restoring trust and transparency.

4. Grow sales

Sales including fuel and VAT

£69.7bn ↓ (1.3)%*

Sales excluding fuel and VAT

£55.9bn ↓ (1.4)%*

If we do a better job for our customers, we will grow sales and achieve a stronger financial position.

Last year, our Group sales** declined by (1.4)%, reflecting a challenging backdrop and our own underperformance in the UK. While we must be prepared for further volatility, our focus will remain on our customers and we're working hard to have a positive impact on their shopping trip.

5. Deliver profit

£1,390m ↓ (57.5)%*

As customers recommend us and keep returning to shop with us, our profitability will improve and we will achieve a stronger financial position.

Group trading profit declined to £1.4bn in 2014/15, driven by a challenging year for the UK business. We have taken action to start to restore our competitiveness and have committed to reinvest any savings back into the shopping trip to help our business be stronger over the long term.

6. Improve operating cash flow

£1,860m ↓ (59.6)%*

We need a strong cash flow so we can keep the business running and invest in our customers and the shopping trip.

In 2014/15, our retail cash flow declined to £1.9bn, reflecting both an extremely challenging year for Tesco and a year in which we began a process of considerable change.

* Growth is on a 52 week basis – see the Glossary on page 155.
** Excluding VAT, fuel and IFRIC 13.

Financial review

Alan Stewart
Chief Financial Officer

The reported year has been both an extremely challenging year for Tesco and a year in which we began a process of considerable change. Against this backdrop we delivered sales of £70bn in 2014/15, (1.3)% below last year on a 52 week basis at constant currency. Trading profit declined by (58.1)% to £1.4bn principally as a result of a fall in like-for-like sales, the accumulated costs of inefficiencies within our operations and the changes we have made in the second half to stabilise the business. Our statutory loss before tax was £(6.4)bn, after charging one-off items of £(7.0)bn. Of these one-off items, £(0.6)bn will result in a direct cash outflow, with the remaining amounts being non-cash adjustments to balance sheet carrying values.

Group results 2014/15 (on a continuing operations basis)

On a continuing operations basis	2014/15	52 week % change** (actual exchange rates)	52 week % change** (constant exchange rates)	*53 week % change (actual exchange rates)*
Group sales (including VAT)*	£69,654m	(3.0)%	(1.3)%	*(1.7)%*
Sales growth excluding fuel		(3.2)%	(1.3)%	*(1.9)%*
Group trading profit	£1,390m	(58.2)%	(57.5)%	*(58.1)%*
–UK	£467m	(78.8)%	(78.8)%	*(78.7)%*
–Asia	£565m	(18.4)%	(15.3)%	*(18.4)%*
–Europe	£164m	(31.9)%	(31.1)%	*(31.1)%*
–Tesco Bank	£194m	0.0%	0.0%	*0.0%*
Underlying profit before tax	£961m	(68.4)%		*(68.5)%*
Statutory loss before tax	£(6,376)m	n/a		*n/a*
Underlying diluted earnings per share	9.42p	(70.5)%		*(70.6)%*
Diluted losses per share	(70.24)p	n/a		*n/a*

* Group sales (inc. VAT) exclude the accounting impact of IFRIC 13 (Customer Loyalty Programmes).
** 52 week growth rates exclude week 53 (the 7 days ended 28 February 2015) for the UK and Republic of Ireland.

Protecting and strengthening our balance sheet

Upon our arrival as a new management team we identified protecting and strengthening the balance sheet as one of our three priorities. This resulted in a number of steps to begin to address our balance sheet leverage of £(21.7)bn, which we define more broadly to include net debt, discounted rent or lease commitments and our IAS 19 net pension liability:

- **Liquidity and funding:** We have underpinned our liquidity and funding position with access to £5bn of credit facilities, which remained undrawn at the year end. These facilities are secure, multi-year credit lines ensuring we have the flexibility to address our three immediate priorities over an appropriate timeframe.
- **Capital expenditure:** In 2014/15 we reduced our capital expenditure from £2.7bn to £2.0bn. Based on a comprehensive analysis of the Group's requirements we expect to further reduce our capital expenditure to £1.0bn in 2015/16, net of disposals, without adversely affecting our business.
- **Dividends:** Following the reduction in the interim dividend, the Board has recommended not to pay a final dividend.
- **Pension:** A plan to fund the deficit has been agreed with the Trustee with a payment of £270m per annum and we are consulting with our colleagues to replace our defined benefit pension scheme with a defined contribution scheme.
- **Property:** We have undertaken a detailed review of our property portfolio, including where appropriate to review our lease commitments. In addition we have taken the difficult decision to close 43 unprofitable stores and not to proceed with 49 new store developments. In March 2015 we also announced an asset swap with British Land, regaining sole ownership of 21 superstores and reducing our exposure to indexed rent reviews.
- **Portfolio:** In October we said that we would review our portfolio. To date, this process has resulted in the sale or the closure of Blinkbox and Tesco Broadband and the appointment of advisors to review our options for dunnhumby. This process is on track.

In 2015/16, we will retain our focus on financial discipline.

Enhanced disclosure

Restoring trust and transparency is also one of our three priorities and part of this objective will be met by progressively enhancing our disclosure. In this review we provide greater clarity around commercial income and the valuation and ownership of our property. The Notes to the accounts also include enhanced disclosure of segmental assets (in Note 2 on page 94), net debt (in Note 30 on page 135), JVs and associates (in Note 13 on page 110) and operating leases (in Note 34 on page 137).

Importantly, for 2015/16 we will also move to a simpler profit measure based on operating profit adjusted only for large and distorting impacts.

Visit **www.tescoplc.com/ar2015** to find PDF and Excel downloads of our financial statements

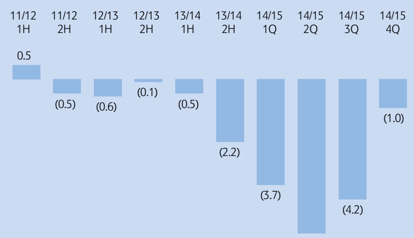
Segmental results
UK

		52 week % change
UK sales* (inc. VAT)	**£48,231m**	(1.7)%
UK revenue* (exc. VAT)	**£43,573m**	(1.8)%
UK trading profit	**£467m**	(78.8)%
Trading margin (trading profit/revenue)	**1.07%**	(394)bp

* Excludes the accounting impact of IFRIC 13.

Full year UK sales declined by (1.7)% on a 52 week basis. This included a 1.8% contribution from new space. Following the year end we completed the closure of 43 stores which we expect to impact our 2015/16 sales by around (0.4)%.

UK like-for-like sales performance* (%)

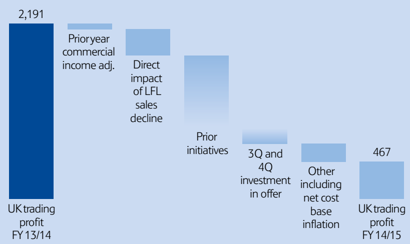


* Including VAT, excluding fuel.

Like-for-like sales, including VAT and excluding fuel, fell by (3.6)%. This reflected a challenging and deflationary market back drop – and our own underperformance.

We've seen some improvement recently with fourth quarter like-for-like sales performance of (1.0)% driven by positive volumes which represents an encouraging response to the customer-focused initiatives launched in the third quarter.

UK trading profit (£m)



Our full year UK trading margin was 1.07%, a reduction of almost four percentage points year-on-year. The decline principally reflected the combination of the deterioration in like-for-like sales and the impact of previous initiatives. The fundamental change to the way we do business with our suppliers, with significantly less focus on commercial income, further impacted profitability. The investment we have made in service, availability and, selectively in price in the second half is also a contributing factor.

Financial review continued

Asia

		52 week % change at actual rates	52 week % change at constant rates
Asia sales* (including VAT)	£10,501m	(4.1)%	(0.9)%
Asia revenue* (excluding VAT)	£9,884m	(4.1)%	(0.9)%
Asia trading profit	£565m	(18.4)%	(15.3)%
Trading margin (trading profit/revenue)	5.72%	(100)bp	(97)bp

* Excludes the accounting impact of IFRIC 13.

Sales in Asia declined by (4.1)% including a (3.2)% impact from foreign exchange. Like-for-like sales were (4.4)%. In South Korea, the impact of the DIDA regulations has remained significant whilst in Thailand the recovery in consumer spending has been slower to materialise than initially anticipated. Our trading performance in Malaysia has been impacted by protests against some Western-owned businesses and a challenging economic environment. Our trading profit in Asia was (15.3)% lower year-on-year at constant rates, primarily due to the operational gearing effect from the impact of negative like-for-like sales performances in all three markets.

Europe

		52 week % change at actual rates	52 week % change at constant rates
Europe sales* (including VAT)	£9,898m	(8.5)%	(0.6)%
Europe revenue* (excluding VAT)	£8,515m	(8.5)%	(0.7)%
Europe trading profit	£164m	(31.9)%	(31.1)%
Trading margin (trading profit/revenue)	1.93%	(66)bp	(64)bp

* Excludes the accounting impact of IFRIC 13.

Sales in Europe reduced by (8.5)% on a 52 week basis including a (7.9)% foreign exchange effect as the Euro fell to seven-year lows against Sterling by year-end. Whilst we saw some improvement in the fourth quarter, the like-for-like sales performance was mixed over the course of the year. We have seen strong competition from discount retailers and this held back our sales performance, particularly in Ireland which saw a like-for-like sales decline of (6.3)%. The profitability of our Central European businesses continued to be under pressure and in Turkey included a £(30)m charge relating to the write-off of a fuel debtor.

Recent legislative changes in Hungary, including mandated store closures on Sundays and the introduction of a 'food supervision fee' from 1 January 2015, will have a material impact to ongoing market profitability.

Consultation started in March 2015 on a significant restructure of the leadership team for Czech Republic, Hungary, Poland and Slovakia to move from operating as individual country teams to one regional team. This restructuring will create substantial buying and operational synergies, helping us to unlock more opportunities to invest in the customer offer.

Tesco Bank

	TY	LY	YOY Change
Revenue	£1,024m	£1,003m	2.1%
Trading Profit	£194m	£194m	0.0%
Lending to customers	£7,720m	£6,915m	11.6%
Customer deposits	£6,913m	£6,079m	13.7%
Net interest margin	4.2%	4.4%	(0.2)%
Underlying cost: income ratio	65.0%	64.0%	(1.0)%
Bad debt asset ratio	0.7%	1.0%	+0.3%
Risk asset ratio	18.8%	17.7%	+1.1%
Loan to deposit ratio	111.7%	113.8%	+2.1%

In highly competitive market conditions, Tesco Bank's revenue was up 2.1% to £1,024m driven by strong growth in lending to customers. We have expanded our range of mortgage and loan products and, in June 2014, we launched our personal current account. Our motor and home insurance business has seen 3% growth in accounts having expanded our underwriting providers and implemented digital improvements to enhance the customer experience. Trading profit was £194m, in line with the prior year, with strong underlying growth offset by our ongoing investment in personal current accounts.

One-off items

	TY	LY*
PPE impairment and onerous lease charges	£(4,727)m	£(636)m
Goodwill and other impairments	£(878)m	–
Stock	£(570)m	–
Restructuring	£(416)m	–
Commercial income adjustment		
–Recognised in 13/14	£(53)m	–
–Recognised in years prior to 13/14	£(155)m	–
Other	£(223)m	£(165)m
Total one-off items	**£(7,022)m**	**£(801)m**

* Last year's number is before a £(540)m write-down of goodwill relating to discontinued operations.

During the year the Group incurred £(7.0)bn of one-off and restructuring charges, largely reflecting the weak industry environment and the initiation of a number of measures to turnaround the performance of the Group. Of this amount, £(0.6)bn will result in a direct cash outflow, with the remaining amounts being non-cash adjustments to balance sheet carrying values. These charges included:

- **Fixed asset impairment and onerous lease charges:** At each balance sheet date we review the carrying value of our stores to ensure that they are supported by their value in use or their fair value less the costs of disposal. Against the backdrop of challenging industry conditions and the decline in our profit, our review resulted in an impairment and onerous lease charge of £(3.8)bn against our trading stores. A further impairment charge of £(925)m is recognised in property related items, relating to the impairment of work-in-progress balances and charges relating to the closure of stores.
- **Goodwill and other impairments:** We have booked further goodwill and other impairments totalling £(878)m. These include an impairment of £(630)m relating to our investment with China Resources Enterprise Ltd (CRE), £(116)m relating to Dobbies and other UK businesses, and an impairment of £(82)m in our investment in joint ventures which principally relates to the strategic decision to slow the roll out of Harris + Hoole and Euphorium sites.
- **Stock:** The one-off items include a £(570)m charge to the Group inventory position, principally due to the adoption of a forward-looking provisioning methodology. The charge also includes a £(168)m impact of a reduction in the level of in-store costs capitalised to inventories.
- **Restructuring:** We have described a restructuring of central overheads, a simplification of store management structures and increased working-hour flexibility, which will deliver ongoing savings in the region of £400m per year. These efficiencies will result in a one-off cost of £(350)m of which around £(300)m has been recognised in our 2014/15 results. The remaining balance includes a further £(41)m relating to restructuring in the first half and a £(20)m one-off cost relating to UK store closures.
- **Commercial income adjustment:** The commercial income adjustment refers to the impact on prior years of the commercial income issues that we announced last September. At the time of the interim results, the impacts on prior years were estimated as resulting in the profit before tax for the year ended 22 February 2014 being overstated by £70m, and for the years prior to this being overstated by £75m – a combined total of £145m relating to prior years. Subsequent to October 2014, we continued to focus on this area and identified some further amounts, bringing the total one-off adjustment to £208m for our UK and Irish businesses.

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Joint ventures, interest and tax

Joint ventures and associates

Losses from joint ventures and associates were £(13)m, down from a profit of £60m last year. The movement was primarily driven by a loss from our partnership with China Resources Enterprise Ltd (CRE) which was formed in May 2014. UK property joint ventures also made lower profits.

Net finance costs

	TY	LY
Interest receivable and similar income	£90m	£132m
Interest payable on short term bank loans and overdrafts	£(101)m	£(68)m
Finance charges payable under finance leases	£(9)m	£(10)m
Interest payable on medium term notes and bonds	£(433)m	£(448)m
Capitalised interest	£44m	£79m
Underlying net finance costs	£(409)m	£(315)m
IAS 32 and IAS 39 effect	£(26)m	£(11)m
Non cash element of IAS 19 Pensions charge	£(136)m	£(106)m
Net finance costs	£(571)m	£(432)m

Underlying net finance costs increased to £(409)m from £(315)m last year. The increase in net finance costs reflected a higher level of debt and the set up costs relating to new credit facilities. Finance income reduced primarily reflecting the redemption of a medium term note and the expiry of the associated hedging instrument resulting in lower derivative income. Capitalised interest reduced by £(35)m to £44m, in line with reduced levels of work-in-progress.

Taxation

The effective rate of tax for the Group was 20.7%, with a charge of £(199)m based on underlying profit. Last year's rate of 15.4% reflected the one-off effect of a lower UK corporate tax rate on deferred tax liabilities.

Earnings per share

Underlying diluted earnings per share were 9.42p, (70.6)% lower year-on-year at actual tax rates ((70.5)% lower on a 52 week basis), driven by the decline in our trading profit performance. Statutory losses per share were (70.24)p reflecting one-off items.

Dividend

As announced in January, the Board has taken the decision not to recommend a final dividend, with the full year dividend charge solely reflecting the interim dividend of 1.16p paid on 19 December 2014. Future dividends will be considered within the context of the performance of the Group, free cash flow generation and the level of indebtedness.

Capital expenditure

	TY	LY
UK	£1.3bn	£1.6bn
Asia	£0.4bn	£0.7bn
Europe	£0.2bn	£0.3bn
Tesco Bank	£0.1bn	£0.1bn
Group	**£2.0bn**	**£2.7bn**

Capital expenditure was £2.0bn, a decrease of £0.7bn year-on-year, with lower spend in each region. As we described in January, we are planning a significant reduction in Group capital expenditure for the current year to £1.0bn.

Financial review continued

We opened 1.6m square feet of gross new space in the year, but this was offset by the closure of 1.1m sq. ft. of space, primarily in Turkey and Hungary and the repurposing of 0.6m sq. ft. of space, mainly in Asia. We continue to grow our franchise store network. In the year, we opened 1m sq. ft. of space in our franchise stores, mostly in South Korea, and are planning to open a further 0.6m sq. ft. this year.

Property

As at the year end, the estimated market value of fully-owned property across the Group was £22.9bn. This represents a reduction of £7.6bn year-on-year driven mainly by the weakening of the UK and Central European property markets. This represents an estimated surplus of £2.7bn over the net book value.

The estimated market value excludes our share of property joint ventures. Including this, the valuation would increase by £0.9bn, net of the debt in the joint ventures. Last year's disclosed property valuation of £34.1bn included £1.2bn relating to our Chinese operations now disposed to our joint venture and £2.4bn from our share of joint venture property, before deducting debt.

In March 2015, the British Land asset swap added a further £0.7bn to the value of our property as we took ownership of 21 superstores. Including this increase, our Group freehold ownership percentage is now 55% by value and 60% by selling space.

	UK	Asia	Europe	Group
Property* – wholly owned				
–Estimated market value	£10.5bn	£8.3bn	£4.1bn	£22.9bn
–Net book value**	£10.5bn	£6.1bn	£3.7bn	£20.2bn
Proportion of owned net selling space	41%	66%	75%	59%
Proportion of owned space by value***	40%	71%	74%	53%

* Stores, malls, investment properties, offices, Distribution Centres, fixtures and fittings and WIP. Excludes JVs.
** Property, plant and equipment excluding vehicles.
*** Excluding fixtures and fittings.

Retail cash flow and net debt

	TY £m	LY £m
Cash generated from retail operations before changes in working capital*	715	**4,327**
(Increase)/decrease in working capital	1,145	**280**
Interest paid	(609)	(490)
Corporation tax paid	(347)	(612)
Net cash generated from retail operating activities	904	**3,505**
Cash capital expenditure	(2,244)	(2,774)
Free cash flow	(1,340)	**731**
Other investing activities	253	66
Net cash used in financing activities and intra-Group funding and intercompany transactions	239	160
Net (decrease)/increase in cash and cash equivalents	(848)	**957**
Exclude cash movements in debt items	(1,010)	(374)
Fair value and other non-cash movements	(26)	(583)
Movement in net debt	(1,884)	**–**

* Includes both continuing and discontinued operations.

Reflecting the lower level of underlying profitability, £(0.6)bn in interest paid due to underlying finance costs and the timing of interest payments, and £(0.3)bn of cash corporation taxes, net cash generated from retail operating activities was £0.9bn. After cash capital expenditure of £(2.2)bn this resulted in a free cash outflow in the year of £(1.3)bn. This, combined with other movements led to a net debt movement of £(1.9)bn.

Pension

On an accounting basis, the Group's net pension deficit after tax increased from £(2.6)bn last year to £(3.9)bn at the year end. This was driven by a reduction of 80 basis points in real corporate bond yields, leading to a corresponding reduction in the discount rate used to measure our long term liabilities, partially offset by a strong asset performance. On an actuarial basis, the deficit at 31 March 2014 was £(2.8)bn and a plan to fund the deficit with cash contributions of £270m per annum has been agreed with the Trustee. We are consulting with our colleagues to replace our defined benefit pension scheme with a defined contribution scheme.

Total indebtedness

We define our balance sheet leverage more broadly to include net debt, discounted rent and lease commitments and our IAS 19 pension liability. On this basis our total leverage or indebtedness was £(21.7)bn, an increase of £(3.1)bn driven by increases in both net debt and our pension liability.

	TY £m	LY £m
Net debt* (excludes Tesco Bank)	(8,481)	(6,597)
Discounted operating lease commitments	(9,353)	(9,419)
Pension deficit, IAS 19 basis (post-tax)	(3,885)	(2,559)
Total indebtedness (including lease commitments and pension deficit)	(21,719)	**(18,575)**

* Includes both continuing and discontinued operations.

Our discounted minimum operating lease commitments were broadly unchanged at £(9.4)bn, whilst our operating lease expense in the year increased by £72m to £1,486m. Around £35m of this expense related to inflation-indexed rent which will not recur as a result of the British Land asset swap entered into post year end. The transaction will also result in the consolidation of net debt of around £450m.

Outlook

The market is still challenging and we don't expect this to change in the immediate future. Over the next 12 months we will continue to focus on our three priorities: regaining competitiveness in our UK business; protecting and strengthening the balance sheet; and rebuilding trust and transparency in the business and the brand.

We are already making good progress on these initiatives and on the basis of actions already undertaken they will deliver significant cost savings in 2015/16. The immediate priority for these and any other savings delivered is reinvestment in the customer offer in order to further restore UK competitiveness.

Alan Stewart
Chief Financial Officer

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Commercial income

Commercial income represents part of our overall economic relationship with suppliers. Consistent with standard grocery market practice, we negotiate a very wide range of payments to and from our suppliers including fees, contributions, discounts, multiple offers and volume rebates. Whilst we have embarked on a fundamental review which will significantly simplify our approach, in total we currently use over 20 different categories of variation in payment terms. Many of these relate to adjustments to a cost price and can be considered (and are in practice) a part of the standard unit price variations that can be expected under normal, competitive market conditions. As such these amounts are recognised in the income statement as a deduction to the cost of goods sold.

A number of commercial income categories can be conditional on the satisfaction of certain actions or performance conditions by either Tesco or the supplier in question, including the achievement of agreed sales volume targets, the provision of certain benefits such as marketing materials or promotional product positioning, and costs incurred for unplanned variations in product specification. In most instances, the arrangements that set out these terms cover periods that are within or end at the same point as our financial year.

Where agreements are in place across a period end, judgement can be required to assess if the conditions will be met, and therefore to estimate the period end amounts payable and receivable. For example, where there are volume-related allowances spanning different account periods, the Group assesses the probability that targeted volumes will be achieved based on historical and forecast performance, recognising the appropriate amounts in the period end balance sheet and income statement.

Commercial income is reflected in a number of balance sheet categories – principally due to differences in timing between recognition of income, receipt of cash and sale of goods. In order to provide greater clarity on the accounting for commercial income – including those instances where judgement and estimates are used – we are increasing our disclosure to show the effects of commercial income on the following balance sheet accounts:

- **Inventories:** The carrying value of inventories is reduced by the value of commercial income which will be earned when the associated stock is sold.

- **Trade and other receivables:** Amounts that have been invoiced to suppliers but not yet received are included within trade and other receivables.

- **Accrued income:** Any amounts earned but not yet invoiced to suppliers are included in accrued income. The majority relates to amounts outstanding under large supplier agreements or promotional allowances that run up to the period end. The balance primarily reflects amounts due under long-term agreements for volume rebates.

- **Trade payables:** Most agreements with suppliers enable income earned to be offset against amounts owed. These balances are included as a deduction within trade payables.

- **Accruals and deferred income:** Any amounts received in advance of income being earned are included in accruals and deferred income.

The impact of commercial income on each of these accounts for the years to 28 February 2015 and 22 February 2014 is shown below:

	2015 Group £m	UK £m	2014 Group £m	UK £m
Current Assets				
Inventories	(93)	(67)	(82)	(52)
Trade and other receivables				
–Other receivables	97	54	89	22
–Accrued income	158	117	230	173
Current Liabilities				
Trade and other payables				
–Trade payables	347	173	547	368
–Accruals and deferred income	(53)	(53)	–	–

Environmental and social review

Wherever we work, we want to help make life a little easier for our customers, colleagues and communities.

Our approach

We want to help everyone who shops with us enjoy a better quality of life and an easier way of living.

We also want to help tackle wider social and environmental challenges which our customers care about and which are material to our business, for example making it easier for customers and colleagues to live healthier lives; reducing food waste and tackling food poverty; and working with our suppliers to source responsibly and sustainably.

While the last year has been challenging for Tesco, we remain incredibly proud of the efforts we have made to tackle sustainability issues, support important causes and help local communities. As we begin the process of renewal and change, we are committed to listening to and working with our customers, colleagues and stakeholders from across society to ensure that we align our approach to value creation with their expectations.

Our reporting

As we reset many aspects of our business, so we have changed our approach to reporting. This report looks at our business in the round and sets out our strategic priorities; our corporate responsibility is a fundamental part of these. Instead of a separate, printed corporate responsibility report, we now publish further details on our corporate responsibility, our policies and our key data online. In addition we are refreshing our approach to our materiality assessment as we continue listening to ensure we understand what matters most to our customers, colleagues, suppliers and stakeholders. All of this can be found at www.tescoplc.com/society.

Our governance

Our new Chairman, John Allan, has taken on the role of chair of our Corporate Responsibility Committee following the retirement of Jacqueline Tammenoms Bakker from the Board. More detail about the governance of this Committee can be found on page 40.

We also work closely with our Expert Advisory Panel, made up of four independent corporate responsibility advisors, who meet four times a year to provide valuable input and act as a critical voice to our activities. More information on this can be found online at www.tescoplc.com/ourpanel.

Visit **www.tescoplc.com/society**
for information on:
- Our approach
- Ongoing activities
- Our latest case studies

As an example of our approach to creating sustainable value chains, take a look at our work on bananas:

We're proud to be the first retailer to publish data on food waste within our own operations, and we're working with our suppliers and customers to reduce food waste from the farm to the fork.

1. Suppliers

We want to make sure no edible part of the banana crop is wasted, so we work with dedicated banana farms to use as much as possible of the banana crops they produce. We sell small bananas in our Everyday Value and Goodness ranges, and we sell single bananas in our One Stop stores.

2. Own operations

To minimise damage to the bananas in our stores, we train our colleagues in how to treat food. A key part of that is our 'Love Bananas' campaign – this helps colleagues to understand how to handle bananas in order to minimise bruising.

3. Customers

Customers tell us they want to reduce waste within their own homes, and we're doing lots of little things to help – including adding WRAP food waste hints and tips on our fresh food packaging, and creating a meal planner on our Real Food website, which suggests recipes for customers who want to use up their food.

What's next?

Within our own operations, our overriding priority is always to minimise any food waste – but where waste does occur, customers tell us they want us to give edible food to charity. We have made great progress on this over the last year, and we will be looking at what more we can do to ensure no edible food is wasted.

Environmental and social review continued

Our people

Our approach

The challenges our business has faced over the last year have been incredibly difficult for our colleagues, but despite this, we are extremely proud of the focus which colleagues have continued to place on doing the right thing for customers and delivering outstanding service.

A key principle throughout the transformation process has been, wherever possible, to make sure colleagues are the first to know of any changes within the business which will affect them. This commitment to be open and transparent will continue once the transformation process is complete.

We have worked hard to do everything we can to support colleagues and offer expert advice as they face changes to their roles and the organisation. We have continued to expand our training programmes to help colleagues grow and develop. The importance of diversity in the broadest sense also remains critical to our business, and the ratio of male to female colleagues at year end is outlined below. In addition, the pay gap between men and women is less than 1%.

Our diversity	Male		Female	
Board of Directors*	10	77%	3	23%
Senior managers – Directors	614	76%	195	24%
Senior managers – Directors and managers	3,847	69%	1,732	31%
All employees	220,257	43%	297,545	57%

* Changes since year end mean that our Board is now made up of nine men and one woman.

Respecting human rights

We are determined to respect the human rights of our customers, our colleagues and our suppliers, within all of the communities they work.

We are committed to upholding basic human rights and fully support the UN Universal Declaration of Human Rights and the International Labour Organization Core Conventions. 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 always investigate allegations of human rights infringements and take action when needed to ensure people's rights are respected.

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

- Our customers want to buy great products that are produced safely and responsibly. Only by protecting human rights can we give our customers this confidence, as well as ensuring we are a good neighbour wherever we operate.
- We have strong, consistent people policies that are designed to make Tesco a great place to work; where everyone is welcome and feels confident to be themselves in a safe environment.
- We are building even stronger partnerships with trusted suppliers so we can ensure that we deliver great, safe products that are responsibly produced.

We know that consistently addressing human rights risks and concerns across a global supply chain can be complicated. Only by being open and responsive and having strong relationships, can we find out about issues and work to solve them. We must work in partnership to do this – both with our suppliers and with experts and non-governmental organisations (NGOs) on the ground. It is also why we were strong supporters of the UK Government's new Modern Slavery Bill and the clause on transparency in supply chains, and look forward to reporting against this in future years.

Governance and monitoring

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.

This year we launched a new Code of Business Conduct, supported by a company-wide training programme to help colleagues follow key policies; this included a section on our approach to human rights.

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

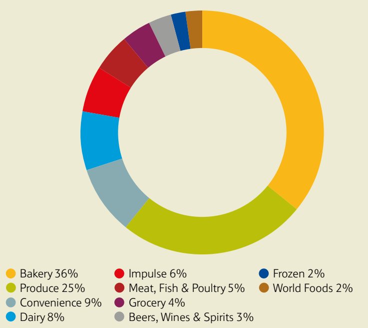
To review our full policy visit www.tescoplc.com/humanrights.

Food waste

In 2014/15 we have calculated that 55,400^Δ tonnes of food were wasted in Tesco stores and distribution centres in the UK which is equivalent to 0.9%^Δ of the number of food products we sold in our stores over the same period. The chart on the right shows the breakdown of this food waste by category. This has decreased by 1,180 tonnes compared to 2013/14.

^Δ Independent limited assurance provided by KPMG LLP. It is important to read the data in the context of KPMG's full statement and Tesco's reporting criteria at www.tescoplc.com/foodwastefigures.

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



55,400 tonnes
Food waste in our own operations (UK)

Greenhouse gas emissions

Our net carbon footprint in 2014/15 was 5.6 million tonnes of CO_2e.

Our overall net carbon intensity per square foot of retail and distribution floor space decreased by 4.3% compared to last year, and 40.9% since 2006/07, surpassing our 2014/15 annual reduction target.

For more information on our carbon targets and how we calculate our carbon footprint, including reporting standards and an Independent Assurance Statement from our auditors (ERMCVS), see www.tescoplc.com/carbonfigures.

	Global tonnes of CO_2e		
GHG emissions data for period 23 February 2014 to 28 February 2015	Base year 2006/07	2013/14	2014/15
Scope 1	1,311,109	1,320,122	1,313,291
Scope 2	2,503,597	3,036,282	3,145,907
Scope 1 and 2 carbon intensity (kg CO_2e/sq. ft. of stores and DCs)	49.63	30.65	30.11
Scope 3	1,129,699	1,287,661	1,166,743
Total gross emissions	4,944,405	5,644,066	5,625,941
CO_2e from renewable energy exported to grid	–	163.63	680.16
Total net emissions	4,944,405	5,643,902	5,625,261
Overall net carbon intensity (total net emissions kg CO_2e/sq. ft. of stores and DCs)	64.33	39.71	37.99

Visit **www.tesco.com/society** for more information on our policies and disclosures

Principal risks and uncertainties

We have an established risk management process to identify the principal risks that we face as a business. The risk management process relies on our judgement of the risk likelihood and impact and also developing and monitoring appropriate controls. We maintain a Group Key Risk Register of the principal risks faced by the Group and this is an important component of our governance framework and how we manage our business. Our risk management process is cascaded down the Group. The content of the Group Key Risk Register is considered and discussed through regular meetings with senior management and review by the Executive Committee and the Board. Our process for identifying and managing risk is set out in more detail on page 44 of the Annual Report and Financial Statements 2015.

The table below sets out our key risks, their movement during the year and examples of relevant controls and mitigating factors. The Board considers these to be the most significant risks faced by our Group that may impact the achievement of our three strategic priorities as set out on page 3. They do not comprise all of the risks associated with our business and are not set out in priority order.

Additional risks not presently known to management, or currently deemed to be less material, may also have an adverse effect on the business.

In September 2014, we identified an overstatement of the expected financial results. This is now the subject of an investigation by the Serious Fraud Office and civil proceedings in the United States. Details can be found on page 33 and in Note 32 on page 136 of the Annual Report and Financial Statements 2015. There are significant uncertainties as to the outcome of the existing investigation and proceedings, as to whether further proceedings may be brought against the Group in connection with the overstatement of the expected financial results and as to whether any proceedings brought against the Group would be likely to have a significant effect on the results of its operations or its financial condition.

Key to risk movement

↑ Risk increasing
→ No risk movement
↓ Risk decreasing

Principal risks	Risk movement	Key controls and mitigating factors
Customer		
If we do not meet customer needs and compete on price, product range, quality and service in the competitive UK and overseas retail markets, then we lose our share of customer purchases By not considering the customer at the heart of our decision-making processes, we adversely impact our relationship with customers	→	• We have strategically re-positioned our business to focus on the customer • We are investing further in our customer proposition, reducing prices across our ranges and improving service with additional colleague hours • Our performance is tracked within our business against measures that customers tell us are important to their shopping experience • Customer perceptions of Tesco and our competitors are regularly monitored to allow us to react quickly and appropriately
Financial strategy		
There is a risk that the financial strategy is unclear or unsustainable Weak performance could put further pressure on free cash flow and impact our ability to improve our credit rating Our ability to operate successfully in international markets may be restricted if we cannot get the returns required in each market and this could adversely impact our profitability There is a risk that future legal and regulatory changes to the pension scheme could introduce more onerous requirements and increase our financial liability and that the deficit on the existing scheme could increase due to changes in assumptions on inflation, mortality and discount rates applied in determining liabilities of the scheme and the performance of its assets Investor support may be impacted if it takes longer than expected to demonstrate that our strategy is achieving the turnaround	↑	• Strategic matters are regularly reviewed by the Executive Committee and Board and we seek external advice as required • We have clear processes for the evaluation and identification of underperforming assets to ensure that appropriate action is taken • Our plans and budgets are developed and presented to our Executive Committee and Board for approval to ensure targets and objectives are clear and consistent • Our Group Property strategy ensures that there is a clear plan to address and control retail space, re-purpose space effectively where needed and ensure the right balance between freehold and leasehold space • We are consulting on the closure of our UK pension scheme to all future accrual which, if approved, would stop the future growth of liabilities and significantly reduce liability risk in the scheme • External expert advisors and the pension scheme Trustee are fully engaged to consider the funding position and fund performance of the pension scheme as well as the impact of legislative and regulatory changes • There has been a triennial revaluation of the pension scheme assets and liabilities in the year and a deficit funding plan has been agreed with the Trustee • We engage regularly with our investors to communicate details of our strategy and plans • Further detail on the management of financial risks is set out on page 25 and in Note 22 on page 120 of the Annual Report and Financial Statements 2015
Brand, reputation and trust		
Our brand will suffer if we do not rebuild trust and transparency in our business If we cannot be firm in the face of ethical, legal, moral or operational challenges, our reputation may be damaged	↑	• Rebuilding trust and transparency in our brand is one of our three strategic priorities • Our Group processes and policies set out how we can make the right decisions for our customers, colleagues, suppliers, communities and investors • We have developed communication and engagement programmes to listen to our stakeholders and reflect their needs in our plans • We maximise the value and impact of our brand with the advice of specialist external agencies and in-house marketing expertise • We are developing new Corporate Responsibility goals that are aligned with customer priorities and our brand

Principal risks	Risk movement	Key controls and mitigating factors
Data security and privacy		
Increasing risks of cyber-attack threaten the security of customer, colleague and supplier data We must ensure that we understand the types of data that we hold and secure it adequately to manage the risk of data breaches	↑	• We have active monitoring processes to identify and deal with IT security incidents • A new Cyber Security team has been established to investigate and mitigate the risks of cyber-attack • A Group-wide Information Security Blueprint has been rolled out across our businesses • There is a programme of compliance monitoring and review being rolled out with training across our businesses • A programme to review the use, storage and security of customer data is in progress
Transformation		
If the scale of the change across our business disrupts our focus, there is a risk that we will not transform the business to where it needs to be There is a risk that we underestimate the wider impacts of the changes that we are making	NEW	• There is Executive sponsorship of the Transformation programme with the creation of a Transformation Director role • New Group structures have been designed to simplify our business and clarify accountability • A new Programme Management Office has been established to manage the Transformation programme and will be supported by experienced resource from within the business and externally as required
Competition and markets		
If we fail to address the differing challenges of the budget retailers, the premium retailers and online entrants, it may adversely impact our market share and profitability	↑	• We actively seek to be competitive on price, range and service as well as developing our online and multiple formats to allow us to compete in different markets • Our Executive Committee and operational units regularly review markets, trading opportunities and competitor strategy and activity
Performance		
If our strategy is not effectively communicated or implemented, our business may underperform against plan and competitors The delivery of long term plans may be impacted if the business focuses on short term targets only	→	• Our Board, Executive Committee and operational units meet regularly to review performance risks • All businesses have targets based on a new balanced scorecard of performance against KPIs and financial targets. Plans are monitored and reviewed regularly by the Executive Committee and the Board • An ongoing communication process informs our colleagues about the long term strategy and ensures that they understand their part in it • There are clear guidelines and policies set out to ensure that there is an appropriate focus on balance between short term and longer term delivery
Political and regulatory		
In each country in which we operate, we may be impacted by legal and regulatory changes, increased scrutiny from competition authorities and political changes that affect the retail market The regulatory landscape is becoming more restrictive in many markets and may impact our trading	↑	• We engage with government and regulatory bodies to represent the views of our customers, colleagues and communities and to manage the impact of political and regulatory changes • We aim to contribute to important discussions in public policy wherever we operate • Country developments are monitored by our local management teams • Group and country Compliance Committees monitor and guide legal and regulatory compliance with support from our Group Regulatory Ethics and Compliance team • The Tesco Bank Executive and Treating Customers Fairly Board oversee Tesco Bank's compliance with regulatory requirements
Product		
Our business may suffer if we fail to work with our suppliers to ensure that our products are designed and delivered to meet a high standard and to ensure we can trace their provenance If we do not build mutual and trusting relationships with our suppliers, this could impact our range and price proposition If we do not manage our supply chain, we may risk not being able to ensure the quality and security of product supply for customers	→	• Group and country Compliance Committees have been re-structured to simplify the identification and monitoring of the risks associated with products, suppliers and operations • We publish results of internal testing (e.g. provenance tests of content in our food) and we have in place ethical trading teams working with suppliers • Appropriate controls are in place around: product development; supplier management, including the introduction of a new Supplier Feedback forum and an independent Protector Line and Helpline; distribution standards; third party contract management; and compliance with regulatory standards • Clear procedures are operated globally to ensure product integrity and comprehensive supplier audit programmes are in place to monitor product integrity and labour standards • A comprehensive compliance programme is in place to promote, monitor and review compliance with the Groceries Supply Code of Practice in the UK. Appropriate programmes are in place in other markets • Sustainability considerations are integrated into our long-term decision making to ensure that the development of our products is aligned with our goal of reducing our impact on the environment. We look, in particular, at sustainable sourcing, improved security of supply and mitigating the impact of climate change

Principal risks and uncertainties continued

Principal risks	Risk movement	Key controls and mitigating factors
Technology		
Any significant failure in the IT processes of our retail operations in stores, online or in our supply chain could impact our ability to trade If we do not invest enough or efficiently or invest in the wrong areas, we may not be able to deliver our customer proposition which could impact our competitiveness As we develop new technologies, we must maintain the controls over existing platforms or it may impact systems availability and security	→	• Our IT strategy is reviewed and approved by the Executive Committee • We have governance processes in place around new system implementations and change management of existing IT, adherence to which is closely monitored • There is a clear programme of investment to maintain the integrity and efficiency of our IT infrastructure and its security • Business continuity plans are in place for key business processes
People		
Failure to attract, retain, develop and motivate the best people with the right capabilities across all levels, geographies and through the business transformation process could limit our ability to succeed There is a risk that our leaders may not play their critical role in shaping the organisation that we want to be and that they do not inspire great performance from our teams	↑	• The Executive Committee meets regularly to review and monitor people policies and procedures and talent development • We seek to understand and respond to employees' needs by listening to their feedback from open conversations, social media, colleague surveys and performance reviews • Talent planning, training and people development processes are embedded across our Group • Objectives and remuneration arrangements for senior management are approved by the Executive Committee and have been re-designed to reward behaviours as well as delivery of results
Safety, fraud, control and compliance		
If we do not implement safety standards effectively, we may endanger our customers or colleagues Given the existing size, geographical scope and complexity of our Group, the potential for fraud and dishonest activity by our suppliers, customers and employees increases There is a risk that if the compliance monitoring to our Group standards and policies is not sufficient, we could fail to identify weaknesses or breaches	↑	• Standards for Health and Safety are defined for all of our sites, monitoring processes are in place and we have created a Group team whose primary objective is to ensure that safety standards are met • Product safety standards are communicated to our suppliers and tested through audit programmes • Procedures and controls are set out across the business to reduce fraud and compliance risks, including our Group Accounting Policy, key financial controls self-assessment programme, IT access controls and appropriate segregation of duties. Group Loss Prevention and Security monitors fraud, bribery and other compliance risks • Compliance Committees monitor compliance with relevant laws and regulations • Our Group Code of Conduct has been recently refreshed and re-launched with appropriate training across the Group. This sets out clear behavioural guidance, consistent with our Values • We have comprehensive guidance across the Group to ensure compliance with the UK Bribery Act (and applicable local legislation) and use an externally managed Whistleblowing service (Protector Line) to allow colleagues to report any instances of inappropriate behaviour • A Fraud Blueprint setting out risks, controls and operational strategies informs a preventative approach
Tesco Bank		
The continually changing regulatory environment could impact the levels of capital and liquidity the Bank expects to hold, could impact the earnings profile as a result of interchange fee caps, and may affect the governance of the Bank as the new regulatory Senior Managers Regime is finalised	→	• The Bank has a defined 'Risk Appetite', approved and regularly reviewed by both the Bank's Board and the Tesco PLC Board, which sets out the key risks, their optimum ranges, alert limits and the controls required to manage them within their approved tolerance limits • The Bank has formed good working relationships with the Prudential Regulation Authority and Financial Conduct Authority • There is a comprehensive structure of governance and oversight in place, including through the Bank's Governance and Conduct Committees, to help ensure the Bank's compliance with applicable laws and regulations • The Group is actively engaged in developing and implementing plans to respond to interchange fee developments to manage the impact on our profitability

Financial risks review

The main financial risks faced by the Group relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by parties to financial transactions. Further explanation of these risks is set out in Note 22 on page 120 of the Annual Report and Financial Statements 2015. An overview of the management of these risks is set out below. Details of the main financial risks relating to Tesco Bank and the management of those risks can be found in Note 22 on page 123 of the Annual Report and Financial Statements 2015.

Financial risks	Key controls and mitigating factors
Funding and liquidity risk	
The risk of being unable to continue to fund our operations on an ongoing basis	• The Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases • New funding of £2.3 billion was raised during the year, including £2.1 billion from long term debt and £0.2 billion from property disposals. At the year end, net debt was £8.5 billion (2014: £6.6 billion) • The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities and to maintain access to capital markets so that maturing debt may be refinanced as it falls due • Tesco has put in place £5 billion of committed facilities consisting of a revolving credit facility and bilateral lines as alternate sources of liquidity • At the year end, the Group had a long-term credit rating of BBB- (negative) from Fitch, Ba1 (stable) from Moody's and BB+ (stable) from Standard & Poor's
Interest rate risk	
The risk to our profit and loss account resulting from rising interest rates	• Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt • Our policy is to fix interest rates for the year on a minimum of 40% of actual and projected debt interest costs of the Group excluding Tesco Bank. At the year end, the percentage of interest-bearing debt at fixed rates was 79% (2014: 84%). The remaining balance of our debt is in floating rate form. The average rate of interest paid on an historic cost basis this year, excluding joint ventures and associates, was 4.09% (2014: 4.5%)
Foreign exchange risk	
The risk that exchange rate volatility may have an adverse impact on our balance sheet or profit and loss account	• Transactional currency exposures that could significantly impact the Group Income Statement are managed, typically using forward purchases or sales of foreign currencies and purchased currency options. At the year end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £2.2 billion were outstanding (2014: £2.9 billion) as detailed in Note 21 on page 116 of the Annual Report and Financial Statements 2015. We translate overseas profits at average foreign exchange rates • We only hedge a proportion of the investment in our international subsidiaries as well as ensuring that each subsidiary is appropriately hedged in respect of its non-functional currency assets. During the year, currency movements increased the net value, after the effects of hedging, of the Group's overseas assets by £5 million (last year decrease of £1,102 million)
Counterparty risk	
The risk of loss arising from default by parties to financial transactions	• The Group holds positions with an approved list of highly rated counterparties • Tesco monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis
Insurance risk	
The risk of being inadequately protected from liabilities arising from unforeseen events	• We purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only • The risk not transferred to the insurance market is retained within the business with some cover being provided by our captive insurance companies, ELH Insurance Limited in Guernsey and Valiant Insurance Company Limited in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company Limited covers Combined Liability only

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
5 May 2015

Corporate governance

Board of Directors

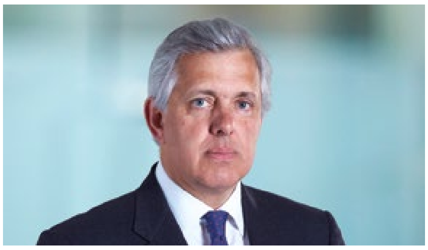
John Allan ▲ ● ✚
Non-executive Chairman
John joined the Board on 1 March 2015. After a career including Marketing, Buying and Retail Operations, John became CEO of Ocean Group plc in 1994 and then Exel in 2000, following a merger with NFC to become the global leader in logistics. John joined the Board of Deutsche Post when it acquired Exel in 2005 for a share price five times of that of 1994, and was CFO from 2007 to 2009.

John became Chairman of Dixons Retail in September 2009. Dixons conducted a comprehensive turnaround programme during which the share price more than quadrupled, culminating in a friendly merger of equals with Carphone Warehouse in August 2014 to form Dixons Carphone. He is also Chairman of Barratt Developments and Chairman of Worldpay.

Dave Lewis
Group Chief Executive
Dave became Group Chief Executive of Tesco on 1 September 2014, joining from Unilever. Over nearly 28 years, Dave worked in a variety of roles with Unilever, which took him across greater Europe, Asia and the Americas. His last three roles were Chairman for Unilever in the UK and Ireland, President for the Americas and Global President, Personal Care. During his career, Dave has been responsible for a number of business turnarounds. Dave is a Non-executive Director of British Sky Broadcasting Group plc.

Alan Stewart
Chief Financial Officer
Alan joined the Board on 23 September 2014. Alan has extensive financial experience in retail having been CFO at Marks & Spencer and WH Smith. A qualified accountant, he started his career in investment banking with HSBC in 1986. He became CFO at Thomas Cook Holdings in 1998 and was appointed UK CEO in 2001. In 2005 he moved to WH Smith as Group CFO. In 2008 he was appointed CFO at AWAS, a leading aircraft leasing business, before moving to M&S in 2010. He is also a Non-executive Director of Diageo plc.

Richard Cousins ■ ▲
Senior Independent Director
Richard was appointed a Non-executive Director on 1 November 2014 and became the Senior Independent Director on 7 April 2015. Richard brings valuable UK and international corporate experience to the Board. He has been the Group CEO of the Compass Group PLC since 2006 and is also a member of the advisory board of Lancaster University Business School. Prior to joining Compass, Richard worked for 15 years for BPB PLC and was Group Chief Executive from 2000 to 2005. Richard was previously a Non-executive Director of Reckitt Benckiser Group PLC and of HBOS PLC and P&O.



Mark Armour ■
Non-executive Director
Mark was appointed on 2 September 2013. Mark was Chief Financial Officer 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 of Price Waterhouse in London. He is a Non-executive Director of the Financial Reporting Council and a Non-executive Director and Chairman of the Audit Committee of SABMiller plc. Mark is a fellow of the Institute of Chartered Accountants.

Stuart Chambers ▲ ●
Non-executive Director
Stuart was appointed on 3 July 2010. He served as the Chairman of the Remuneration Committee until 1 January 2015 and was a Non-executive Director of Tesco Bank from 2012 to 2014. Stuart was Group Chief Executive of NSG Group from 2008 to 2009, and was Group Chief Executive of Pilkington plc prior to NSG's acquisition in 2006. He was a Non-executive Director of Smiths Group plc and a Non-executive Director of Manchester Airport Group plc. Stuart was appointed Chairman of Rexam plc on 23 February 2012 and Chairman of ARM Plc on 1 March 2014.

Byron Grote ■
Non-executive Director
Byron was appointed to the Tesco Board on 1 May 2015. He is also currently a Non-executive Director on the Boards of Anglo American, Akzo Nobel NV and Standard Chartered and was previously a Non-executive Director of Unilever. Byron served as an Executive Director at BP plc from 2000 until 2013. He was the Chief Financial Officer at BP from 2002 until 2011, following two years as Chief Executive of BP Chemicals.

Ken Hanna ▲■●
Non-executive Director
Ken was appointed on 1 April 2009 and became the Audit Committee Chairman on 5 October 2012. Ken was previously Chief Financial Officer of Cadbury plc from 2004 until 2009 and prior to that an Operating Partner of Compass Partners and CFO and then CEO of Dalgety plc. Ken has also been CFO of United Distillers and Avis Europe plc. He is currently Chairman of Inchcape plc, Aggreko plc and Shooting Star CHASE. Ken is a fellow of the Institute of Chartered Accountants.

Mikael Olsson ●✚
Non-executive Director
Mikael was appointed on 1 November 2014. Mikael brings valuable retail and international experience to the Board. He was CEO and President of the IKEA Group from 2009 until 2013. During his 34 years at IKEA, Mikael held a wide range of roles across the IKEA business and was a member of the Executive Management Group of the IKEA Group from 1995 until 2013. He is a Non-executive Director of The Schiphol Group, Volvo Car Corporation, Ikano S.A. and Lindengruppen AB.

Deanna Oppenheimer ●✚
Non-executive Director
Deanna was appointed a Non-executive Director on 1 March 2012 and became Chairman of the Remuneration Committee on 1 January 2015. She became a Non-executive Director of Tesco Bank on 17 July 2012. Deanna previously held various senior roles at Barclays, including Vice Chair of Global Retail Banking and also as Chief Executive of Europe Retail and Business Banking. She has also served as a Non-executive Director of Catellus and Plum Creek Timber. Deanna is the Founder of CameoWorks LLC and is a Non-executive Director at NCR Corporation and The AXA Group.

Committee membership (at 5 May 2015)
▲ = Nominations Committee
■ = Audit Committee
● = Remuneration Committee
✚ = Corporate Responsibility Committee

There have been a number of changes to the Board since last year which are described in the Chairman's statement on page 2 and the corporate governance report on pages 32 to 36.

Executive Committee

Our Executive Committee is organised around our three core capabilities – customers, channels and products – alongside leaders for each of the key functions.

Dave Lewis
Group Chief Executive
Dave became Group Chief Executive of Tesco on 1 September 2014, joining from Unilever. Over nearly 28 years, Dave worked in a variety of roles with Unilever, which took him across greater Europe, Asia and the Americas. His last three roles were Chairman for Unilever in the UK and Ireland, President for the Americas and Global President, Personal Care. During his career, Dave has been responsible for a number of business turnarounds. Dave is a Non-executive Director of British Sky Broadcasting Group plc.

Alan Stewart
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Matt Davies
UK & ROI CEO
Matt joined Tesco on 11 May 2015 as UK & ROI CEO on the Executive Committee. Prior to Tesco, Matt was CEO at Halfords Group PLC and before that CEO at Pets at Home. He brings a huge amount of experience, both in retail and business transformation. He is also a qualified Chartered Accountant with extensive corporate finance experience.

Jill Easterbrook
Group Business Transformation Director
Jill joined Tesco in 2001 and has held various leadership roles across the Group. In 2013, Jill joined the Executive Committee as Director of Developing Businesses. She subsequently became Chief Customer Officer until January 2015 when she took up the role of Group Business Transformation Director.

Benny Higgins
CEO, Tesco Bank and Group Strategy Director
Before joining Tesco Bank, Benny served as Chief Executive Officer of Retail Business at HBOS PLC. Between 1997 and 2005 Benny was Chief Executive of Retail Banking at the Royal Bank of Scotland. Prior to joining RBS, Benny was at Standard Life for 14 years. He has been Chief Executive of Tesco Bank since 2008. As well as his role leading the Bank, Benny Higgins became Group Strategy Director in January 2015.

Alison Horner
Chief People Officer
Alison joined Tesco in 1999 as a Personnel Manager and was later promoted to Personnel Director for Tesco's UK operations. After eight years in stores and general merchandise roles she joined the Executive Committee in 2011 as Group Personnel Director, with responsibility for the development of our 500,000 colleagues.

Trevor Masters
International CEO
Trevor joined Tesco in 1979, starting his Tesco career as a Store Manager, and later a Store Director. Trevor held the role of Operations Director for Extras 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. In January 2015, Trevor was appointed International CEO.

Adrian Morris
Group General Counsel
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. From 2002 to 2009, Adrian was with Centrica PLC, initially as European General Counsel and then as General Counsel for British Gas.

Rebecca Shelley
Group Communications Director
Rebecca joined Tesco in May 2012 as Group Corporate Affairs Director. Prior to Tesco, Rebecca was a partner at Brunswick LLP where she advised a range of companies on financial and corporate reputation issues. From 2000 to 2007, Rebecca worked at Prudential as Group Communications Director and was a member of its Executive Committee.

Jason Tarry
Chief Product Officer
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, including Impulse and Bakery Category Director, Non Food Sourcing Director and Clothing Category Director. Jason was appointed CEO of Group Clothing in 2012, which included UK & ROI store and online operations, as well as overseeing F&F's Asia business and franchise partnerships. In January 2015, Jason joined the Executive Committee, becoming Chief Product Officer.

Robin Terrell
Chief Customer Officer
Robin joined Tesco in February 2013 as Group Multichannel Director on the Executive Committee. 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 multichannel roles at Figleaves.com, John Lewis and House of Fraser. In January 2015, Robin was appointed Chief Customer Officer.

Corporate governance report

John Allan
Chairman

In this section

This corporate governance report is intended to provide shareholders with a clear and comprehensive view of the Group's governance arrangements and how it has operated during the year. We have structured the report as follows:

Introduction from the Chairman

On behalf of the Board, I am pleased to introduce our corporate governance report. The Board believes that how we do business is as important as what we do and is committed to delivering the highest standard of corporate governance. Ensuring we have the right approach to governance and that the Board works effectively will be my key focus in my first year.

Commercial income issue

The overstatement of expected profit was identified in the second half of the 2014/15 year. The Board sincerely regrets what has happened but moved swiftly and decisively to address these serious matters. As this subject is of such major importance, a statement addressing this matter is set out on the following page.

Board changes

The Board has seen significant change over the last year. As well as my own appointment as Chairman, we have appointed a new CEO, Dave Lewis, and a new CFO, Alan Stewart, to lead the turnaround of this great business. Four of our Non-executive Directors retired and a further two Non-executive Directors will not put themselves forward for re-election at this year's Annual General Meeting ('AGM'). I would like to thank these Directors for their commitment and contribution to the Company. We have also appointed three new Non-executive Directors, Richard Cousins, Mikael Olsson and Byron Grote, and I would like to welcome them to the Board. Ensuring we have the right skills and experience is a key priority and the Board will continue to evolve to best meet the needs of the business.

The UK Corporate Governance Code

We recognise and support the principles of the UK Corporate Governance Code. This year we complied with the relevant provisions of this Code except for the areas described below:

Board evaluation and Chairman's performance evaluation

The Board had previously agreed a three-year cycle whereby they would conduct an externally-led review in one year, followed by internally-led reviews in the subsequent two years, one led by the Chairman and one led by the Senior Independent Director. The externally-led evaluation was due in 2014/15 as the last one was conducted in 2011/12. However, given the number of changes to the Board, including my own appointment, the Board agreed that an external review would be of more value if carried out during 2015/16. An internal review of the Board and its Committees was conducted and further details about this can be found on page 36.

Sir Richard Broadbent was Chairman throughout the 2014/15 year but stepped down on 1 March 2015. Given his planned departure, the Board agreed that there would be no benefit in conducting a performance review. My performance as Chairman in 2015/16 will be assessed by the Non-executive Directors, led by our Senior Independent Director, Richard Cousins.

Audit tender

On the recommendation of the Audit Committee, the Board decided to put the Company's external audit out for tender this year. After 32 years we and PricewaterhouseCoopers LLP mutually agreed that they would not take part in the tender. They will therefore step down as the Company's Auditor at the conclusion of the 2015 AGM. A resolution to appoint the Company's new Auditor will be proposed at the Company's AGM in June, and this is set out within the separate Notice of Annual General Meeting.

It was a challenging year for the business and putting things right will take time but I believe we are on the right road to success and I am looking forward to playing my part in this.

John Allan
Chairman

Commercial income issue

In September 2014, information was brought to the Board's attention that indicated that the recognition of UK commercial income was being accelerated and the accrual of costs was being delayed. The Board announced on 22 September 2014 that it had identified an overstatement of its expected profit for the half year to 23 August 2014, principally due to this accelerated recognition of commercial income and deferral of costs, in the order of £250 million.

The Board decided immediately to appoint Deloitte to carry out an independent investigation of the commercial income numbers in the UK, and to defer the announcement of the interim results to allow time for this. The Deloitte report confirmed that amounts had been pulled forward (in the case of income) or deferred (in the case of costs), contrary to Tesco Group accounting policies; that there had been similar practices in prior reporting periods; and that the current and prior practices appeared to be linked as income pulled forward grew period by period.

In October 2014 as part of the interim results announcement, the Board further announced that the overstated recognition of commercial income was estimated at £263 million. Taking into account the build-up of such overstatement in prior years, the impact on the trading profit expectation for the half year was an over-estimate of £118 million, with overstatement of reported profits in the previous year to 28 February 2014 of £70 million, and in years prior to that of £75 million.

Subsequent to October 2014 we have continued to focus on this area and we have identified some further amounts, bringing the total one-off adjustment relating to prior years to £208 million for our UK and ROI businesses.

Commercial income arises in a number of different ways, including discounts and rebates that suppliers agree to pay us based on the volume of sales achieved and contributions to product promotion expenses. Our external auditors, PricewaterhouseCoopers LLP, focused on this area in their audit of the 2013/14 accounts because of the significance of commercial income, the judgement required in accounting for commercial income including the amounts owed at the year-end, and because of the potential risk of the manipulation of these balances.

The matters surrounding the commercial income issue are now the subject of an investigation by the Serious Fraud Office, and the Company is co-operating fully with this investigation. This has limited the extent of the Company's own investigation and what we can say about the circumstances in which the overstatement occurred. A number of individuals have ceased employment with the Group as a consequence of this investigation.

The "pulling forward" of commercial income from suppliers that was more appropriately attributed to future periods, was clearly a management failure within the UK division. The fact that it remained undiscovered has been a matter of the deepest concern.

The Board had two main priorities in their response to the commercial income issue:

1. Ensure that all available steps are taken to ensure that nothing like this can happen again. The Chief Executive's report details some of those steps. New management is in place, training has been given and the overall commercial relationship with our suppliers and the incentive structure for our commercial teams are being reset.

2. Ensure that the results accounted properly for all commercial income, whether in the UK business or our overseas operations, and with all other aspects of our relationship with our suppliers.

The overarching focus of the Board has been to ensure that this work did not, and does not, distract us from our core business of providing value and a quality service to our customers.

We have noted that the Financial Reporting Council has urged companies to provide greater clarity in respect of their commercial income and the Board has concurred that increased transparency is appropriate. This is discussed in the Financial review, pages 12 to 17.

On 4 February 2015, the Grocery Code Adjudicator ('Adjudicator') announced that an investigation has been launched into the conduct of Tesco under the Groceries Supply Code of Practice. The Adjudicator is specifically investigating Tesco's conduct under provisions of the Code relating to delays in payments to suppliers and payments for shelf positioning. We are continuing to co-operate fully with the Adjudicator's investigation.

Corporate governance report continued

Our corporate governance framework

* Meets as required

The work of the Board is supported by five key Committees: the Audit, Corporate Responsibility, Nominations, Remuneration and Disclosure Committees.

The role of the Disclosure Committee includes to assist and inform the Board in making decisions concerning the identification of inside information and make recommendations about how and when the Company should disclose the information in accordance with the Company's Disclosure Policy. The Committee meets as necessary to consider all relevant matters relating to inside information. It will in particular meet in advance of the release of all trading statements and other announcements of inside information to ensure that they are true, accurate and complete, including a review of the preliminary results announcement and the Annual Report and Financial Statements to consider if they are fair, balanced and understandable. The Committee met nine times during the year.

The Disclosure Committee's terms of reference can be found at www.tescoplc.com. The Group Chief Financial Officer ('CFO') chairs the meetings. Other members of the Committee consist of relevant senior management and Group Executive Committee members.

Further details on the other Board Committees can be found on page 37 (Audit); page 40 (Corporate Responsibility); page 41 (Nominations); and page 46 (Remuneration). These Committees report back to the Board after each meeting.

The Board delegates to the Group Chief Executive ('CEO') the responsibility for formulating and, after approval, implementing the Group's strategic plan and for management of the day-to-day operations of the Group. The Group Executive Committee, which the CEO chairs, supports the CEO in carrying out his role. The Group Executive Committee comprises the CEO and CFO and a number of senior executives, details are set out on pages 30 and 31.

Corporate governance highlights

Board focus during the year

During the year the Board spent its time considering a wide range of matters. These included:

- performance of key businesses and functions in the Group;
- budgets and long term plans for the Group;
- financial statements and announcements;
- cash flow, financing and dividend;
- corporate and social responsibility;
- pensions;
- health and safety;
- shareholder feedback and reports from brokers and analysts;
- risk management and controls in the Group;
- delegated authorities; and
- the commercial income investigation.

The Board also had one offsite meeting dedicated to strategy.

In addition to its regular programme of activities the Board made a number of strategic decisions in the year, which included:

- accelerating strategy to improve competitiveness;
- cutting interim dividend by 75%;
- replacing senior management;
- restructuring of central overheads, simplification of store management structures and the closure of 43 unprofitable stores;
- significant revision of the store building programme;
- reduced capital expenditure budget in 2015/16 to £1 billion;
- disposal of Tesco Broadband and Blinkbox; and
- not to a pay a final dividend in 2014/15.

The Directors are responsible for preparing the Annual Report and Financial Statements and consider that, taken as a whole, the Annual Report and Financial Statements are fair, balanced and understandable and provide the necessary information for shareholders to assess the Company's performance, business model and strategy.

Changes to the Board and Board Committees

The Board was pleased to announce the appointment of a new Chairman, two new Executive Directors and three new Non-executive Directors, who bring a wealth of skills and experience to the Board which are detailed in their biographies on pages 28 to 29. The exact number of Directors may rise or fall in line with the normal process of Board development and succession planning. To ensure appropriate balance and succession potential in the Board's Committees a number of changes have been made. Changes to the Board and Board Committees are detailed in the following table.

Changes to the Board of Directors and Committees since 22 February 2014

Current Directors	Position	Audit Committee	Nominations Committee	Remuneration Committee	Corporate Responsibility Committee
John Allan	Chairman Appointed 1 March 2015		Chair ✓ Appointed 1 March 2015	✓ Appointed 20 April 2015	Chair ✓ Appointed 1 March 2015
Dave Lewis	CEO and Executive Director Appointed 1 September 2014				
Alan Stewart	CFO and Executive Director Appointed 23 September 2014				
Mark Armour	Non-executive Director	✓			
Stuart Chambers*	Non-executive Director		✓	✓ Chair until 1 January 2015	
Richard Cousins	Non-executive Director Appointed 1 November 2014 and SID from 7 April 2015	✓ Appointed 1 November 2014	✓ Appointed 7 April 2015		
Byron Grote	Non-executive Director Appointed 1 May 2015	✓ Appointed 1 May 2015 Chair from AGM			
Ken Hanna*	Non-executive Director	✓ Chair until AGM	✓	✓	
Mikael Olsson	Non-executive Director Appointed 1 November 2014			✓ Appointed 2 December 2014	✓ Appointed 2 December 2014
Deanna Oppenheimer	Non-executive Director			✓ Appointed Chair 1 January 2015	✓

✓ Committee member
New appointment since 22 February 2014 **in bold**.
* Ken Hanna and Stuart Chambers will not seek re-election at the AGM.

Former Directors	Position	Audit Committee	Nominations Committee	Remuneration Committee	Corporate Responsibility Committee
Sir Richard Broadbent	Chairman Resigned 1 March 2015		✓ Chair until 1 March 2015	✓	✓ Chair until 1 March 2014
Philip Clarke	CEO and Executive Director Resigned 1 September 2014				
Laurie McIlwee	CFO and Executive Director Resigned 4 April 2014				
Gareth Bullock	Non-executive Director Resigned 5 March 2015	✓			
Patrick Cescau	Non-executive Director Resigned 7 April 2015	✓	✓		✓
Olivia Garfield	Non-executive Director Resigned 28 February 2015	✓ Appointed 1 April 2014			
Jacqueline Tammenoms Bakker	Non-executive Director Resigned 28 February 2015			✓	✓ Chair from 1 March 2014 until 28 February 2015

✓ Served on committee until resignation

Induction

During the year, the Company provided tailored programmes for Richard Cousins, a Non-executive Director and Audit and Nominations Committee member and Mikael Olsson, a Non-executive Director and Remuneration and Corporate Responsibility Committee member. The tailored induction programme included an oversight of the Group's governance requirements, a detailed overview of the Group's operations and discussions with key senior management to support both their main Board and Committee appointments.

Length of service and independence of Non-executive Directors

Non-executive Director	Date of appointment	Expiry of appointment term	Full years in post at 2015 AGM	Considered to be independent by the Board
John Allan	1 March 2015	1 March 2018	–	✓
Mark Armour	2 September 2013	2 September 2016	1	✓
Stuart Chambers	3 July 2010	3 July 2016	5	✓
Richard Cousins	1 November 2014	1 November 2017	–	✓
Byron Grote	1 May 2015	1 May 2018	–	✓
Ken Hanna	1 April 2009	1 April 2015	6	✓
Mikael Olsson	1 November 2014	1 November 2017	–	✓
Deanna Oppenheimer	1 March 2012	1 March 2018	3	✓

Appointments are subject to annual re-election by shareholders. Ken Hanna and Stuart Chambers will not seek re-election at the AGM.

Corporate governance report continued

Board evaluation

The Board last conducted an externally facilitated evaluation in 2011/12. Given the Chairman's succession, the Board agreed that an externally facilitated Board evaluation in 2014/15 would have limited value and that an internal interview-based evaluation process, tailored to the need to respect the Serious Fraud Office investigation, would be conducted. The review covered a range of factors relevant to the effectiveness of the Board including:

- skills, knowledge and diversity;
- clarity and leadership of purpose and values;
- teamwork;
- relationships;
- succession and development;
- quality of information, papers and discussion;
- decision making processes;
- risk processes; and
- communication with stakeholders.

The evaluation found that overall the Board was felt to have confronted the major challenges both in the industry and with the replacement of senior management, rigorously addressed the commercial income issue and the process of transformation of the Company, whilst retaining its effectiveness and building towards the future. The assessment of views and suggested actions from the evaluation will be considered further and taken forward by the new Chairman, John Allan. The intention is to conduct an externally led review during 2015/16.

Board meetings

During the 2014/15 year, the Board held seven scheduled meetings, plus a strategy meeting with ad hoc meetings being arranged to deal with matters between scheduled meetings as appropriate. Board meetings were preceded by a day of Committee meetings. This pattern of meetings was intended to support the Board's focus on the strategic and long-term matters, while ensuring it could discharge its monitoring and oversight role effectively through intensive high-quality discussions and high-quality information flows.

Board attendance

Current Directors	Position	Number of possible meetings attended	Actual meetings attended
John Allan	Chairman Appointed 1 March 2015	–	–
Dave Lewis	CEO and Executive Director Appointed 1 September 2014	5	5
Alan Stewart	CFO and Executive Director Appointed 23 September 2014	5	5
Mark Armour	Non-executive Director	7	7
Stuart Chambers	Non-executive Director	7	7
Richard Cousins	Non-executive Director Appointed 1 November 2014 and SID from 7 April 2015	4	3
Byron Grote	Non-executive Director Appointed 1 May 2015	–	–
Ken Hanna	Non-executive Director	7	7
Mikael Olsson	Non-executive Director Appointed 1 November 2014	4	4
Deanna Oppenheimer	Non-executive Director	7	7
Former Directors			
Sir Richard Broadbent	Chairman Resigned 1 March 2015	7	7
Philip Clarke	CEO and Executive Director Resigned 1 September 2014	2	2
Laurie McIlwee	CFO and Executive Director Resigned 4 April 2014	–	–
Gareth Bullock	Non-executive Director Resigned 5 March 2015	7	7
Patrick Cescau	Non-executive Director Resigned 7 April 2015	7	7
Olivia Garfield	Non-executive Director Resigned 28 February 2015	7	7
Jacqueline Tammenoms Bakker	Non-executive Director Resigned 28 February 2015	7	7

Ken Hanna
Audit Committee Chairman

Audit Committee attendance

Members	Number of possible meetings attended	Actual meetings attended
Ken Hanna (Chairman)	8	8
Mark Armour	8	8
Patrick Cescau Resigned 7 April 2015	8	7
Gareth Bullock Resigned 5 March 2015	8	7
Olivia Garfield Appointed 1 April 2014 Resigned 28 February 2015	7	7
Richard Cousins Appointed 1 November 2014	2	2
Byron Grote Appointed 1 May 2015	–	–

Audit Committee responsibilities

The Committee's terms of reference can be found at www.tescoplc.com. Ken Hanna, Mark Armour, Richard Cousins and Byron Grote all have recent and relevant financial experience.

The key responsibilities of the Committee are to:
- Consider the appointment of the external auditors, their reports to the Committee and their independence, including an assessment of their appropriateness to conduct any non-audit work
- Review the financial statements and announcements relating to the financial performance of the Company
- Review the internal audit programme and ensure that the Internal Audit function is adequately resourced and has appropriate standing within the Company
- Discuss with the external auditors the nature and scope of the audit
- Review, and challenge where necessary, the actions and judgements of management, in relation to the interim and annual financial statements before submission to the Board
- Review formally the effectiveness of the external and internal audit processes
- Consider management's response to any major external or internal audit recommendations
- Review the Company's plans for business continuity
- Review the Company's plans for the prevention and detection of fraud, bribery and corruption
- Report to the Board on how it has discharged its responsibilities

Audit Committee Report

The Audit Committee has an integral role in providing confidence in the integrity of the Company's processes and procedures in relation to internal control, risk management and financial reporting.

The Committee supports the Board in assessing whether the Annual Report and Financial Statements are fair, balanced and understandable and provide sufficient information to allow an assessment of the Company.

A major part of the Committee's work this year has been dominated by the discovery that commercial income had been overstated in both prospective and historic financial information published by the Company. Further details are set out elsewhere in the Governance Report, and below.

Since the year end, Olivia Garfield, Gareth Bullock and Patrick Cescau have retired from the Board and the Audit Committee. It was announced on 5 March 2015, that Byron Grote will join the Board on 1 May 2015 and will also join the Audit Committee.

Ken Hanna
Audit Committee Chairman

Activities during the year

Much of the Committee's time this year has been spent dealing with the commercial income issue, details of which are set out under 'Commercial income issue' elsewhere in the Governance Report.

Areas of particular concern for the Committee in relation to the commercial income issue have been:
(a) to understand how the overstatement identified has accumulated over time, how it has affected prior year's results, and to consider whether the impact on past year's results was such as to require them to be restated;
(b) to ensure that all financial aspects of the Group's relationship with its suppliers, both in the UK and in our international operations, have been the subject of rigorous internal and external audit focus;
(c) to satisfy itself, in discussions with the CEO and CFO and the internal and external auditors and advisors, that the remedial steps proposed to the Group's financial systems and internal controls and the interim measures to be applied until these new steps are fully implemented are sufficient to avoid any repetition of the issues that have emerged in relation to commercial income. This included comprehensive internal audit reviews of commercial income controls across all Group territories; and
(d) to consider the appropriate treatment in our accounts for potential fines and litigation risk arising as a result of these matters.

As well as the exceptional matters referred to above, during the year the Committee received update reports from the Tesco Bank Audit Committee, PricewaterhouseCoopers LLP, the Disclosure Committee and the Group Compliance Committee. It also received updates from Internal Audit on its work, including findings from its internal audit programme and a comprehensive Group-wide review of stock controls carried out after the discovery of the commercial income issue. The Committee considered a variety of matters including Group and Business Unit Risk Registers; fraud, bribery and corruption; business continuity management; the Group's compliance with the Groceries Supply Code of Practice and reports from the Group Compliance Committee.

In relation to the financial statements, the Committee: reviewed and recommended approval of the half-yearly results and annual financial statements; considered impairment reviews; considered going concern status; reviewed and recommended the interim dividend level; reviewed corporate governance disclosures; and monitored the statutory audit. The Committee also advised the Board on whether the financial statements, taken as a whole, were fair, balanced and understandable and provide the necessary information to assess the Company's performance, business model and strategy. The Committee concluded that the disclosures, and the processes and controls underlying their production, were appropriate and recommended to the Board that the Annual Report and Financial Statements are fair, balanced and understandable.

On the recommendation of the Audit Committee, the Board decided to put the Company's external audit out for tender this year. After 32 years we and PricewaterhouseCoopers LLP mutually agreed that they would not take part in the tender. They will therefore step down as the Company's Auditor at the conclusion of the 2015 AGM. A resolution to appoint the Company's new Auditor will be proposed at the Company's AGM in June, and this is set out within the separate Notice of Annual General Meeting.

Corporate governance report continued

Given the substantial changes in the composition of the Committee it was decided that it would not be appropriate for a formal review of the effectiveness of the Audit Committee to take place this year.

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

Significant financial statement reporting issues

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements	The Committee reviewed management's assessment of going concern with consideration of forecast cash flows, including sensitivity to trading and expenditure plans and potential mitigating actions. The Committee also considered the availability of financing facilities in light of the Company's downgraded credit ratings and the capital and liquidity plans of Tesco Bank. Based on this the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate.
Recognition of commercial income	The Group has policies in place for the recognition of commercial income as disclosed in Note 1 to the financial statements. The overstatement of historical commercial income reported in the half year to 23 August 2014, led to a significant increase in focus on this area during the year. The Committee considered the activities that management carried out to address this issue together with the outcomes of investigations by internal audit and external third party experts, and concurred with management's assessment that adequate training and processes were implemented to address compliance to policy and appropriate recognition of commercial income. See Note 3 and front half of the financial statements.
Restatement of prior year comparatives	The Committee reviewed management's assessment of the need to restate prior year comparatives in light of the prior year errors identified during the year. The Committee considered management's evaluation of the impact of these errors, on both prior year and current year performance and/or position, including the potential impact on user perceptions. The Committee concurred with management that the nature and impact of the errors were not material to either prior year comparatives or current year reporting, and that correcting the errors in the current year accompanied by adequate presentation and disclosure was the appropriate treatment.
Fixed asset impairment and onerous lease provisions	The Committee reviewed management's impairment testing of property assets and estimate of onerous lease provisions for unprofitable assets in light of the competitive environment and reduction in profitability in most markets, particularly the UK. The Committee considered the appropriateness of key assumptions and methodologies for both value in use models and fair value measurements. This included challenging cashflows, growth rates and discount rates and the use of independent third party valuations. The Group has recognised a £(3,266) million impairment of trading stores, and a further £(903) million charge for closed stores, investments, WIP, intangibles and head office properties, together with an onerous lease provision of £(669) million in the year. See Note 11 to the financial statements for Fixed assets impairment, and Note 24 for Property Provisions.
Goodwill impairment	The Committee reviewed management's process for testing goodwill for potential impairment. This included challenging the key assumptions, principally cash flow forecasts, growth rates and discount rates. The Group has recognised a goodwill impairment of £(116) million. See Note 10 to the financial statements.
Valuation of China associate	The Committee reviewed management's assessment of the valuation of the Group's China associate, Gain Land, covering the methodology and assumptions used by management including latest market information and independent valuation experts, in determining the fair value of the investment. This included review of Gain Land's projected cashflows, growth rates and discount rates used, and the external market indicators to include in the valuation. Following this exercise, a £(630) million write-down to fair value was recognised at year end. See Note 3 to the financial statements.
Provisions	The Committee considered the judgements made by management in arriving at the restructuring provisions for head office and stores structures, and concurred with management's assessment to recognise a restructuring provision of £(325) million. See Note 24 to the financial statements. The Committee further considered management's assessment of the status of the ongoing regulatory investigations and litigation relating to the prior period and forecasting errors. The Committee concurred with management's assessment that due to the early stage of these matters and the uncertainties regarding the outcomes, no provision was required, and disclosure as contingent liabilities at year end was appropriate. See Note 32 to the financial statements.
Valuation and provisioning of inventories	The Committee reviewed management's judgements in assessing the required level of inventories provisioning, including adopting a forward looking provisioning methodology based on recent sales activities, in light of the competitive environment and changes to range and stockholding. This resulted in a £(402) million charge in the income statement. The Committee further reviewed management's approach to identifying the directly attributable overheads capitalised in inventories, and agreed with the exclusion of certain overhead costs amounting to £(168) million from the cost of inventories. See Note 3 to the financial statements.
Tesco Bank judgemental matters	The Committee reviewed management's judgements made in relation to Tesco Bank's provisions for customer redress, loan impairment provisions and insurance reserves, covering the estimated provision based on legal advice, estimates of the number and value of cases, and expected outcomes. The Committee considered the reviews by the Bank's own Audit Committee and Board to develop a detailed understanding of the matters. During the year, an additional £(27) million of provisions for customer redress were recognised. See Note 24 to the financial statements.
Income statement non-GAAP measure presentation	The Committee considered the presentation of the Group financial statements and, in particular, the appropriateness of the presentation of one-off items in the calculation of underlying profit. The Committee reviewed the nature of items identified and concurred with management that the treatment was even-handed, consistent across years and appropriately presented movements on items which have an effect over a number of years. The total restructuring and other one-off charges for the year was £(6,814) million. See Note 3 to the financial statements.

Internal and External Audit

This relationship is developed and maintained through regular private meetings with both PricewaterhouseCoopers LLP and the Head of Internal Audit. Further information regarding the roles of both Internal Audit and External Audit can be found below:

Internal Audit – Group Audit & Advisory

Group Audit & Advisory is an independent review function set up within Tesco as a service to the Board and all levels of management. Its remit is to provide independent and objective assurance and consulting activity to add value and improve the organisation's operations. It helps the organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

Its responsibilities include assessing the key risks of the organisation and examining, evaluating and reporting on the adequacy and effectiveness of the systems of risk management and internal control as operated by management. Management remains responsible for identifying risks and for the design and operation of controls to manage risk. However, Group Audit & Advisory facilitate the Company's risk management processes with the Board and Audit Committee, by assisting with the annual process to refresh the Group's Key Risk Registers and by assisting the Company in its formulation and reporting of corporate governance policy.

In line with AS1312 of the International Standards of the Institute of Internal Auditors, the effectiveness of the Internal Audit function was externally assessed by Ernst & Young between July and September 2014. The recommendations that were made were accepted and are in the process of being implemented.

Internal control

The Board conducted a review of the effectiveness of the Company's risk management and internal controls during the year. To support the Board in their annual assessment, a report is prepared by Internal Audit which describes the arrangements that the Board has put in place for internal control and risk management systems and summarises the key issues or non-compliances arising from those processes.

The Control Environment has not been fully effective in the year. This has manifested itself primarily in the events around commercial income and the resultant impact on the financial statements.

The business has invested significant time and resource to understand, evaluate and remediate the control weaknesses. Clear control improvement plans are in place.

External audit

The Company's external auditor PricewaterhouseCoopers LLP ('PwC') contribute a further independent perspective on certain aspects of the Company's financial control systems arising from its work, and report both to the Board and the Audit Committee.

As previously mentioned, the Company put its external audit out for tender this year. In line with best practice the Company intends to put the external audit out to tender every 10 years in the future. Given the audit was put out to tender and the current auditor did not participate in this process, it was decided that there was limited value in conducting an effectiveness review of the external auditor this year.

The Company has a non-audit service policy for work carried out by PwC. This is split into three categories as explained below:

- Pre-approved work for external auditors – this is predominantly the audit of subsidiary undertakings' statutory accounts and is audit-related in nature;
- Work for which Committee approval is specifically required – this includes transaction work and corporate tax services, and certain advisory services;
- Work from which the external auditor is prohibited.

To safeguard auditor objectivity and independence the Committee oversees the process for the approval of all non-audit services provided by PwC. Prior to approval, consideration is given to whether it is in the interests of the Company that the services are purchased from PwC, rather than another supplier. Where PwC were chosen, this was as a result of their detailed knowledge of the structure of our business, combined with an understanding of our industry, which together made them the best supplier to carry out the work cost effectively.

This year the Committee approved PwC to complete £0.8 million of audit-related services. These services principally related to extended half year review procedures arising from the commercial income issue in the UK.

Where any significant non-audit related work is necessary (fee value £300k), the pre-approval of the Committee is specifically required. In total £3.3 million (2014: £4.7 million) was spent on non-audit fees (being 38% of the total spent with our external auditors) and details of the significant items are shown in the table below:

Business area	Work undertaken	Safeguards implemented to preserve independence	Amount
UK	Working capital support and forecasting review	Advisory service provided by a team separate to audit Decision-making accountability remained with management	£1.3m
UK/International	Continuation of prior year consultancy work (vendor assistance and tax) in respect of the divestment of the China business to CRE	Advisory service provided by a team separate to audit Decision-making accountability remained with management	£0.6m
UK/International	Advisory and compliance services around taxation	Management was sufficiently involved in the preparation of final tax returns to retain responsibility for filing correctly	£0.6m
UK	Forensic accounting support in respect of the half year commercial income issues on behalf of Freshfields LLP	Advisory service provided by a team separate to audit PwC neither prepared financials nor took management decisions	£0.25m
UK	Head Office cost analysis	Advisory service provided by a team separate to audit PwC neither prepared financials nor took management decisions	£0.1m

The fees paid to the auditors in the year are disclosed in Note 3 on page 100 of the Annual Report and Financial Statements 2015.

Corporate governance report continued

John Allan
Corporate Responsibility Committee and Nominations Committee Chairman

Corporate Responsibility Committee attendance

Members	Number of possible meetings attended	Actual meetings attended
John Allan (Chairman) Appointed 1 March 2015	–	–
Sir Richard Broadbent Chairman to 1 March 2014	2	2
Patrick Cescau Resigned 7 April 2015	2	2
Deanna Oppenheimer	2	2
Jacqueline Tammenoms Bakker Chair from 1 March 2014 until 28 February 2015	2	2
Mikael Olsson Appointed 2 December 2014	1	1

Corporate Responsibility Committee responsibilities

The Corporate Responsibility Committee was established in 2012 to ensure that the Board maintains an adequate focus on corporate responsibility in its widest sense. The Committee's terms of reference are available at www.tescoplc.com.

The key responsibilities of the Committee are to:

- Define the Group's corporate and social obligations as a responsible citizen and oversee its conduct in the context of those obligations
- Approve a strategy for discharging the Group's corporate and social responsibilities in such a way as to command respect and confidence
- Identify and monitor those external developments which are likely to have a significant influence on the Group's reputation and/or its ability to conduct its business appropriately as a good citizen and review how best to protect that reputation or that ability
- Oversee the creation of appropriate policies and supporting measures
- Monitor the Group's engagement with external stakeholders and other interested parties
- Ensure that appropriate communications policies are in place and working effectively to build and protect the Group's reputation both internally and externally

Corporate Responsibility Committee report

Corporate responsibility is at the heart of how our business operates. We believe that doing business responsibly is the only way of doing business.

Much of our focus this year has been on ensuring that we have listened to our customers, colleagues, suppliers and stakeholders to ensure we understand what issues matters to them. Although it has been a very challenging year for Tesco, there has been some real progress on issues that matter to our customers and that are material to our business.

I am particularly pleased to see the determined steps which have been made on key areas, such as health and food waste, and how this has been balanced with an increased focus on essential areas to our business – including our relationships with suppliers, our environmental impact and the enormous commitment of our colleagues in helping to raise funds for good causes in their communities.

Going forward, the Corporate Responsibility ('CR') Committee will continue to support the development and evolution of our CR strategy.

John Allan
Corporate Responsibility Committee Chairman

Activities during the year

As our business goes through a process of renewal, our Corporate Responsibility Committee discussed the importance of putting our customers and their local communities at the heart of our activities.

The Committee discussed a wide range of reputational insight, and the challenge that we face in regaining our customers' trust. They recognised that getting the core of our business right is key to regaining this trust, in addition to demonstrating that we are a responsible business through our actions, rather than our communications.

This year we have built closer links between our Corporate Responsibility Committee and our Expert Advisory Panel. This has been very beneficial in sharing best practice and through bringing an outside voice in to the Committee meetings.

Despite the challenges faced by the business, great progress has been made this year. This includes:

- removing confectionery from checkouts in all our stores across the UK;
- through our Neighbourhood Food Collections in the UK, with FareShare and the Trussell Trust, we have collected an additional 11.3 million meals, bringing the total since 2012 to 21.5 million, to help feed people in need;
- since our Eat Happy Project launched in March 2014, 685,000 children have found out where their food comes from, as well as how to cook nutritious meals through participation in Farm to Fork Trails, Online Field Trips and Let's Cook courses; and
- we have launched a new Code of Business Conduct, followed by a company-wide training programme.

Given the substantial changes to the Board it was decided that it would not be appropriate for a formal review of the effectiveness of the Committee to take place this year. However, the Committee's effectiveness was considered as part of the internal Board evaluation.

Nominations Committee attendance

Members	Number of possible meetings attended	Actual meetings attended
John Allan (Chairman) Appointed 1 March 2015	–	–
Sir Richard Broadbent Chairman to 1 March 2015	5	5
Patrick Cescau Resigned 7 April 2015	5	5
Stuart Chambers	5	5
Ken Hanna	5	5
Richard Cousins Appointed 7 April 2015	–	–

Nominations Committee responsibilities

The Committee's terms of reference are available at www.tescoplc.com. Where matters discussed relate to the Chairman, the Senior Independent Non-executive Director chairs the meeting.

The key responsibilities of the Committee include:

- Reviewing the Board's structure, size and composition
- Identifying, nominating and reviewing candidates for appointment to the Board
- Putting in place plans for succession
- Reviewing the leadership needs of the organisation, both Executive and Non-executive
- Reviewing the Group's talent planning programmes
- Reviewing Board succession over the longer term, in order to maintain an appropriate balance of skills and experience and to ensure progressive refresh of the Board
- Monitoring of the Group's compliance with corporate governance guidelines

Nominations Committee report

The primary focus of the Committee during the year was Board succession planning. The Board appointed a new management team, Dave Lewis as CEO and Alan Stewart as CFO, following a search led by the former Chairman, Sir Richard Broadbent, with support from the Non-executive Directors. Both are excellent appointments for the Company with the right blend of experience, leadership and values to lead the transformation of the business. The Committee also identified and recommended the appointment of three new Non-executive Directors, Richard Cousins, Mikael Olsson and Byron Grote, who bring broad skills and experience to the Board.

In the coming year Board composition and effectiveness will be a key focus for the Committee along with developing succession plans for the longer term to ensure appropriate plans are in place to meet the needs of the business.

John Allan
Nominations Committee Chairman

Activities during the year

The Committee divides its time broadly between reviewing Executive management development and succession planning, and reviewing Board development.

Given the substantial changes to the Board it was decided that it would not be appropriate for a formal review of the effectiveness of the Committee to take place this year. However, the Committee's effectiveness was considered as part of the internal Board evaluation.

Appointments

This year the Committee discussed the restructure of the Executive leadership team around the core capabilities of customers, products and channels, and the need to continue developing the Board structure and appoint further Non-executive Directors to strengthen the Board with additional skills and plan for future retirements.

During the year, in addition to the Executive appointments, the Committee identified and recommended two appointments to the Board. Richard Cousins and Mikael Olsson joined the Board as Non-executive Directors on 1 November 2014. Richard brings valuable UK and corporate experience to the Board and Mikael brings valuable retail and international experience. In addition, the Committee recommended the appointment of Byron Grote as a Non-executive Director. Byron has extensive executive and non-executive financial and strategic experience and joined the Board on 1 May 2015. Biographies of these new Directors are available on pages 28 and 29.

Appointments are subject to annual re-election by shareholders at the AGM.

The Committee prepared role specifications for the Chairman and Non-executive Director roles and considered a number of factors when making new appointments, including what the new Director will add to the balance of skills and experience on the Board and whether the Director will be able to allocate sufficient time to the Company to discharge his or her responsibilities. Candidates are required to disclose all material commitments to the Committee as part of the process. We worked with the external search consultancy Lygon Group and JCA who do not have any connection with the Company, as well as using our own networks, to identify candidates.

The Committee also considered a number of changes to the composition of the Board's Committees to ensure appropriate balance and succession potential.

Diversity

Tesco approaches diversity in its broadest sense, recognising that successful world-class businesses flourish through embracing intellectual, experiential, geographical and skills diversity as well as other factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability or trade union affiliation. With regard to gender diversity which is the focus of significant current attention, we accept the spirit and aspirations of the Davies Report, including the representation of women at the highest levels in the organisation.

Corporate governance report continued

At the year end we had three women on our Board (representing 23%) and three women on the Executive Committee (representing 23%). Women in senior management positions across the Group account for 31% as a whole. We believe that the focus must remain firmly on understanding what it takes to develop women and to retain them in senior positions. Senior roles are very demanding for all, regardless of gender, and we are determined to develop a culture and an environment where our people can advance whilst having the time to be good parents, partners and active members of their local community.

Our policy is to find, develop and keep a diverse workforce at all levels within our Company and we are committed to increasing the percentage of female leaders. We set a target in September 2011 for women to represent 32% of senior management and 21% of Business Leaders and Directors. We are close to our target with 31% of senior managers and 24% of Business Leaders and Directors being women.

Compliance with the UK Corporate Governance Code

The UK Corporate Governance Code (the 'Code') sets out principles and specific provisions on how a company should be directed and controlled to achieve standards of good corporate governance. In September 2014 the Financial Reporting Council made changes to the Code. The 2012 version of the Code applies to the Company for the year ended 28 February 2015. A copy of the Code is available at www.frc.org.uk.

The Board considers that the Company complied in all material respects with the Code for the whole of the year ended 28 February 2015 except with regards to Code provisions B.6.2 (External evaluation of the Board), B.6.3 (Performance evaluation of the Chairman) and C.3.7 (Tender of external audit contract every ten years), as explained on page 32.

The notes below are intended to facilitate the assessment of the Company's compliance with the Code for the year ended 28 February 2015 but they should be read in conjunction with the Corporate Governance Report as a whole.

A. Leadership

A.1 The Board's role

The Board is the custodian of the Company's values and of its long-term vision, and provides strategic direction and guidance for the Company. The matters reserved to the Board for its decisions are detailed in a formal schedule. Matters which must be considered by the Board include: the Group's strategy; annual budgets; oversight of risk management processes; changes to the capital structure; and material transactions or litigation.

The Board held seven scheduled meetings in the year ended 28 February 2015 and ad hoc meetings were also arranged to deal with matters between scheduled meetings as appropriate. It is expected that all Directors attend scheduled Board and relevant Committee meetings and the Annual General Meeting. Details of Board and Committee membership and attendance can be found on pages 35 to 37 and 40 to 41.

All Directors are covered by the Group's Directors' and Officers' Insurance policy.

A.2 A clear division of responsibilities

There is a clear delineation between the role of the Chairman and CEO. Their role descriptions were agreed by the Board in 2012 and are summarised below:

Chairman's responsibilities:

- ensuring the Directors receive accurate, timely and clear information;
- facilitating the effective contribution of Non-executive Directors and engagement between Executive and Non-executive Directors;
- ensuring an annual evaluation of the Board is conducted and leading the performance evaluation of the CEO and Non-executive Directors; plus ensuring that the Committee Chairmen conduct evaluations of their Committees;
- building an effective Board;
- the induction of new Directors and further training for all Directors as required; and
- communicating effectively with shareholders and other stakeholders and ensuring the Board develops an understanding of the views of the stakeholders.

Group CEO's responsibilities:

- leading the development of the Company's strategic direction and implementing the agreed strategy;
- identifying and executing new business opportunities;
- managing the Group's risk profile and implementing and maintaining an effective framework of internal controls;
- building and maintaining an effective top management team; and
- ensuring effective communication with shareholders and key stakeholders and regularly updating institutional shareholders on the business strategy and performance.

A.3 Role of the Chairman

The Chairman was independent upon his appointment to the Board. The Chairman leads the Board, ensuring its effectiveness while taking account of the interests of the Group's various stakeholders, and promoting high standards of corporate governance.

A.4 Non-executive Directors

Patrick Cescau was the Senior Independent Director ('SID') throughout the year ending 28 February 2015. He stepped down as a Board member on 7 April 2015 and was succeeded by Richard Cousins. Richard was selected for the role because of his experience and expertise, both as an Executive and Non-executive Director with retail and international experience. A biography is available on page 28. In his role as SID, Richard Cousins provides a sounding board for the Chairman and is available to assist in resolving shareholder concerns should alternative channels be exhausted. The SID's role also includes responsibility for the Chairman's appraisal and succession; and to hold at least one meeting each year with the Non-executive Directors without the Chairman present.

The Chairman also has one-to-one and group meetings with the Non-executive Directors without the Executive Directors being present.

B. Effectiveness

B.1 The Board's composition

The Board reviewed the overall balance of skills, experience, independence and knowledge of the Board and Committee members. A number of changes have been made to the Non-executive representation as detailed on page 35.

During the year the Board comprised a majority of Non-executive Directors. At the year end the Board comprised the Non-executive Chairman, two Executive Directors and 10 Non-executive Directors. All the Non-executive Directors are considered to be independent under the criteria set out in the Code.

B.2 Board appointments

The appointment of new Directors is led by the Nominations Committee. Further details of the appointments process can be found in the Nominations Committee section on page 41 and biographies of our Directors can be found on pages 28 and 29. The appointment of the Chairman was led by the SID with support from the Non-executive Directors.

B.3 Time commitments

The Board makes a careful assessment of the time commitments required from the Chairman and Non-executive Directors to discharge their roles properly. This is discussed with candidates as part of the recruitment process and a commitment to the appropriate time requirements is included in engagement letters which are available for inspection at the Company's registered office. Executive Directors are permitted to hold one Non-executive Directorship in a FTSE 100 company.

B.4 Training and development

All new Directors receive a personalised induction programme, tailored to their experience, background and particular area of focus, which is designed to develop their knowledge and understanding of the Group's culture and operations. The programme has evolved over time to take into account feedback from new Directors and the development of best practice, and incorporates a wide-ranging programme of meetings with the senior management across the Group, attending results and broker briefings, comprehensive briefing materials and opportunities to visit the Group's operations across the world, including spending time in-store and in our distribution network. The Chairman agrees a personalised induction plan with each new Director and ensures that it meets the individual needs of that Director.

The Chairman reviews each Director's development needs as part of the annual performance evaluation process and puts appropriate arrangements in place for specific training. The Nominations Committee reviews the Directors' skills and experience as a group against those needed to continue to enable the Board to oversee and support the Group's diverse operations in the future, and identifies any gaps. This informs the approach to ongoing refreshment of the Board as well as the training plan for the current Board. Training is arranged to help develop the knowledge and skills of the Directors in a variety of areas relevant to the Group's business. All Directors have the opportunity to refresh and increase their knowledge of the Group through visits to Group operations and meeting with senior executives across the business.

Corporate governance report continued

B.5 Provision of information and support
Board papers are circulated a week before each meeting to give the Directors and Committee members sufficient time to fully consider the information.

All Directors have access to the services of the Company Secretary and may take independent professional advice at the Company's expense in conducting their duties.

B.6 Board and committee performance evaluation
During the year the Board undertook an internal review of its performance and that of its Committees and individual Directors, with the exception of the former Chairman and the Audit Committee; further detail can be found on page 36.

An external evaluation was due this year however this has been deferred to later this year. Further information can be found on page 32.

B.7 Re-election of Directors
All Directors were subject to shareholder re-election at the 2014 AGM and, with the exception of Stuart Chambers and Ken Hanna, all of the current Directors will be standing for election or re-election by the shareholders at the 2015 AGM.

Information about the Directors can be found in their biographies on pages 28 and 29.

C. Accountability

C.1 Financial and business reporting
The Directors' statement of responsibilities for the preparation of the Annual Report and Financial Statements 2015 can be found on page 74. Information on the Company's business model can be found on pages 8 and 9 and its strategy can be found on pages 3 to 7.

The Directors' confirmation that the business is a going concern can be found on page 71.

The disclosures required under DTR 7.2.6 are contained in the Directors' Report on pages 70 and 71.

C.2 Risk management and internal control systems
The Board has overall responsibility for ensuring the Group has appropriate risk management and internal controls in place and that they continue to work effectively. Successful management of risk is supported by controls, management oversight and sources of assurance.

There is a comprehensive process for the review and consideration of risk at Tesco. Risk Registers are in place for all businesses and key Group functions also maintain a specific Risk Register. The Group also maintain a Group Key Risk Register which describes key risks faced by the Group and their likelihood and impact, as well as the controls and procedures implemented to mitigate them. Group risks are determined by discussion with senior management and are reviewed by the Group Executive Committee and then agreed by the Board. Actions are followed up by Internal Audit.

The Company maintains a comprehensive framework of internal controls addressing the key strategic, financial, legal, reputational and operational risks to the business and the accountability for operating these controls rests with senior management as a first line of defence.

Colleagues are required to confirm annually that they complied with the Code of Business Conduct which sets out individual obligations and responsibilities for anyone working at Tesco.

A number of key management committees play a role in monitoring compliance with internal controls. The Group Compliance Committee is responsible for monitoring legal compliance across the Group, including receiving reports from the individual business unit compliance committees.

The Audit Committee reports each year on its assessment of the effectiveness of the risk management and internal controls systems. Throughout the year the Committee receives regular reports from the external auditor covering topics such as quality of earnings and technical accounting developments. Internal Audit and senior management also regularly provide updates to the Committee and any significant breaches of control, together with the appropriate remediation arrangements are discussed.

The Board conducted a review of the effectiveness of the Company's risk management and internal controls during the year. To support the Board in its annual assessment, a report is prepared by Internal Audit which describes the arrangements that the Board has put in place for internal control and risk management systems and summarises the key issues or non-compliances arising from those processes.

The Control Environment has not been fully effective in the year. This has manifested itself primarily in the events around commercial income and the resultant impact on the financial statements.

The business has invested significant time and resource to understand, evaluate and remediate the control weaknesses. Clear control improvement plans are in place.

These arrangements include:

1. The Annual Risk Management Process (as described in the principal risks and uncertainties section on pages 22 to 25) – there is a comprehensive process for the review and consideration of risk at Tesco. Risk Registers are in place for all Business Units and for some key Group Functions, including Group Finance. Risk Registers are considered regularly by subsidiary boards to assess their control systems and have all been reviewed at least once in the last year. The Group Key Risk Register was reviewed by the Executive Committee and the Board. During the reviews all the Group risks were challenged and refreshed.
2. The Internal Audit Programme – a risk-based programme of Internal Audit is conducted annually and the findings of those audits, together with the monitoring of the progress of management's remediation programmes is reviewed by the Board.
3. Evaluation of the Control Findings from External Audit – PwC are not a part of Tesco's internal control system. However, they do form an assessment on the financial control environment as they conduct their audit work and this is another point of reference and information for the Board and senior management to consider on the operation of our controls.
4. Assessment of compliance activities at a Group and business unit level – the results of a number of other key compliance activities are also considered during the review of the effectiveness of risk management and internal control arrangements. These include: the outputs from the Group and Business Unit Compliance Committee processes; the returns from the Annual Code of Business Conduct declaration process; the results of the Key Financial Controls Self-Assessment process; the results of store-based compliance reviews of stock, cash and price integrity processes; the results of the Group Technical and Trading Law assessments including ethical audits; the outputs from the Tesco Bank Risk Assurance and Compliance process; reports from the Fraud and Code of Conduct Investigations; and the results from the Information Security reviews and incidents that occurred in the year.

Whilst an internal control system cannot guarantee that losses will not occur, the Board is satisfied that management has remained diligent in their efforts to ensure that an appropriate level of control remains in place.

C.3 Role and responsibilities of the Audit Committee
The Audit Committee supports the Board in its responsibilities in relation to corporate reporting and risk management and internal controls, and with maintaining a relationship with the Company's auditors.

The Audit Committee's report on pages 37 to 39 sets out a description of the work of the Committee.

D. Remuneration

D.1 Level and elements of remuneration

The Directors' Remuneration Report on pages 46 to 69 explains the work of the Remuneration Committee and the remuneration received by the Directors.

D.2 Development of remuneration policy

The development of our remuneration policy and our rationale for the level and structure of the remuneration is set out in the Directors' Remuneration Report on pages 62 to 69.

E. Relations with shareholders

E.1 Shareholder engagement

We are committed to conducting constructive dialogue with shareholders to ensure that we understand what is important to them and enable clear communication of our position. The Chairman, CEO and CFO hold regular meetings with shareholders and update the Board on the outcome of those meetings. Investor Relations keep the Board informed of broker and analyst views, and report and present formally to the Board twice a year. In addition we carry out a survey each year of a cross-section of shareholders in order to assess shareholder perception of the Company.

We support greater engagement with institutional shareholders as envisaged by the Stewardship Code. We are also keen to develop engagement with private shareholders through various channels of communication, including the AGM, the Company's website and social media.

E.2 Constructive use of the AGM

Our 2015 AGM will be held in London on 26 June 2015. The whole Board is expected to attend the AGM and be available to answer questions from shareholders present.

To encourage shareholder participation, we offer electronic proxy voting and voting through the CREST electronic proxy appointment service. At our AGM all resolutions are proposed and voted upon individually by shareholders or their proxies. All votes taken during the AGM are by way of a poll. This follows best practice guidelines and allows the Company to count all votes, not just those of shareholders attending the meeting.

Directors' remuneration report

Remuneration Committee Chair's introduction

Deanna Oppenheimer
Chair of the Remuneration Committee

In this section

Dear Shareholders

I am pleased to introduce my first Directors' Remuneration Report as Chair of the Committee, having taken over the role from Stuart Chambers on 1 January 2015. Stuart chaired the Committee from 2010 and I would like to take this opportunity to thank him on behalf of the Board for his work as Chair and his thorough effort during our handover period.

2014/15 reward outcomes

Looking back to 2014/15, Tesco's performance and challenges have been reflected through the remuneration outcome. As a result, no annual bonus will be paid to either the new or departing Executive Directors as the Committee determined that satisfactory financial performance had not been achieved over the course of the year. The Earnings per Share (EPS) and Return on Capital Employed (ROCE) performance targets for the Performance Share Plan (PSP) awards granted in 2012 were not met and these awards will lapse.

Executive Director changes

As discussed elsewhere in this Annual Report, 2014/15 saw changes to the Executive team. Dave Lewis joined as CEO on 1 September 2014 and Alan Stewart joined as CFO on 23 September 2014. For both Dave and Alan, all pay and benefits have been set in-line with our remuneration policy that was approved by shareholders at the 2014 Annual General Meeting (AGM). You can find a summary of their remuneration arrangements on page 49. On leaving their previous employers, Dave and Alan forfeited outstanding incentive awards. These have been bought-out by Tesco in accordance with our approved remuneration policy and details of these awards have been summarised on pages 52, 54 and 55. Both of the Executive Directors have significant shareholding requirements to be built up over a five year period and both are on track to meet these requirements.

Changes to remuneration framework

With new Executive leadership in place, the Board has been working hard to develop a strategy to improve financial performance by building a more sustainable, customer-focused Tesco. The Committee believes that it is important that remuneration arrangements follow and support this strategy. Therefore we have proposed changes to Executive remuneration for 2015/16 to better focus performance measures on the areas that are important for shareholder value creation at this time. In February, Stuart Chambers and I met with the majority of our largest shareholders to discuss our remuneration framework and found these conversations and the feedback very helpful in shaping our proposals.

Annual bonus – The performance measures for the annual bonus will be focused on sales, profit and individual measures. The Committee wants the management team entirely focused on achieving the metrics which are vital to the early phase of the turnaround plan. Further details can be found on page 49.

Performance Share Plan – Since we are early in the turnaround phase of the business, the Committee considers it appropriate to base the 2015 award on a relative measure of Total Shareholder Return (TSR) to keep the focus on delivery of shareholder value through share price and dividend performance. A second metric, Retail Cash Generated from Operations, focuses on the business generating a sustainable, quality cash flow. The 2015 awards will be based 70% on relative TSR performance against a group of FTSE 100 consumer business and services companies, and 30% on cumulative Retail Cash Generated from Operations. Specifics of the plan were revised as a result of the discussions in our investor meetings. Further details can be found on pages 49 and 50.

Clawback – Clawback provisions will be introduced for the 2015/16 annual bonus and Performance Share Plan awards. Further details can be found on page 64.

As a result of these changes to our remuneration framework, it is necessary for us to seek shareholder approval for a revised remuneration policy which we will be doing at the 2015 AGM. The full revised Policy Report can be found on pages 62 and 63.

Payments to former Directors

After detailed legal advice and a rigorous review, the Board paid the legally binding contractual payments to former CEO Philip Clarke and former CFO Laurie McIlwee in February 2015. Details of their departure arrangements can be found on pages 56 and 57.

Changes to Committee membership

In addition to the change to the Committee outlined above, I would like to take this opportunity to welcome Mikael Olsson who joined the Committee on 2 December 2014, and thank Jacqueline Tammenoms Bakker for her services to the Committee until her retirement from the Board on 28 February 2015. I would also like to thank Stuart Chambers and Ken Hanna, who will not seek re-election to the Board at this year's AGM, for their services to the Committee. John Allan joined the Committee with effect from 20 April 2015.

Further review in 2015/16

As a Committee we have agreed to complete a further review of remuneration in 2015/16 to ensure that future arrangements are fully aligned to our long-term strategy to deliver value to shareholders and that the performance metrics used in our incentive plans are transparent and trackable with our business plans. This will be developed over the coming months and, although we anticipate that no further changes to our Remuneration Policy will be required as a result of this review, we will consult shareholders again once this review has been completed.

Deanna Oppenheimer
Chair of the Remuneration Committee

Directors' remuneration report continued

Annual remuneration report

The following report outlines our remuneration framework, how the remuneration policy was implemented in 2014/15 and how the Committee intends to apply policy in 2015/16. This Annual Remuneration Report will be submitted to an advisory shareholder vote at the AGM on 26 June 2015.

Remuneration strategy

Our approach to remuneration throughout Tesco is guided by a framework of common objectives and principles, which are outlined in the table below.

Reward objectives

Attract
- Enable Tesco to recruit the right people

Motivate
- Incentivise colleagues to deliver our business goals together

Recognise
- Acknowledge individual contribution and performance

Align
- Create shareholder value and support the achievement of business strategy

Retain
- Foster loyalty in Tesco so that colleagues want to stay with us

Reward principles

Competitive
- We assess competitiveness on a total reward basis
- Reward reflects an individual's role, experience, performance and contribution
- Reward is set with reference to external market practice and internal relativity

Simple
- Reward is simple, clear and easy to understand
- We avoid unnecessary complexity
- Reward is delivered accurately

Fair
- Policies are transparent and applied consistently and equitably
- Reward decisions are trusted and properly governed
- Reward is legal and compliant

Sustainable
- Reward is aligned to the business strategy, reflects our performance, and is affordable
- Our reward framework is flexible to meet the changing needs of the business
- We reward in a responsible way

The following chart and accompanying table provide a summary of how remuneration policy will be applied in 2015/16 to Executive Directors.

Key changes from last year

- Simplification of annual bonus to focus on fewer, more relevant measures
- Performance Share Plan measures changed to align with priorities to deliver significant value to shareholders and return the business to one that generates sustainable, quality cash flow
- Addition of clawback to ensure the Company is able to take back awards in the event that results are materially misstated or the participant has contributed to serious reputational damage

Fixed element

Salary + pension + benefits

c. 20% of total reward if maximum performance achieved

Performance-related element

Short-term performance

Cash bonus | **Deferred share bonus (3 years)**

50% Sales
30% Profit
20% Individual measures

Long-term performance

Performance Share Plan (3 years)

70% Relative TSR
30% Retail Cash Generated from Operations

c. 80% of total reward if maximum performance achieved

How remuneration policy will be applied in 2015/16

	Element	Operation and opportunity	Performance measures
Fixed pay	Base salary	• CEO – £1,250,000 • CFO – £750,000 • Next review due 1 July 2015. However, no changes to the CEO and CFO salaries will be made during 2015	• n/a
	Pension (Cash in retirement)	• 25% of base salary cash allowance in lieu of pension	• n/a
	Benefits	• Core benefits include car benefits, driver, security, life assurance, disability and health insurance, and colleague discount • Executives 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	
Performance-related pay	Annual bonus (One-year performance) (Cash and shares)	• CEO – maximum opportunity of 250% of base salary • CFO – maximum opportunity of 225% of base salary • 50% in cash • 50% in shares, which are deferred for three years • 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 • 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	• 50% based on sales • 30% based on profit • 20% based on individual measures See below for further details
	Performance Share Plan (Three-year performance) (Shares)	• CEO – maximum award of 275% of base salary • CFO – maximum award of 250% of base salary • Malus provisions apply to awards, allowing the Committee discretion to scale back awards made prior to the satisfaction of awards in certain circumstances • 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	• Shares vest in three years' time subject to performance targets being met • For 2015 awards, performance will be assessed based 70% on relative TSR performance compared to a group of FTSE 100 consumer business and services companies and 30% on cumulative Retail Cash Generated from Operations See below for further details

How do performance measures link to strategy?

Annual bonus

Performance measure	Weighting	Definition of measure	Link to strategy
Sales growth	50%	Non-fuel sales (exc. VAT exc. Petrol Filling Stations)	To deliver turnaround performance, top-line revenue growth is fundamental and will be the foundation to ensuring sustainable levels of profit in the future. This is therefore the main focus of the business for 2015/16
Profit	30%	Trading profit	Incentivises the delivery of our strategy by encouraging the creation of shareholder value through profitable financial strategy
Individual measures	20%	n/a	Focuses on the delivery of the operational and strategic goals of the business for the year. For 2015/16 these will include working capital performance for the Executive Directors to ensure focus on the efficient use of cash resources

Underpin
To ensure that we do not incentivise Executives to grow sales at the expense of satisfactory profitability, an underpin will apply below which no portion of the bonus will be paid.

Bonus targets
Bonus targets are considered by the Board to be commercially sensitive as they would give away details of our budgeting to competitors. We therefore do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report at the same time the bonus outcome is reported.

The targets set are considered to be appropriately stretching taking into account the internal budget and external forecasts.

Performance Share Plan (PSP)
The performance measures for the PSP award for 2015 have been changed from those used in the last few years. The priority is to have a plan aligned to two key strategic priorities:

- Delivery of significant value to shareholders through share price and dividend performance; and
- Returning the business to be one that generates sustainable, quality cash flow.

Therefore, we will use a combination of relative Total Shareholder Return and Cumulative Retail Cash Generated from Operations to determine awards.

PSP measures

Performance measure	Weighting	Definition of measure	Link to strategy
Relative TSR vs bespoke group of FTSE 100 consumer business and services companies	70%	Growth in share price plus dividends reinvested	Directly aligns Executives with shareholders in delivering relative high share price growth and returns over the performance period
Cumulative Retail Cash Generated from Operations	30%	Cumulative Retail Cash Generated from Operations +/- movement in Working Capital, excluding Tesco Bank*	Is a measure of business performance that is critical to a sustainable position as a retailer

* This measure will be fully transparent and be as reported in the Group's Report and Accounts.

The initial measurement period for the TSR calculation will be based on the three-month average share price of 1 October 2014 to 31 December 2014. This start period has been selected as a one-time approach to be aligned with the timing of the appointment of the new executive team and to recognise that both the CEO and CFO changed their plans and joined the business earlier, providing vital leadership during a challenging time for the business and taking immediate action to commence a significant change programme. The performance period will continue to the end of financial year 2017/18 to ensure that management is incentivised over three complete financial years and awards will not vest until three years following the date of grant. The final measurement period will be 1 December 2017 to 28 February 2018. It is anticipated that any future TSR initial measurement periods will revert to standard market practice, being the three months immediately prior to the start of the performance period.

PSP targets

Performance measure	Weighting	Threshold	Target	Maximum
Relative TSR vs bespoke group of FTSE 100 consumer business and services companies*	70%	Median performance (25% vesting)	Straight line vesting between threshold and maximum	Upper quartile performance (100% vesting)
Cumulative Retail Cash Generated from Operations	30%	£8.2bn	£8.6bn	£9.0bn

* This group will comprise the following companies: Associated British Foods, Compass, Diageo, Dixons Carphone, Kingfisher, M&S, Morrisons, Next, Reckitt Benckiser, SABMiller, J Sainsbury, Unilever and Whitbread.

What did we pay Executive Directors in 2014/15?

The table below provides a 'single figure' of remuneration. Where necessary, further explanations of the values provided are included below. This table and the relevant explanation has been audited.

Single total figure of remuneration
Executive Directors

		Salary (£'000)	Benefits (£'000)	Short-term annual bonus (£'000)	Long-term Performance Share Plan (£'000)	Pension (£'000)	**Total before buyouts (£'000)**	Buyouts (£'000)	Total (£'000)
Dave Lewis	2014/15	570	97	0	–	143	**810**	3,323	4,133
	2013/14	–	–	–	–	–	–	–	–
Alan Stewart	2014/15	297	42	0	–	74	**413**	1,888	2,301
	2013/14	–	–	–	–	–	–	–	–
Former Directors									
Philip Clarke*	2014/15	563	41	0	0	160	**764**	–	764
	2013/14	1,136	107	0	0	391	**1,634**	–	1,634
Laurie McIlwee**	2014/15	101	5	0	0	223	**329**	–	329
	2013/14	880	119	0	0	537	**1,536**	–	1,536

* Philip Clarke ceased to be a Director on 1 September 2014. Details of his leaving arrangements are provided on page 56.
** Laurie McIlwee ceased to be a Director on 4 April 2014. Details of his leaving arrangements are provided on pages 56 and 57.

Salary
Salaries are normally reviewed in July each year. Former Directors received no salary increase in July 2014.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Increase in year (%)	n/a	n/a	Nil	Nil
Annual salary (£'000)	1,250	750	1,145	886
Start date	1 September 2014	23 September 2014	–	–
Date stepped down from Board	–	–	1 September 2014	4 April 2014
Salary received in year (£'000)	570	297	563	101

Benefits

Benefits comprise core benefits and any taxable business expenses including the applicable tax.

Benefit	Description	Current Directors		Former Directors	
		Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Car benefits (£'000)	Company car or cash alternative, fuel and driver	16	20	33	5
Healthcare benefits (£'000)	Disability and health insurance	1	1	1	0
Security (£'000)	Installation of security measures to meet business standards	15	21	5	0
Share schemes (£'000)	Shares in Success awarded under the all-employee Share Incentive Plan	0	0	2	0
Other (£'000)	Legal fees and other costs in relation to appointment	65	–	–	–
Total (£'000)		97	42	41	5

Annual bonus 2014/15

Based on performance against targets, the bonus payout for 2014/15 calculated on a formulaic approach would have been 28% of maximum. However, the Committee determined that a satisfactory level of profit had not been achieved and therefore no bonus would be paid in respect of 2014/15.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Maximum bonus opportunity (% of salary)	250%*	225%*	250%	200%
Actual bonus (% of salary)	Nil	Nil	Nil	Nil
Actual bonus (£'000)	Nil	Nil	Nil	Nil

Measures		Actual performance	Target performance		
			Threshold	Target	Stretch
Profitability	Trading profit (50%)	£1,390m	£2,885m	£2,960m	£3,380m
Strategic financial	Group internet sales (10%)	£4,194m	£3,923m	£4,129m	£4,335m
	UK like-for-like sales growth vs IGD (8%)	(3)%	(1.5)%	(1.1)%	0%
	Group working capital improvement (8%)	£939m	£113m	£300m	£600m
Strategic non-financial	Group customer satisfaction (8%)	3.9	3.9	4.0	4.1
	Group colleague engagement (8%)	66.5%	65%	67%	70%
	Group CO_2 reduction (8%)	41%	37%	37.5%	38%

* Pro-rated for time in employment.

Performance Share Plan

Awards granted in 2012 were subject to performance to the end of 2014/15. Targets were set as a matrix of stretching earnings growth and sustainable Return on Capital Employed targets.

The increase in undiluted EPS over three years from 2012/13 to 2014/15 and ROCE performance for 2014/15 were below threshold. No payout will therefore be made in respect of these awards and they will lapse on 30 July 2015.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Maximum PSP opportunity (% of salary)	n/a	n/a	275%	225%
Actual PSP vesting (%)	n/a	n/a	Nil	Nil
Actual PSP vesting (£'000)	n/a	n/a	Nil	Nil

Measures		% of initial award vesting		
			EPS growth targets	
		Threshold	Target	Stretch
		5%	10%	12%
ROCE Targets	14.6%	45%	Straight-line vesting between these points	100%
	13.6%	20%	Straight-line vesting between these points	85%

Dave Lewis and Alan Stewart did not receive PSP awards in 2014/15.

Directors’ remuneration report continued

Annual remuneration report

Pension

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

For Philip Clarke and Laurie McIlwee, pension is calculated as the difference between the end-of-year defined benefit accrued pension and the beginning-of-year accrued pension increased by the September Consumer Price Index in the preceding tax year, multiplied by a factor of 20. More information on pension arrangements is set out on pages 55 and 56.

	Current Directors		Former Directors	
	Dave Lewis	Alan Stewart	Philip Clarke	Laurie McIlwee
Annual cash allowance in lieu of pension (% of salary)	25%	25%	n/a	n/a
Annual cash allowance in lieu of pension (£’000)	313	188	n/a	n/a
Start/end date	1 September 2014	23 September 2014	1 September 2014	4 April 2014
Cash in lieu of pension received in year (£’000)	143	74	n/a	n/a
Value of increase in defined benefit accrued pension (£’000)	n/a	n/a	160	223

Buyouts

Awards forfeited on leaving a previous employer are bought out, taking into account the expected level of performance where appropriate. Awards vest over an equivalent period to awards forfeited. These awards are not subject to future performance conditions. Further details are set out on page 55.

	Current Directors	
	Dave Lewis	Alan Stewart
Start date	1 September 2014	23 September 2014
Value of share awards forfeited (£’000)	3,819	1,691
Tesco share price over the four dealing days after joining (£)	2.3036	1.9169
Number of Tesco shares awarded	1,657,989	881,956
Award date	24 October 2014	24 October 2014
Share price on date of award (£)	1.6875	1.6875
Value at date of award (£’000)	2,798	1,488
Cash award in relation to 2014 bonus (pro-rata) (£’000)	525	–
Estimated award in relation to 2014/15 bonus (pro-rata) (£’000)*	–	400
Total value of buyout (£’000)	3,323	1,888

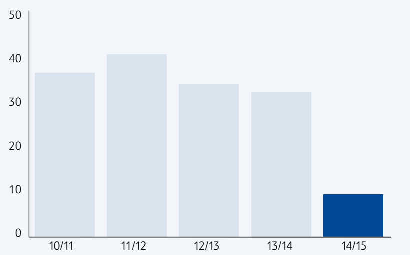
* Alan Stewart will receive a payment in respect of his 2014/15 bonus forfeited based on the payment he would have received had he remained in post (pro-rated for time). The actual amount is currently unknown and the estimated amount shown above will be adjusted in next year’s Directors’ Remuneration Report to show the actual value delivered.

Aligning pay with performance

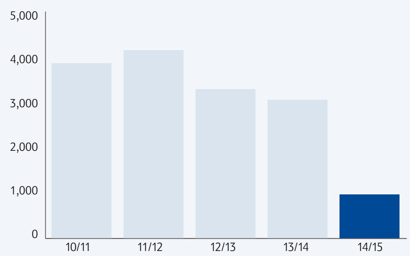
The following charts illustrate performance at Tesco against key performance indicators. See the five year record on page 156 for more information.

The FTSE 100 index has been selected to compare Tesco’s TSR against as it is a broad market index of which Tesco is a constituent.

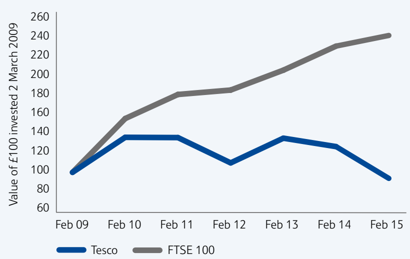
Underlying diluted earnings per share – continuing operations (p)



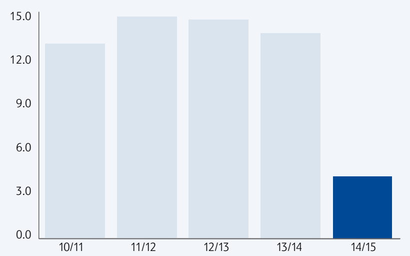
Underlying profit before tax – continuing operations (£million)



Total shareholder return



Return on capital employed (‘ROCE’) – continuing operations (%)



The table below lays out the historical single figure data for the role of CEO as well as annual bonus and Performance Share Plan payout levels as a percentage of maximum opportunity for the CEO. In each year the award is shown based on the final year of the performance period, i.e. the year in which it is included in the single figure.

Six year remuneration history

	2009/10	2010/11	2011/12	2012/13*	2013/14	2014/15	
	Sir Terry Leahy	Sir Terry Leahy	Philip Clarke	Philip Clarke	Philip Clarke	Philip Clarke	Dave Lewis
CEO single figure of remuneration (£'000)	7,100	7,150	4,595	1,280	1,634	764	4,133
Annual bonus vesting (% of maximum award)	89%	75%	0%	0%	0%	0%	0%
PSP vesting (% of maximum award)	82.7%	75%	46.5%	0%	0%	0%	0%
Share option vesting (% of maximum award)	100%	100%	100%	0%	n/a	n/a	n/a

* Philip Clarke elected not to take a bonus for 2011/12. Other Executive Directors received a bonus of 13.54% of maximum.

The CEO single figure for Dave Lewis includes £3.3m in respect of buyout of incentives forfeited on leaving his former employer. See pages 52, 54 and 55 for further details.

Shareholding guidelines and share ownership

Share ownership guidelines

- Four times base salary for the CEO
- Three times base salary for the CFO
- The purpose is to create alignment with the interests of shareholders
- This requirement is at the upper end of typical market practice for similar-size companies

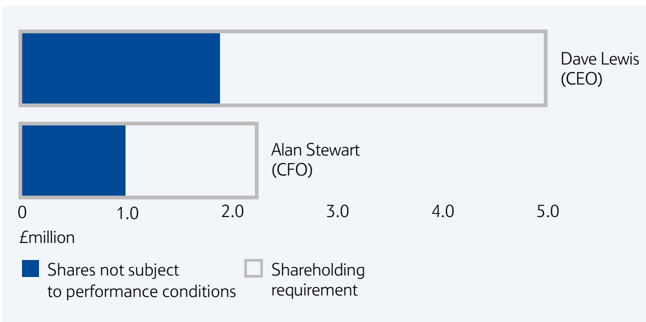
The Remuneration Committee believes that a significant shareholding by Executive Directors aligns their interests with shareholders and demonstrates their ongoing commitment to the business.

Shareholding guidelines policy

- **Shares included** – Shares held outright will be included in the calculation of shareholding guidelines, as will shares held by an Executive's connected persons. Shares held in plans which are not subject to forfeiture will be included (on a net of tax basis) for the purposes of calculating Executive Directors' shareholdings. Vested but unexercised market value share options are not included in the calculation.
- **Accumlation period** – New appointees will be expected to achieve this minimum level of shareholding within five years of appointment.
- **PSP participation** – Full participation in the PSP will generally be conditional upon maintaining the minimum shareholding.
- **Holding policy** – Where an Executive Director does not meet the shareholding requirement they will be required to hold, and not dispose of, at least 50% of the net number of shares that vest under incentive arrangements until they meet this requirement.

Given the importance of owning shares, the Executive Committee and a number of other senior managers are also required to build a holding of Tesco shares.

The chart below illustrates the value of Executive Directors' shareholdings, based on the three-month average share price to 28 February 2015 of 209.6p per share, compared to the shareholding guideline. Dave Lewis and Alan Stewart will be expected to meet the shareholding requirement by 1 September 2019 and 23 September 2019 respectively.



Shares held by Executive Directors at 28 February 2015

This table has been audited.

Director	Shareholding guidelines (% of salary)	Shareholding guideline (number of shares)*	Actual net number/value of shares counted towards shareholding guideline*	Guideline met?	Share category (see notes below): Ordinary shares held at 28 February 2015	Share Incentive Plan shares, subject to conditions at 28 February 2015	Interests in vested options, not subject to performance conditions, at 28 February 2015	Interests in unvested options, not subject to performance conditions, at 28 February 2015	Interests in options, subject to performance conditions, at 28 February 2015
Dave Lewis	400%	2,385,785	885,256 £1.9m (1.5xsalary)	On target	151	Nil	452,265***	1,218,029***	Nil
Alan Stewart	300%	1,073,603	470,906 £1.0m (1.3xsalary)	On target	44	Nil	Nil	888,501***	Nil
Former Directors									
Philip Clarke**	400%	n/a	2,307,121 £4.8m (4.2xsalary)	n/a	1,832,483	1,074	2,833,393***	4,554	1,984,303***
Laurie McIlwee**	300%	n/a	344,756 £0.7m (0.8xsalary)	n/a	80,796	423	800,505***	215,486***	1,734,605***

* Based on a three-month average share price to 28 February 2015 of 209.6p.

** Figures on ceasing to be a Director of Tesco PLC (Philip Clarke – 1 September 2014, Laurie McIlwee – 4 April 2014). After ceasing to be Directors and before the end of the financial year, Philip Clarke and Laurie McIlwee exercised vested nil cost options granted under the PSP and Executive Incentive Plan over 935,727 and 500,549 shares respectively. Shares held by Philip Clarke and Laurie McIlwee under the Share Incentive Plan (SIP), 19,170 and 11,956 shares respectively, were transferred from the SIP Trust and each Director forfeited 1,074 of these shares, and Laurie McIlwee cancelled his Sharesave contracts lapsing options over 4,554 shares.

*** Includes dividend equivalents added since grant.

Share category	Shares / options included
Ordinary shares	• Shares in the all-employee Share Incentive Plan, not subject to forfeiture • Ordinary shares held by Director and connected persons
Share Incentive Plan shares, subject to conditions	• Shares in the all-employee Share Incentive Plan, subject to forfeiture
Interests in vested options, not subject to performance conditions	• Vested awards in the deferred bonus plan • Vested awards in the PSP • Vested buyout awards granted under L.R. 9.4.2 • Vested market share options granted under the Discretionary Share Option Plan
Interests in unvested options, not subject to performance conditions	• Share options granted under the Tesco Sharesave scheme • Unvested awards in the deferred bonus plan • Unvested buyout awards, granted under L.R. 9.4.2
Interests in options, subject to performance conditions	• Unvested awards under the PSP, which remain subject to performance

Between 28 February 2015 and 4 May 2015, Dave Lewis acquired 95 and Alan Stewart acquired 95 partnership shares under the all-employee Share Incentive Plan. On 22 April 2015, Philip Clarke's discretionary share option granted in 2005 over 379,856 shares lapsed. There were no other changes of interests.

Share awards awarded during 2014/15

The following summarises buyout awards made to Dave Lewis and Alan Stewart in respect of awards forfeited on leaving their previous employment. An explanation of these awards is provided on the following page. This table has been audited.

	Plan	Type of award	Date of awards		Gross number of shares	Face value* (£)	Threshold vesting (% of face value)	Maximum vesting (% of face value)	End of vesting period
Dave Lewis	Awards were granted under listing rule 9.4.2	Nil cost options subject to continued employment only. These awards were granted to compensate Executives for awards forfeited on leaving their previous employers	24 October 2014		448,933	£757,574	n/a	n/a	17 February 2015
					603,461	£1,018,340	n/a	n/a	18 February 2016
					605,595	£1,021,942	n/a	n/a	14 February 2017
				Total	**1,657,989**	**£2,797,856**			
Alan Stewart					251,010	£423,579	n/a	n/a	18 June 2015
					324,676	£547,891	n/a	n/a	24 June 2016
					306,270	£516,831	n/a	n/a	23 June 2017
				Total	**881,956**	**£1,488,301**			

* The face value has been calculated using the average market price on grant (24 October 2014) of 1.6875p.

Philip Clarke and Laurie McIlwee were not granted any share incentive awards during the year.

Share dealing policy

Tesco has a share dealing policy in place for Executive Directors and for members of the Executive Committee. This policy prevents Executive Directors and Executive Committee members and their connected persons dealing in shares at times when this would be prohibited by the UK Listing Authority's Listing Rules. At all times, Executive Directors and Executive Committee members must seek advance clearance before dealing in shares on their own behalf or in respect of their connected persons.

Further details on the 'buyout' awards

The Committee's policy is that where appropriate awards forfeited on leaving a previous employer should be 'bought out' taking into account the expected level of performance. Buyout awards should vest over an equivalent period to awards forfeited.

Dave Lewis

On leaving Unilever, Dave Lewis forfeited outstanding awards under the performance-related deferred bonus matching plan (MCIP) and under the long-term performance plan (GSIP). These awards were subject to performance and were capable of vesting between 0% and 200% of the initial award granted. Unilever does not disclose targets for long-term incentive awards and therefore it was not possible to estimate the level of vesting for outstanding awards. The Committee therefore decided that it was appropriate to buy out these awards assuming that performance was met at target (i.e. 100% vesting of the initial award). The Committee considered that this level of vesting was appropriate as the average vesting at Unilever over the past three years was 110% of target. These awards vest on the same date as the original Unilever awards would have vested.

Dave Lewis also received a cash payment of £525,000 reflecting the expected 2014 bonus, which was forfeited on leaving Unilever. This was a pro-rata payment based on time in employment during the Unilever financial year and the average payout received over the previous three years.

Alan Stewart

On leaving Marks & Spencer (M&S), Alan Stewart forfeited outstanding awards under the deferred bonus plan and the performance-related long-term incentive plan. Deferred bonus shares were not subject to future performance conditions and therefore these awards were bought out in full. The level of vesting for 2012, 2013 and 2014 PSP awards was estimated based on performance to date. The estimated levels of vesting were 12%, 25.8% and 42% respectively. If the 2014 M&S award vests at less than 42% then the corresponding buyout award will be reduced to reflect this. Awards vest on the same date as the original M&S awards.

Alan Stewart will also receive a further award in respect of his 2014/15 M&S bonus forfeited. This will be based on the payment he would have received had he remained at M&S (pro-rated for time) and will be paid 50% in cash and 50% in Tesco shares deferred for three years. The actual value of this award is currently unknown and therefore we have estimated that he would receive a target bonus. This equates to an amount of £400,000 which is included in the single figure table as an estimated value. This will be adjusted in next year's report to show the amount that was actually paid.

The buyout awards made to Dave Lewis and Alan Stewart on 24 October 2014 were granted under Listing Rule 9.4.2. The value of awards was calculated using the share prices of Tesco, Unilever and M&S (as relevant) over four dealing days immediately after joining Tesco. Awards were made over nil cost options and are subject to continued employment until the relevant vesting date. The buyout award in respect of Alan Stewart's 2014/15 M&S bonus will be made in June 2015 under Listing Rule 9.4.2. The value of this award will be calculated using the market price of Tesco shares at the date of grant. Awards accrue dividend equivalents and are subject to malus, in the circumstances set out on page 64, until the shares are transferred.

Pensions

This section has been audited.

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

Philip Clarke and Laurie McIlwee are members of the Tesco PLC Pension Scheme, which provides a pension of up to two-thirds of base salary on retirement, normally at age 60, dependent on service (final salary scheme).

Each year's pension earned before 1 June 2012 will be increased in line with the Retail Price Index up to a maximum of 5%, and pension earned after 1 June 2012 in line with the Consumer Price Index up to a maximum of 5%. Pension accrued before 1 June 2012 and drawn before age 60 will be actuarially reduced to reflect early retirement. Pension accrued from 1 June 2012 will be actuarially reduced if it is drawn before the age at which a full pension is paid (originally age 62 but subject to adjustment up or down to reflect unexpected changes in life expectancy).

Since April 2006, following implementation of the regulations contained within the Finance Act 2004, Executive Directors have been eligible to receive the maximum pension that can be provided from the registered Pension Scheme without incurring additional tax charges. The balance of any pension entitlement for Executive Directors is delivered through an unfunded retirement benefit scheme ('SURBS'). The SURBS is secured by using a fixed and floating charge over a cash deposit in a designated account.

Executive Directors who are members of the final salary scheme are required to contribute 10% of salary.

Details of the rights under the Tesco pension scheme are set out below.

	Age at 28 February 2015	Years of Company service	Total accrued pension at 28 February 2015[2,3] (£'000)	Increase in accrued pension during the year[4] (£'000)	Increase in accrued pension during the year (net of inflation)[5] (£'000)	Transfer value of increase in accrued pension (previous column) at 28 February 2015 (less Director's contributions) (£'000)	Transfer value of total accrued pension at 22 February 2014 (£'000)	Transfer value of total accrued pension at 28 February 2015 (£'000)	Increase in transfer value (less Director's contributions) (£'000)	Single figure pension value (£'000)
Philip Clarke[1]	54	40	658	25	18	293	11,482	13,694	2,212	160
Laurie McIlwee[1]	52	14	381	21	18	257	5,669	6,665	996	223

1 Laurie McIlwee left the Scheme on 3 October 2014. Philip Clarke left the Scheme on 19 January 2015.
2 The accrued pension is that which would be paid annually on retirement at 60 based on service to the member's date of leaving active service.
3 Some of the Executive Directors' benefits are payable from an unapproved pension arrangement. This is secured by a fixed and floating charge on a cash deposit.
4 The increase in accrued pension over the year is additional pension accrued during the year.
5 Inflation over the year has been allowed for using the September 2014 CPI inflation of 1.2%.

Payments to former Directors

This information has been audited.

There were no payments made to former Directors which exceeded the de minimis threshold of £10,000 set by the Company. Payments made to Philip Clarke and Laurie McIlwee in respect of them ceasing employment are set out below.

Loss of office payments

This information has been audited.

Early in the investigation of the commercial income issue, the Company announced that it had suspended payment of the termination amounts due. The Company, with legal advice, then fully evaluated the available evidence relating to Philip Clarke and Laurie McIlwee in relation to the commercial income issue. Under the relevant service contracts, payments were legally due and payable unless Tesco was able to establish a case of gross misconduct by the relevant Director. Having taken detailed legal advice, the Board determined that there was not any basis to continue to withhold payments, and that defending potential claims that may arise, in the absence of such a basis, would not be in the Company's best interests. Therefore, the payments have been made. However, if new information arises which would change this assessment, we have explicitly reserved the Company's rights to pursue recovery of these payments.

Leaving arrangements for Philip Clarke

Philip Clarke stepped down as CEO and as an Executive Director of Tesco PLC on 1 September 2014 when the new CEO, Dave Lewis, joined the Company. He remained with the Company and was available to provide support to the business until 19 January 2015. During this period he continued to receive his salary of £1,145,000 and relevant benefits.

On termination of employment, in accordance with the terms of his contract, Philip Clarke was entitled to receive a termination payment of £1,217,000 consisting of 12 months' base salary (£1,145,000) and benefits (£72,000 consisting of colleague discount, private healthcare and health insurance, and car and car-related benefits). No additional amount will be paid in respect of pension. The termination payment of this amount was made on 6 February 2015 and should it be determined in the future that there was gross misconduct the Company will seek recovery of the termination payment.

Philip Clarke did not receive a bonus in respect of 2014/15. On cessation, he did not have any unvested deferred bonus awards. He has until 19 January 2016 to exercise vested deferred bonus awards.

PSP awards granted to Philip Clarke in 2012 (1,074,643 shares) and 2013 (909,660 shares) lapsed upon him leaving the business. He may exercise vested PSP awards granted in 2008 (325,749 shares) and 2009 (188,521 shares) until 19 January 2016.

Philip Clarke may exercise vested discretionary share option awards granted in 2006 (404,896 shares), 2007 (298,844 shares), 2008 (353,114 shares) and 2009 (467,848 shares) until 19 January 2016, in accordance with the terms of the plan rules. These awards are, however, currently underwater. His 2005 option award (379,856 shares) lapsed on 22 April 2015.

The awards granted under the all-employee Sharesave scheme in 2009 (948 shares), 2010 (788 shares), 2011 (824 shares), 2012 (1,063 shares) and 2013 (931 shares) lapsed on termination. Shares held under the all-employee Share Incentive Plan (19,170 shares) were transferred from the Trust on 27 February 2015, in accordance with the rules of the plan.

The Company will pay for outplacement services and legal costs in connection with Philip Clarke's termination of employment up to a maximum of £75,000 and £10,000 excluding VAT respectively. In line with Company policy, he will also retain his staff discount for life.

Leaving arrangements for Laurie McIlwee

Laurie McIlwee resigned as CFO and as an Executive Director of Tesco PLC on 4 April 2014. He remained an employee of Tesco for a period of six months until 3 October 2014 and he was available to provide support to the business during this time. During this period he continued to receive his salary of £886,420 and relevant benefits.

On termination of employment, in accordance with the terms of his contract, Laurie McIlwee was entitled to receive a termination payment of £970,880 consisting of 12 months' base salary (£886,420) and benefits (£84,460 consisting of colleague discount, private healthcare and health insurance, and car and car-related benefits). In addition, a payment of £15,000 net (£27,273 gross) was made to him in lieu of private medical benefits. The payment of this amount plus interest at the rate of 2% above the Barclays Bank Base Rate for the period from 31 October 2014 to the date of payment, totalling £1,004,853, was made on 6 February 2015. No additional amount will be paid in respect of pension. Should it be determined in the future that there was gross misconduct, the Company will seek recovery of the termination payment. Tesco also paid £47,000 towards Laurie McIlwee's legal fees incurred in relation to the termination of his employment.

Laurie McIlwee did not receive a bonus in respect of 2014/15. He has until 3 October 2015 to exercise vested deferred bonus awards. The 2012 award (39,775 shares) in respect of 2011/12 performance will vest on 25 May 2015 and he will have 12 months from this date to exercise this award. No deferred share awards were made in respect of 2012/13 or 2013/14.

The PSP award granted to Laurie McIlwee in 2011 (524,719 shares) lapsed on 14 July 2014 as performance conditions were not met. PSP awards granted to him in 2012 (655,388 shares) and 2013 (554,498 shares) lapsed upon him leaving the business. He may exercise the vested PSP award granted in 2009 (136,067 shares) until 3 October 2015. He may exercise vested discretionary share option awards granted in 2007 (77,192 shares), 2008 (91,335 shares) and 2009 (325,059 shares) until 3 October 2015. These share option awards are, however, currently underwater.

Shares held under the all-employee Share Incentive Plan (11,956 shares) were transferred from the Trust on 20 October 2014 in accordance with the rules of the plan.

The Company will pay for outplacement services up to a maximum of £50,000 excluding VAT.

Other policy information

Risk management

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

Outside appointments

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

Subject to approval by the Board, Executive Directors are allowed to accept Non-executive appointments, provided that these appointments are not likely to lead to conflicts of interest, and they may retain the fees received. Dave Lewis is a Non-executive Director of British Sky Broadcasting Group Plc and received fees of £98,500 during the year. Alan Stewart is a Non-executive Director of Diageo Plc and received fees of £42,625 during the year.

Funding of equity awards

Executive incentive arrangements are funded by a mix of newly issued shares and shares purchased in the market. Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. The current dilution usage of discretionary plans is c.2.9% of shares in issue. Where shares are purchased in the market, these may be held by Tesco Employees Share Schemes Trustees Limited, in which case the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 28 February 2015 the Trust held 3,028,852 shares.

Other disclosures

Change in CEO remuneration compared to the change in colleague remuneration

The following table illustrates the change in CEO salary, benefits and bonus between 2013/14 and 2014/15 compared to other UK colleagues.

The Committee decided to use other UK colleagues for the purpose of this disclosure as over half of our colleagues are based in the UK and the CEO is also predominantly based in the UK (albeit with a global role and responsibilities). The Committee therefore considered that this is an appropriate comparator group given that pay changes across the Group depend on local market conditions.

	Salary	Benefits	Bonus
CEO	0%	(32)%*	0%
UK colleagues	1.5%	0%	0%

* Benefits exclude one-off costs in relation to appointment for Dave Lewis of £65,000 gross.

Directors' remuneration report continued

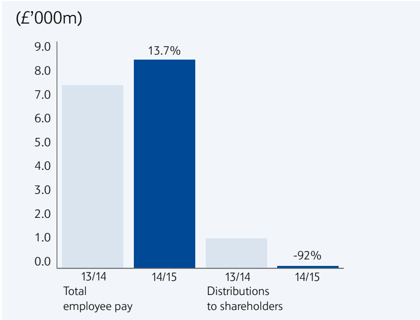
Annual remuneration report

Relative importance of spend on pay

The following chart shows total employee pay compared to distributions to shareholders. Our colleagues are essential to how we do business and how we meet our customers' needs. In 2014/15 we employed an average of 506,984 colleagues across the Group (510,444 in 2013/14).

Total employee pay includes wages and salaries, social security, pension and share-based costs (£7,271m in 2013/14 and £8,269m in 2014/15 – see Note 4 of the accounts on page 100).

Distributions to shareholders include interim and final dividends paid in respect of each financial year (£1,193m in respect of 2013/14 and £95m in respect of 2014/15 – see Note 8 of the accounts on page 104). There were no share buy-backs in 2013/14 or 2014/15.



Non-executive Director fees and responsibilities

Committee membership in 2014/15

		Senior Independent Director (SID)	Remuneration Committee	Nominations Committee	Audit Committee	Corporate Responsibility Committee
Sir Richard Broadbent	Resigned as Chairman 1 March 2015		o	•		o
Mark Armour					o	
Gareth Bullock	Resigned from Board 5 March 2015				o	
Patrick Cescau	Resigned from Board and as SID 7 April 2015	X		o	o	o
Stuart Chambers	Stepped down as Chair of Remuneration Committee 1 January 2015 (remained a member of Committee)		o	o		
Richard Cousins	Appointed to Board 1 November 2014 Appointed to Audit Committee 2 December 2014 Appointed SID 7 April 2015				o	
Olivia Garfield	Appointed to Audit Committee 1 April 2014 Resigned from Board 28 February 2015				o	
Ken Hanna			o	o	•	
Mikael Olsson	Appointed to Board 1 November 2014 Appointed to Remuneration Committee and CR Committee 2 December 2014		o			o
Deanna Oppenheimer	Appointed Chair of Remuneration Committee 1 January 2015		•			o
Jacqueline Tammenoms Bakker	Appointed Chair of CR Committee 1 March 2014 Resigned from Board 28 February 2015		o			•

x Senior Independent Director
• Committee Chairman
o Committee member

Non-executive Director fee policy for 2014/15

There were no changes to Non-executive Directors' fees during the year. The current Non-executive Directors' fees are as follows:

Non-executive Director fees	
Basic fees	£70,000 p.a.
Additional fees	
Senior Independent Director	£26,000 p.a.
Chairs of the Audit and Remuneration Committees	£30,000 p.a.
Membership of Audit, Corporate Responsibility, Nominations and Remuneration Committees	£12,000 p.a. for each Committee

Non-executive Director fees are due to be reviewed in July 2015.

Gareth Bullock and Deanna Oppenheimer were appointed to the Board of Tesco Personal Finance Group Limited in July 2012. They are paid a basic fee of £70,000 p.a. for this role and an additional fee for Committee membership of £12,000 p.a. in line with other members of the Board of Tesco Personal Finance Group Limited.

Chairman fees

John Allan was appointed as Non-executive Chairman with effect from 1 March 2015. He will receive a fee of £650,000 p.a. inclusive of all Board fees which is fixed for a period of three years. He is also eligible to receive benefits as set out in the policy for Non-executive Directors on page 68.

Fees paid during 2014/15

The following table sets out the fees paid to the Non-executive Directors for the year ending 28 February 2015. As the Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes, this information is not included in the table. This table has been audited.

Single total figure of remuneration – Non-executive Directors

		Fees (£'000)		Taxable travel expenses (£'000)		Benefits (£'000)	Total (£'000)
		Tesco PLC	Tesco Bank	Tesco PLC	Tesco Bank		
Sir Richard Broadbent	**2014/15**	**625**	**–**	**0**	**–**	**81**	**706**
	2013/14	625	–	0	–	81	706
Mark Armour	**2014/15**	**82**	**–**	**0**	**–**	**0**	**82**
	2013/14	36	–	0	–	0	36
Gareth Bullock	**2014/15**	**82**	**82**	**0**	**0**	**0**	**164**
	2013/14	82	82	1	0	0	165
Patrick Cescau	**2014/15**	**132**	**–**	**0**	**–**	**0**	**132**
	2013/14	132	–	0	–	0	132
Stuart Chambers	**2014/15**	**110**	**–**	**5**	**–**	**0**	**115**
	2013/14	112	79	3	1	0	195
Richard Cousins	**2014/15**	**23**	**–**	**0**	**–**	**0**	**23**
	2013/14	–	–	–	–	–	–
Olivia Garfield	**2014/15**	**81**	**–**	**0**	**–**	**0**	**81**
	2013/14	62	–	0	–	0	62
Ken Hanna	**2014/15**	**124**	**–**	**3**	**–**	**0**	**127**
	2013/14	124	–	2	–	0	126
Mikael Olsson	**2014/15**	**25**	**–**	**2**	**–**	**0**	**27**
	2013/14	–	–	–	–	–	–
Deanna Oppenheimer	**2014/15**	**96**	**82**	**56**	**8**	**0**	**242**
	2013/14	82	82	65	1	0	230
Jacqueline Tammenoms Bakker	**2014/15**	**94**	**–**	**5**	**–**	**0**	**99**
	2013/14	94	–	10	–	0	104

The figures in this table are from the date of appointment or until the date that each Director ceased to be a Director of Tesco PLC. Mark Armour was appointed on 2 September 2013. Richard Cousins and Mikael Olsson were appointed on 1 November 2014.

The figures in this table include fees paid to Gareth Bullock, Stuart Chambers and Deanna Oppenheimer in respect of their membership of the Board and Committees of Tesco Personal Finance Group Limited. Stuart Chambers stood down from the Board of Tesco Personal Finance Group Limited on 4 February 2014.

The Chairman's benefits are made up solely of car benefits, driver, security and medical insurance. The Non-executive Directors' benefits comprise taxable travel expenses. The benefit costs shown have been grossed up for tax.

Beneficial share ownership

There are no shareholding guidelines for the Non-executive Directors. The table below outlines the current interests of the Non-executive Directors in the Company. Shareholdings include shares held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors.

Director	Shares owned outright at 28 February 2015	Shares owned outright at 22 February 2014
Sir Richard Broadbent	**63,996**	63,996
Mark Armour	**25,000**	25,000
Gareth Bullock	**25,000**	25,000
Patrick Cescau	**18,340**	18,340
Stuart Chambers	**25,000**	25,000
Richard Cousins	**0**	n/a
Olivia Garfield	**4,086**	4,086
Ken Hanna	**25,000**	25,000
Mikael Olsson	**0**	n/a
Deanna Oppenheimer*	**52,500**	52,500*
Jacqueline Tammenoms Bakker	**16,472**	16,472

* Deanna Oppenheimer holds 17,500 ADRs equivalent to 52,500 ordinary shares.

Between 28 February 2015 and 4 May 2015 John Allan, and his connected persons, acquired 31,082 ordinary shares. There were no other changes in share interests held by Non-executive Directors.

The Committee

Membership of the Remuneration Committee and attendance at meetings

	Number of possible meetings	Actual meetings attended
Deanna Oppenheimer (Committee Chair)	5	5
Stuart Chambers	5	5
Sir Richard Broadbent	5	5
Ken Hanna	5	4
Mikael Olsson	2	2
Jacqueline Tammenoms Bakker	5	5

Deanna Oppenheimer took over from Stuart Chambers as Chair of the Committee with effect from 1 January 2015. Mikael Olsson joined the Committee with effect from 2 December 2014. John Allan joined the Committee with effect from 20 April 2015. Stuart Chambers and Ken Hanna will step down from the Board at the AGM on 26 June 2015.

The Committee also convenes on an ad hoc basis between formal meetings when necessary. The Directors' biographies can be found on pages 28 and 29 of this report. No member of the Committee has any personal financial interest in the matters being decided, other than as a shareholder, nor any day-to-day involvement in running the business of Tesco.

Role of the Remuneration Committee

The Committee's key responsibilities are:

- To determine and recommend to the Board the remuneration policy for Executive Directors, Executive Committee members and the Chairman;
- To ensure the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors and Executive Committee members needed to run the Company while remaining appropriate in the context of the remuneration arrangements throughout the Group;
- To ensure that the structure of remuneration arrangements is aligned with the creation of sustainable returns for shareholders and that the level of reward received by Executives reflects the value delivered for shareholders; and
- To monitor the level and structure of remuneration of senior management below the Executive Committee.

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

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

Remuneration Committee activities 2014/15

The following provides a summary of the key areas of focus at each of the Committee's meetings during the year and shortly following the end of the financial year:

		April 2014	July 2014	Sept 2014	Dec 2014	Feb 2015	April 2015 (following the year-end)
Strategy and policy	Review of market trends			✓			
	Consideration of remuneration strategy and policy		✓	✓	✓	✓	
	Discussion about approach to DRR/review of DRR			✓		✓	
	Approval of DRR	✓					✓
	Review of shareholder feedback and votes from the AGM		✓				
Salary review	Review of salaries for Executive Directors and Executive Committee		✓				
Annual bonus	Review of performance	✓		✓		✓	✓
	Determination of bonus outcome	✓					✓
	Consideration of measures and targets					✓	
	Setting of measures and targets	✓					✓
PSP	Review of performance	✓		✓		✓	✓
	Determination of vesting levels	✓					✓
	Consideration of measures and targets					✓	
	Setting of measures and targets	✓					✓
Other	Report from Tesco Bank Remuneration Committee		✓				
	Review of reward below Board			✓			
	Review of pension benefits		✓				
	Committee effectiveness review and review of Terms of Reference	✓				✓	
	Other issues as required	✓	✓	✓	✓	✓	✓

Committee advisors

Remuneration Committee advisors are appointed by the Committee following a selection process and their roles are kept under review. During the year, Deloitte LLP have been retained by the Committee in their capacity as independent Remuneration Committee advisors. Fees for advice provided to the Remuneration Committee for the year were £144,276. Fees are charged on a time and materials basis.

Deloitte also provided advice to management in relation to the interpretation of the Remuneration Reporting Regulations, below Board remuneration and implementation of share plans. Separate teams within Deloitte provided unrelated advisory services in respect of corporate tax planning, technology consulting, risk management, share schemes, international taxation, corporate finance, treasury and forensic services to the Group during the year.

Deloitte is one of the founding members of the Remuneration Consultants Code of Conduct and adheres to this Code in its dealings with the Committee. The Committee is satisfied that the advice provided by Deloitte is objective and independent. The Committee is comfortable that the Deloitte LLP engagement partner and team that provide remuneration advice to the Committee do not have connections with Tesco PLC that may impair their independence. The Committee reviewed the potential for conflicts of interest and judged that there were appropriate safeguards against such conflicts.

Towers Watson also provided the Committee with benchmarking information during the year and fees on a time-spent basis for this were £16,000.

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

Compliance

In carrying out its duties, the Remuneration Committee gives full consideration to best practice. The Committee was constituted and operated throughout the period in accordance with the principles outlined in the Listing Rules of the Financial Conduct Authority derived from the UK Corporate Governance Code. The auditors' report, set out on pages 75 to 82, covers the disclosures referred to in this report that are specified for audit by the Financial Conduct Authority.

The report has been drawn up in accordance with the UK Corporate Governance Code, Schedule 8 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 (as updated in 2013) and the Financial Conduct Authority Listing Rules.

Shareholder voting

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

The following table sets out actual voting in respect of our remuneration arrangements in 2014.

% of votes	For	Against
2013/14 To approve the Directors' Remuneration Report (2014 AGM)*	98.62%	1.38%
2013/14 To approve the Directors' Remuneration Policy (2014 AGM)**	97.50%	2.50%

* 9,093,781 votes were withheld (0.11% of share capital).
** 37,508,831 votes were withheld (0.46% of share capital).

The Committee was pleased with the level of support for our remuneration arrangements in 2014.

Policy table

The following sets out our Directors' Remuneration Policy (the 'Policy'). This Policy will be put forward for shareholder approval at the 2015 AGM on 26 June 2015 and will apply to payments made from this date. Until this time the Policy approved on 27 June 2014 will continue to apply.

Further details regarding the operation of the Policy for the 2015/16 financial year can be found on pages 49 and 50 of this report.

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes from previous policy
Base salary	• The role of base salary is to support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy • Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience	• The Committee sets base salary taking into account: – The individual's skills and experience and their performance – Salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally – Pay and conditions elsewhere in the Group • Base salary is normally reviewed annually with changes effective from 1 July but may be reviewed more frequently if the Committee determines this is appropriate	• While there is no maximum salary, increases will normally be in line with the typical level of increase awarded to other employees in the Group • However, increases may be above this level in certain circumstances such as: – Where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role then larger increases may be awarded to move salary positioning closer to typical market level as the Executive gains experience – Where an Executive Director has been promoted or has had a change in responsibilities, salary increases in excess of the above limit may be awarded – Where there has been a significant change in market practice	n/a	• No change from previous policy
Pension	• To provide an appropriate level of retirement benefit as part of a holistic benefit package	• Executive Directors receive a cash allowance in lieu of pension • The Committee may determine that alternative pension provisions will operate for new appointments to the Board. When determining pension arrangements for new appointments the Board will give regard to the cost of the arrangements, market practice and the pension arrangements received elsewhere in the Group • Where pension is provided as a salary supplement or into a defined contribution scheme it will not exceed the maximum amount stated in the next column. Where a defined benefit pension is provided, the value will vary reflecting the nature of such schemes	• Maximum cash in lieu of pension of 25% of base salary	n/a	• Policy amended to reflect the fact that new Executive Directors receive a cash payment in lieu of salary rather than participate in the defined benefit pension plan
Benefits	• To provide a market-competitive level of benefits for our Executive Directors	• The Committee sets benefit provision at an appropriate market-competitive level taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other employees in the Group • **Core benefits** – Benefits currently include but are not limited to a company car or car allowance, fuel, private use of a chauffeur, life assurance, disability and health insurance (for the Executive Director and his family), health screening, Directors' and Officers' liability insurance and provision of indemnity, security, club membership and staff discount on the same basis as other employees	• The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances and therefore there is no maximum level of benefit • When determining the level of benefits the Committee will consider the factors outlined in the 'Operation' column	n/a	• No change from previous policy

Element	Purpose and link to strategy	Operation	Maximum opportunity	Performance measures	Changes from previous policy
Benefits continued		• The Committee may remove benefits that Executive Directors receive or introduce other benefits if it is considered appropriate to do so • Executive Directors shall be reimbursed for all reasonable expenses and the Company may settle any tax incurred in relation to these • **All-employee share plans** – Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as UK colleagues • **Mobility policy** – Where an Executive Director is required to relocate to perform their role, our policy is that they may be offered some or all of the following: a relocation allowance, location allowance, cost of living allowance, disturbance allowance, housing benefit, flight budget, assistance with school fees, international family healthcare, pension allowance, spousal allowance and tax advice, assistance and equalisation. The level of such benefits would be determined based on the circumstances of the individual and typical market practice			
Annual bonus	• The role of the annual bonus is to reward Executive Directors for the delivery of our annual financial, operational and strategic goals • The performance measures have been selected as they are considered to be key to delivering long-term shareholder value creation • Deferral into Company shares provides alignment with shareholders • The malus and clawback provision enables the Company to mitigate risk (see page 64)	• The annual bonus is normally delivered: – 50% in cash – 50% in shares which are deferred • Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules • The Committee may determine that a different balance of cash and deferred shares may apply • Performance is assessed over a financial year • The Committee determines the level of bonus taking into account performance against targets and the underlying performance of the business • The deferred shares will normally vest after three years (or an alternative period determined by the Committee) • Deferred shares are normally awarded in the form of nil cost options but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date of grant	• Maximum annual bonus opportunity of 250% of base salary • For details of award levels for 2015/16 see the Annual Remuneration Report on page 49	• The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance • Any portion of the bonus based on non-financial measures will be subject to meeting a financial underpin • The Committee determines the exact metrics each year depending on the key goals for the forthcoming year • Normally around 30% of the bonus is paid for threshold performance, around 50% of the bonus is paid if target levels of performance are delivered with the full bonus being paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set • The Committee sets bonus targets each year to ensure that they are appropriately stretching in the context of the business plan	• The policy has been amended to reflect the introduction of individual performance metrics into the bonus plan • The policy has been amended to reflect the introduction of clawback to future awards
Performance Share Plan	• The role of the PSP is to reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value • To align the economic interests of Executive Directors and shareholders • To act as a retention tool • The malus and clawback provision enables the Company to mitigate risk (see page 64)	• Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise) • Awards will be calculated based on a percentage of base salary and the market share price at grant in accordance with the rules • The Committee has the discretion to amend the final vesting level if it does not consider that it reflects the underlying performance of the Company • PSP awards are normally awarded in the form of nil cost options over shares but may be awarded in other forms (such as conditional share awards or forfeitable shares). Vested nil cost options may normally be exercised until the tenth anniversary of the date at grant	• The maximum annual award that can be granted under the PSP is 350% of base salary • For details of award levels for 2015/16 see the Annual Remuneration Report on page 49	• Awards vest based on Total Shareholder Return, financial or strategic performance conditions (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on TSR and/or financial metrics • For threshold levels of performance up to 25% of the award vests, increasing to 100% of the award for stretching performance • The Committee sets targets each year so that targets are stretching and represent value creation for shareholders while remaining motivational for management	• The policy has been amended to reflect the changes in performance condition, targets and vesting levels and to allow more flexibility for measures to evolve further in future years • The policy has been amended to reflect the introduction of clawback to future awards

Directors' remuneration report continued

Directors' remuneration policy

Information supporting the policy table

Shareholding guidelines
Tesco also operates shareholding guidelines. See page 53 of the Annual Remuneration Report for further details.

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

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

Where Performance Share Plan awards are settled prior to the fifth anniversary of the grant of the award, the Committee shall have the discretion to claw back awards up to the fifth anniversary of the grant of awards in the circumstance described above.

Cash bonus payments can also be 'clawed back' in the circumstances described above up to the third anniversary of payment.

Cash payments
If the Committee considers it to be appropriate, it may determine that share awards may be settled in cash.

Terms of share awards
The Committee may amend the terms of awards or the rules of share plans within the scope defined in the rules of the plans.

For share awards, in the event of a variation of the Company's share capital or a demerger, delisting, special dividend, rights issue or other event, which may, in the Remuneration Committee's opinion affect the current or future value of awards, the number of shares subject to an award may be adjusted.

The Committee may amend performance targets in accordance with the terms of an award or if a transaction occurs which causes the Committee to consider (taking into account the interest of shareholders) that an amended performance condition would be more appropriate and would continue to achieve the original purpose.

Discretionary Share Option Plan
Prior to 2011, Executive Directors were granted market value options under the Company's 2004 Discretionary Share Option Plan. Outstanding awards are no longer subject to performance and may be exercised until the tenth anniversary of the date of award. No further awards will be made under this plan.

Defined benefit pension
Former Executive Directors, Philip Clarke and Laurie McIlwee, participated in a defined benefit pension plan which provides for a pension of up to two-thirds of base salary at retirement with a minimum 10% of salary per annum employee contribution. Pension benefits are provided through registered arrangements up to approved HMRC limits, with the remainder provided through a secured unfunded arrangement. In the event that an Executive Director retires early there will be no augmentation of pension benefits.

Payments outside policy
The Committee reserves the right to make any remuneration payments and payments for loss of office (including exercising any discretions available to it in connection with such payments) notwithstanding that they are not in line with the Policy set out in this report where the terms of the payment were agreed (i) before the policy came into effect or (ii) at a time when the relevant individual was not a Director of the Company and, in the opinion of the Committee, the payment was not in consideration for the individual becoming a Director of the Company. For these purposes 'payments' includes the Committee satisfying awards of variable remuneration, and an award over shares is 'agreed' at the time the award is granted.

Minor changes
The Committee may make minor changes to this Policy for regulatory, exchange control, tax or administrative purposes or to take account of a change in legislation without seeking shareholder approval for that amendment.

Selection of performance measures

Annual bonus
The annual bonus performance measures have been selected to provide an appropriate balance between incentivising Executive Directors to meet financial targets for the year and incentivising them to achieve specific strategic and operational objectives. The particular bonus metrics are selected by the Committee each year to ensure that Executive Directors are appropriately focused on the key objectives for the next 12 months.

Performance Share Plan
Performance measures for the PSP are selected to ensure that they incentivise Executive Directors to deliver long-term sustainable returns for all of our shareholders.

Performance targets for both the annual bonus and Performance Share Plan (where financial measures are used) are set, taking into account internal budget forecasts, external expectations and the need to ensure that targets remain motivational.

Remuneration arrangements throughout the Group

Remuneration arrangements throughout the Group are based on the same principle: that reward should be sufficient to attract and retain high-calibre talent without paying more than is necessary and that reward should support the creation of long-term shareholder value and promote the long-term success of the Company.

Tesco is one of the largest public company employers in the world. Our colleagues undertake a variety of roles reflecting the countries we operate in and the range of skills we need to run our various businesses. Reward packages therefore differ taking into account location, seniority and level of responsibility but they are all built around the common reward objectives and principles outlined previously. The following is based on current practice which may change during the life of the policy.

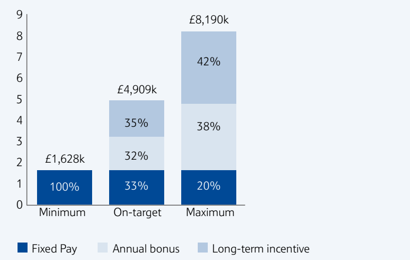
- Annual bonus – Annual bonuses throughout the Group are linked to business success and individual performance and contribution. A profit underpin is set below which no bonus awards will be made under the Plan.
- Share incentives – Currently our annual bonus is delivered in a mix of cash and deferred shares to create alignment with shareholder interests. We have a shareholding policy for the Executive Committee and the next level of management within the business.
- Clawback and malus – Malus provisions exist within our incentive plans to adjust awards prior to release and we will be introducing clawback provisions into all our executive incentive plans.
- Pensions – Pensions across the Group vary widely according to local market practice. In the UK all Tesco colleagues currently have the opportunity to participate in a career-average defined benefit scheme. We communicated in January 2015 that we will consult colleagues on plans to close this scheme and to replace it with an alternative defined contribution plan. This consultation began in April 2015.
- Colleagues as shareholders – It is an important part of the Tesco Values that all colleagues, not just management, have the opportunity to become Tesco shareholders. More than 200,000 of our colleagues participate in our all-employee schemes and hold more than 119 million shares in our Share Incentive Plan and more than 127 million options over shares in our Sharesave scheme.

When determining Executive Director remuneration arrangements, the Committee takes into account pay conditions throughout the Group to ensure that the structure and quantum of Executive Directors' pay remains appropriate in this context.

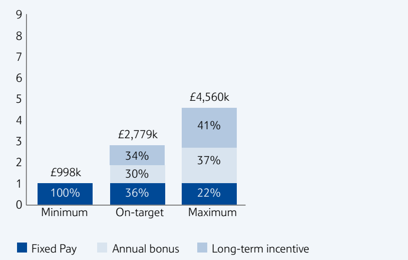
Remuneration outcomes in different performance scenarios

Tesco remuneration arrangements have been designed to ensure that a significant proportion of pay is dependent on the delivery of short-term and long-term goals that are aligned with our short-term and long-term strategic objectives and the creation of shareholder value. The Committee considers the level of remuneration that may payout in different performance scenarios to ensure that this is considered appropriate in the context of the performance delivered and the value added for shareholders. The charts below show hypothetical values of the remuneration package for Executive Directors under three assumed performance scenarios:

CEO – Dave Lewis (£million)



CFO – Alan Stewart (£million)



Performance scenarios

Maximum award opportunities (% of salary)	CEO	CFO
Annual bonus	250%	225%
PSP	275%	250%

Minimum	• No bonus payout • No vesting under the Performance Share Plan
On-target performance	• 50% annual bonus payout • 50% vesting under the Performance Share Plan
Maximum performance	• 100% annual bonus payout • 100% Performance Share Plan vesting

Directors' remuneration report continued

Directors' remuneration policy

No share price growth or the payment of dividend equivalents has been assumed. Potential benefits under all employee share schemes have not been included.

Fixed pay is based on current values as set out in the table below:

	Salary	Benefits*	Pension	Total fixed pay
	From appointment		25% of salary	
CEO – Dave Lewis (£'000)	1,250	65	313	1,628
CFO – Alan Stewart (£'000)	750	60	188	998

* Benefits are calculated based on forecast full-year benefits excluding one-off costs. The actual benefits for 2014/15 were Dave Lewis – £97,000 and Alan Stewart – £42,000.

Remuneration policy for new hires

The Committee would generally seek to align the remuneration package offered to new Executives with our remuneration policy outlined in the table above. When determining appropriate remuneration arrangements, the Committee will take into account all relevant factors including the experience and calibre of the candidate, the candidate's current reward opportunity, and the jurisdiction the candidate was recruited from.

In respect of an Executive Director's appointment, the Committee may offer variable remuneration arrangements that it considers appropriate and necessary to recruit and retain the individual (subject to the maximum variable limit outlined below).

Variable remuneration awarded in respect of an Executive Director's appointment shall be limited to the current aggregate annual and PSP award policy of 600% of base salary. This limit includes awards granted under the normal policy outlined above but excluding any awards made to compensate the Executive Director for awards forfeited from their previous employer.

The Committee may make awards when appointing an Executive Director to 'buy out' remuneration terms forfeited on leaving a previous employer. In doing so, the Committee will take account of relevant factors including any performance conditions attached to these awards, the form in which they were granted (e.g. cash or shares) and the time over which they would have vested.

The Committee's key principle is that buyout awards will generally be made on a comparable basis to those forfeited.

To facilitate buyout awards outlined above, in the event of recruitment, the Committee may grant awards to a new Executive Director under the Listing Rule 9.4.2, which allows for the granting of awards, to facilitate, in unusual circumstances, the recruitment of an Executive Director, or under other relevant company incentive plans.

The Company will pay legal fees incurred by any new Executive Directors in respect of their appointment.

In the event that an internal candidate was promoted to the Board, legacy terms and conditions would normally be honoured, including pension entitlements and any outstanding incentive awards.

In the event of the appointment of a new Chairman or Non-executive Director, remuneration arrangements will normally reflect the policy outlined on page 68 for Chairmen and Non-executive Directors.

Executive Director service agreements and policy on Executive Directors leaving Tesco

When determining leaving arrangements for an Executive Director, the Committee takes into account any contractual agreements including the provisions of any incentive arrangements, typical market practice and the performance and conduct of the individual.

The following table summarises our policy in relation to Executive Director service agreements and payments in the event of loss of office.

Provision	Current service agreements
Notice period	• 12 months' notice by the Company and six months' notice by the Executive Director • For new appointments, the Committee reserves the right to vary this period to 24 months for the initial period of appointment and for the notice period to then revert to 12 months after the initial 12 months of employment
Expiry date	• Dave Lewis and Alan Stewart entered into service agreements with Tesco PLC on 19 July 2014 and 9 July 2014 respectively • These are rolling service agreements with no fixed expiry date
Termination payments (does not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	• If the Company terminates a Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company then the Executive has the right to a termination payment to reflect the unexpired term of the notice • Any termination payment in lieu of notice will be based on base salary and benefits only • Benefits comprise car-related benefits, healthcare and health insurance and staff discount • No account will be taken of pension when determining termination payments • Termination payments will normally be subject to mitigation and paid in instalments to facilitate this (other than for long-serving Executive Directors or in the event of a change of control of the Company where the termination payment is made in full on departure) • Where an Executive Director has less than eight years of continuous service then any termination payment will normally be made in 13 equal four-weekly payments. Where an Executive Director has more than 15 years' continuous service then the termination payment is made in full on departure. For periods of continuous service between eight years and 15 years, termination payments will normally be split between initial payments and phased payments • Payment in full on termination on change of control arises if the Company terminates or gives notice within 12 months after a change of control • Where an Executive Director retires from the business they will not normally receive a termination payment • The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment • In the event of termination, an Executive Director may have an entitlement to compensation in respect of statutory rights under employment protection legislation in the UK and potentially elsewhere
Other information	• The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they remained in employment. The Committee will determine the level of bonus taking into account time in employment and performance. Where an Executive leaves by reason of death, disability or ill-health, they, or in the case of death their personal representatives, are entitled to a pro-rata performance-based bonus for the year of leaving • In the event that an Executive Director retires from the Company, they shall be entitled to retain their private medical cover and annual medical examinations in retirement. Any Executive Directors appointed from 24 February 2013 will not be entitled to this benefit • Under the employment agreements, while in employment Executive Directors are also entitled to sick pay, paid holiday, maternity and paternity leave • Where appropriate, the Company will meet an Executive Director's reasonable legal fees in connection with the termination of his employment and/or the reasonable cost of outplacement services

The service agreements are available to shareholders to view at the Company's registered office.

Share plan rules – leaver provisions

The treatment of outstanding share awards in the event that an Executive Director leaves is governed by the relevant share plan rules. The following table summarises leaver provisions under the executive share plans. In specific circumstances, the Committee may exercise its discretion to modify the policy outlined to the extent that the rules of the share plan allow such discretion. The Committee will not exercise discretion to allow awards to vest where the participant is dismissed for gross misconduct.

	Death	Good leavers as determined by the Committee in accordance with the plan rules	Leavers in other circumstances (other than summary dismissal)
		'Good leavers' are: injury, ill-health or disability, redundancy, retirement, the entity which employs the Executive ceasing to be part of the Group or any other reason determined by the Committee taking into account the circumstances of departure and performance	
Executive Incentive Plan 2014 (deferred bonus shares)	• Unvested awards vest on death. • Normally 12 months to exercise (if options)	• Unvested awards vest at cessation (Committee discretion to defer vesting to normal vesting date) • Normally 12 months to exercise (if options)	• Awards normally lapse
Performance Share Plan 2011	• Unvested awards normally vest on death. The level of vesting is determined by the Committee taking into account performance and the time elapsed between grant and death • If awards are in the form of options, the personal representatives of the participant will normally have 12 months from the date of death to exercise or a longer period as determined by the Committee of up to 10 years from grant	• Awards granted in the 12 months prior to leaving normally lapse (where more than one award has been made in the 12-month period in respect of different financial years the most recent award will lapse) • If a participant leaves holding three unvested awards (in respect of different financial years), the most recent granted award shall normally lapse • Other unvested awards normally continue until the normal vesting date. The Committee will determine the level of vesting taking into account performance • If awards are in the form of options, participants normally have 12 months from vesting (or leaving for vested options) to exercise or a longer period determined by the Committee of up to 10 years from grant	• Unvested awards normally lapse unless the Committee determines otherwise • If awards are in the form of options, participants normally have 12 months from cessation to exercise vested options or a longer period as determined by the Committee of up to 10 years from grant
All-employee share plans	• Leaver provisions under all-employee share plans are as determined in accordance with HMRC approved provisions		

Directors’ remuneration report continued
Directors’ remuneration policy

Legacy plans
Deferred bonus shares awarded prior to 2014 were granted under the 2004 Executive Incentive Plan. Under this plan, in the event that a participant leaves for ‘good leaver’ reasons (death, injury, ill-health, disability, redundancy, retirement, the entity which employs the Executive Director ceasing to be part of the Group or any other reason determined by the Committee) awards will vest at leaving and participants will normally have 12 months from cessation to exercise awards in the form of options. If a participant leaves in other circumstances (other than in circumstances of gross misconduct) awards will normally vest at the normal vesting date and participants will normally have 12 months from vesting to exercise awards in the form of options.

Philip Clarke and Laurie McIlwee hold vested options under the 2004 Discretionary Share Option Plan and 2004 PSP. Under these plans, when participants leave, they have 12 months from leaving to exercise options.

Other vesting circumstances

Awards may also vest early if:
(i) a participant is transferred to a country, as a result of which the participant will suffer a tax disadvantage or become subject to restrictions on his award (under the PSP and 2004 Executive Incentive Plan); or
(ii) in the event of a takeover, winding-up or other corporate event affecting the Company, which may affect the value of share awards (such as a demerger or special dividend).

The number of shares under an award which vest in these circumstances will be determined by the Committee. In the case of the PSP, when determining the level of vesting the Committee will consider performance and the time elapsed since grant. In the case of the deferred bonus shares (under the 2004 and 2014 Executive Incentive Plan) awards will vest in full.

Where an Executive Director leaves as a result of summary dismissal they will forfeit outstanding share incentive awards.

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items
• Fees for the Non-executive Chairman and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary • Fees are set taking into account the following factors: – The time commitment required to fulfil the role – Typical practice at other companies of a similar size and complexity to Tesco • Non-executive Directors’ fees are set by the Board and the Chairman’s fee is set by the Committee (the Chairman does not take part in any discussion about his fees) • Fees are reviewed by the Board at appropriate intervals (normally once every two years) • Fees paid to the Non-executive Chairman and Non-executive Directors may not exceed the aggregate limit of £2m set out in the Company’s articles of association	• Non-executive Director fees policy is to pay: – A basic fee for membership of the Board – An additional fee for the Chairman of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role – An additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role • Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate • Non-executive Directors of Tesco PLC may also serve on the Board of Tesco Personal Finance Group Limited • Such Non-executive Directors also receive a basic fee for serving on this Board and additional fees for Committee membership in line with other members of this Board. Fees for membership of the Board of Tesco Personal Finance Group Limited are determined by the Board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals • The Non-executive Chairman of Tesco PLC receives an all-inclusive fee for the role • Where significant travel is required to attend Board meetings, additional fees may be paid to reflect this additional time commitment	• The Non-executive Directors are not entitled to participate in the annual bonus or Performance Share Plan • The Non-executive Directors have the benefit of Directors’ and Officers’ liability insurance and provision of indemnity and staff discount on the same basis as other employees. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so • The Non-executive Chairman may have the benefit of a company car and driver, home security, staff discount and healthcare for himself and his partner. The Committee may introduce additional benefits for the Chairman if it is considered appropriate to do so • The Company reimburses the Chairman and Non-executive Directors for reasonable expenses in performing their duties and may settle any tax incurred in relation to these • The Company will pay reasonable legal fees for advice in relation to terms of engagement • If a Non-executive Director was based overseas then the Company would meet travel and accommodation expenditure as required to fulfil Non-executive duties

Non-executive Director letters of appointment
Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. The unexpired term of Non-executive Directors’ appointments can be found on page 35. In line with the UK Corporate Governance Code, all Non-executive Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors’ appointments can be terminated by either party without notice. Non-executive Directors have no entitlement to compensation on termination.

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

Considering colleagues' views

The Committee does not consider that it is appropriate to consult colleagues directly when developing the Directors' Remuneration Policy. A significant portion of our colleagues are shareholders so are able to express their views in the same way as other shareholders.

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

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

Considering shareholders' views

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

Approved by the Board
5 May 2015
Deanna Oppenheimer
Chair of the Remuneration Committee

Directors' report

The Directors present their report, together with the audited accounts for the year ended 28 February 2015. Other information that is relevant to the Directors' report, and which is incorporated by reference into this report, can be located as follows:

	Pages
Future developments	1 to 25
Greenhouse gas emissions	21
Financial instruments and financial risk management	25, 116 to 124
Corporate governance report	27 to 45

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

	Pages
Statement of capitalised interest	100 and 108
Long-term incentive schemes	55
Allotment for cash of equity securities	132
Waiver of dividends	70

The Company has chosen, in accordance with Section 414 C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 1 to 25 of the Annual Report and Financial Statements 2015.

Group results

Group revenue (excluding VAT) decreased by £1,273 million to £62.3 billion, representing a decrease of 2.0%. Group loss before tax was £6,376 million from a profit before tax of £2,259 million in 2013/14. The loss for the year including discontinued operations was £5,766 million, of which £5,741 million was attributable to equity holders of the parent company.

Dividends

As announced by the Company on 8 January 2015, the Board has decided not to recommend the payment of a final dividend in respect of the year ended 28 February 2015. An interim dividend of 1.16p per ordinary share was paid to shareholders in December 2014.

Certain nominee companies representing our employee benefit trusts hold shares in the Company in connection with the operation of the Company's share plans and have submitted evergreen dividend waivers on shares held by them that have not been allocated to employees. The total amount of dividends waived by them during the year ended 28 February 2015 was £1.3 million.

Fixed assets

Capital expenditure (excluding business combinations) amounted to £2.0 billion compared with £2.7 billion the previous year.

Share capital and control of the Company and significant agreements

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's ordinary shares are set out in Note 27 on page 132 of the Annual Report and Financial Statements 2015. No shareholder holds securities carrying special rights with regards to control of the Company. There are no restrictions on voting rights or the transfer of securities in the Company and the Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2014 AGM to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting.

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

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

Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure and Transparency Rules (DTR) are published via a Regulatory Information Service and is available on the Company's website. The Company had been notified under Rule 5 of the DTR of the following holdings of voting rights in its shares as at 28 February 2015 and as at the date of this report:

	% of issued share capital as at 28 February 2015	% of issued share capital as at the date of this report
BlackRock, Inc.	5.01	5.01
Norges Bank	7.002	7.002

Articles of Association

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

Directors and their interests

The biographical details of the current serving Directors are set out on pages 28 and 29 of the Annual Report and Financial Statements 2015. The Directors who served during the year were: Mark Armour; Sir Richard Broadbent; Gareth Bullock; Patrick Cescau; Stuart Chambers; Philip Clarke; Richard Cousins; Olivia Garfield; Ken Hanna; Dave Lewis; Laurie McIlwee; Mikael Olsson; Deanna Oppenheimer; Alan Stewart; and Jacqueline Tammenoms Bakker. Changes to the Board since 22 February 2014 are shown on page 35. The interests of Directors and their immediate families in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' Remuneration Report set out on pages 46 to 69.

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

Employment policies

We develop people policies in line with our Values and, by putting our colleagues first, we enable them to give our customers a great experience. We promote a fair, honest and transparent culture where information is available to everyone so our people know how they will be supported. Further details can be found on page 20 of the Annual Report and Financial Statements 2015.

We are committed to providing an inclusive environment at work in which people are treated with respect. We believe that having people from diverse backgrounds, with different experiences and talents is a real strength for our business.

Our colleagues are our most valuable asset. Promoting and supporting skills and development is at the core of what we do and we provide many training and learning programmes to give everyone the support, resources and opportunities they need to be the best they can be. Our selection, training, development and promotion policies ensure equal opportunities for all colleagues regardless of factors such as gender, marital status, race, age, sexual preference and orientation, colour, creed, ethnic origin, religion or belief, disability or trade union affiliation. All decisions are based on merit.

We believe it is essential for our colleagues to have a voice. By really listening to our colleagues it enables us to understand what really matters to them and respond to make it better. We use a variety of communication channels to regularly engage, consult, inform and connect with our teams so that the views of our colleagues can be taken into account when key decisions are made that affect them and to ensure that our colleagues are aware of the financial and economic factors affecting the Group's performance.

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

Political donations

The Group did not make any political donations (2013/14: £nil) or incur any political expenditure during the year (2013/14: £nil).

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

The Code places obligations on grocery retailers with a turnover greater than £1 billion to maintain a Code compliance programme, which includes training staff and providing information to the Competition and Markets Authority. In addition, the Code sets out a number of provisions which relate to different aspects of the relationship between a retailer and supplier.

The Code establishes an overarching principle that retailers must deal with their suppliers fairly and lawfully. Specific obligations include giving reasonable notice in circumstances such as changes to supply chain procedures and when ceasing or significantly reducing purchases from a supplier. The Code also contains a number of provisions relating to payments by suppliers, including obligations for retailers to pay suppliers without delay and a prohibition on certain types of payments, such as those for shrinkage.

Regrettably, we have concluded that there have been a number of instances of probable breaches of the Code which fall short of the high standards we expect to uphold in our dealings with our suppliers.

We are taking effective action to prevent this arising again. We are fundamentally changing the way we work with our suppliers to deliver a more sustainable and collaborative business model for everyone in the supply chain. In addition, we are significantly up-weighting our Code compliance programme. The programme will include comprehensive new starter training and annual refresher training (which is delivered through both e-learning and in-person training), improved guidance and processes, 'deep dive' audits throughout the year, bi-annual compliance declarations and disciplinary action where necessary.

We have continued our positive engagement with the Groceries Code Adjudicator (GCA), Christine Tacon, and her office. Specifically, we are in ongoing dialogue with the GCA around the probable breaches of the Code we have identified and our proposed remedial actions.

Our Code Compliance Officer has also continued to take an active and visible role during the year and we have proactively engaged the supply base through supplier training events. This year we have seen an increase in suppliers raising Code issues. Eighteen Code-related complaints were raised by suppliers this year, and (as at the date of this report) we have resolved all but one complaint through discussion with the suppliers concerned. We are continuing to discuss the final matter with the relevant supplier. We have had twelve instances where complaints were referred to the Code Compliance Officer, although in none of those instances was a formal dispute raised as all matters were resolved directly with the supplier. The Code Compliance Officer regularly reports to our Compliance Committees and Audit Committee.

Going concern

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

Events after the Balance Sheet date

On 20 March 2015, the Group regained sole ownership of 21 stores, previously held in a joint venture with British Land. The Group received British Land's share of the 21 stores and cash of £96 million. In exchange, British Land took sole ownership of three shopping centres, three retail parks and three standalone stores which were held in two joint ventures between the two companies as at the Balance Sheet date. The Group will continue to lease the stores at these sites at market rents which are not subject to RPI-indexed increases.

Directors' statement of disclosure of information to auditors

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

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those contained in any forward-looking statement. Such factors include, but are not limited to, those discussed under 'Principal risks and uncertainties' on pages 22 to 25 of this Annual Report.

By order of the Board

Paul Moore
Company Secretary
5 May 2015

Financial statements

Statement of Directors' responsibilities

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

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

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the European Union and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

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

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

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

Each of the Directors, whose names and functions are set out on pages 28 and 29 confirm that, to the best of their knowledge:

- the Group financial statements, which have been prepared in accordance with IFRS as adopted by the EU, give a true and fair view of the assets, liabilities, financial position and loss of the Group; and
- the Strategic report contained within this document includes a fair review of the development and performance of the business and the position of the Group, together with a description of the principal risks and uncertainties that it faces.

Independent auditors' report to the members of Tesco PLC

Our opinion
In our opinion, Tesco PLC's Group financial statements (the 'financial statements'):
- give a true and fair view of the state of the Group's affairs as at 28 February 2015 and of its loss and cash flows for the 53 week period (the 'period') then ended;
- have been properly prepared in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006 and Article 4 of the IAS Regulation.

What we have audited
Tesco PLC's financial statements comprise:
- the Group balance sheet as at 28 February 2015;
- the Group income statement and the Group statement of comprehensive income for the period then ended;
- the Group cash flow statement for the period then ended;
- the Group statement of changes in equity for the period then ended; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and IFRSs as adopted by the European Union.

Our audit approach

Overview
Materiality
Overall Group materiality for 2014/15 was £50 million, which was based on applying professional judgement, taking into consideration a number of profit based measures and the overall scale of the business. Overall Group materiality in 2013/14 was £150 million.

Audit scope
We conducted audit work over the complete financial information for 13 components across the UK, Europe and Asia. In addition specified procedures were carried out at the Group's shared service centre in Bangalore.

The components that were part of our audit scope as set out above accounted for 99% (2013/14: 92%) of Group profit before tax before restructuring and other one off items and the reversal of commercial income recognised in previous periods.

Areas of focus
The following were areas of focus for our audit:
- recognition of commercial income;
- commercial income – impact on prior years;
- impairment of property, plant and equipment;
- inventory;
- impairment of investments in associated undertakings;
- provisions and reserves in Tesco Bank;
- management override of controls; and
- compliance with laws and regulations.

The scope of our audit and our areas of focus
We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ('ISAs (UK and Ireland)').

We designed our audit by determining materiality and assessing the risks of material misstatement in the financial statements. In particular, we looked at where the directors made subjective judgements, for example in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including evaluating whether there was evidence of bias by the directors that represented a risk of material misstatement due to fraud.

The risks of material misstatement that had the greatest effect on our audit, including the allocation of our resources and effort, are identified as 'areas of focus' in the table below. We have also set out how we tailored our audit to address these specific areas in order to provide an opinion on the financial statements as a whole, and any comments we make on the results of our procedures should be read in this context. This is not a complete list of all risks identified by our audit.

Independent auditors' report to the members of Tesco PLC continued

Area of focus	How our audit addressed the area of focus

Recognition of commercial income

Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies).

Tesco has agreements with suppliers whereby discounts and rebates are received retrospectively according to the quantity of goods bought and promotional and marketing activity performed in stores and online.

We focused on this area as this income contributes a significant amount to the Group results and also due to the fact that these agreements can include a number of characteristics that require judgement to be applied in determining the appropriate accounting based on the terms of the agreement. There may also be incentives for buyers to manipulate the timing of when commercial income is recognised to meet internal targets.

Our audit procedures focused, in particular, on the following judgements:
- the period which the agreements cover and hence the correct period for recognition;
- the determination of volume achieved and the applicable rebate income earned; and
- the appropriate recognition of income related to one off agreements and marketing and promotional activity.

This risk was heightened during the period following the Group's announcement on 22 September 2014 relating to the misstatement of commercial income. As a result of this announcement our audit in 2014/15 also considered the impact on prior period financial statements of the issues identified during the current period.

As with any significant audit risk, we understood and evaluated the controls that the Group has in place around commercial income. Given the announcement in September 2014 we did not seek to place any significant reliance on the operating effectiveness of the controls and our work in 2014/15 in the UK and around the world principally comprised substantive testing.

Our response to this risk included an understanding of the work carried out by Tesco Internal Audit and also the scope and results of the work carried out by Deloitte, who were appointed by the directors to perform an independent review of the commercial income misstatement.

In the UK we also used our specialist forensic knowledge to help corroborate the misstatement of commercial income announced by the Group, provide information relating to prior periods and assess the reliability of support provided by management.

Our audit approach and results of our work on Commercial Income were discussed on a number of occasions with the Audit Committee.

As part of our review of component teams' audit work, the Group engagement team was specifically involved in determining the audit approach in this area in order to be satisfied that sufficient focus was placed on the more judgemental areas. As a result of this involvement we were satisfied that, whilst complex, this area was well understood and there was sufficient focus on this area of risk.

Our audit procedures across individual countries included a combination of the following substantive testing, on a sample basis:

- detailed testing of commercial income recognised in the period, with particular attention to whether the income was recognised in the correct period and the appropriateness of accrued commercial income at the period end. This involved selecting a sample of amounts invoiced and accrued in the period and agreeing them to supporting documentation and third party evidence. Where available we inspected underlying contractual terms and/or related third party correspondence for a selection of arrangements. We also held a number of discussions with members of Tesco's commercial buying team to understand the nature of individual agreements;
- confirming the quantum and nature of a sample of individual commercial income agreements directly with suppliers. Where confirmations were not received from suppliers we examined alternative supporting documentation;
- testing that amounts have been recognised in the correct period through examining active promotional deals in-store and online either side of the period end and ensuring that the related income was recognised in the correct period;
- testing credit notes issued during the period and post period end to determine whether the income to which they related has been appropriately reversed;
- testing supplier statement reconciliations prepared by management for a sample of suppliers; and
- inspecting the 'Groceries Supplier Code of Practice' (GSCOP) reporting and any complaints from suppliers.

The above audit procedures did not identify any matters that resulted in a significant audit adjustment.

Area of focus	How our audit addressed the area of focus
Commercial income – impact on prior periods	
Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies) and page 99 (notes). The Group has stated in its financial statements that commercial income recognised in previous periods was overstated by £53 million in 2013/14 and by £155 million in the periods prior to 2013/14. The directors have concluded that it is not possible to determine the exact amounts relating to prior periods and exactly which periods are affected. Management has however produced a quantitative and qualitative estimate of the amounts relating to prior periods. Having estimated the amounts of potential misstatement relating to prior periods, the directors then assessed whether these amounts are material such that the prior period financial statements would require restatement. The directors concluded that the amounts relating to prior periods, whilst significant, were not, from an accounting perspective, material and consequently that it is not necessary to restate the 2013/14 financial statements.	We challenged and evaluated management's quantitative and qualitative analysis of amounts relating to prior periods and, whilst judgemental, we considered that assessment to be reasonable. The estimated impact on 2013/14 profits was £53 million, which was below our profit based materiality of £150 million that we determined applicable for the 2013/14 audit. The estimated impact on the 22 February 2014 and 23 February 2013 balance sheets was £208 million and £155 million respectively, both of which are less than 0.5% of the Group's total assets at each respective period end. The basis on which we considered materiality relating to prior period items is explained further below. After considering carefully the nature and the quantum of the estimated amounts relating to prior periods we concurred with the directors that these amounts, whilst significant, were not material and the prior period financial statements did not require restating. The estimated impact on prior periods has been charged to the income statement in the current period and the Group has separately identified this as a one-off item. We concurred with this accounting treatment and are supportive of the detailed disclosures made in the Annual Report about the impact of the misstatement on the prior periods' financial statements.
Impairment of property, plant and equipment	
Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies) and page 108 (notes). The directors have recorded an impairment charge of £4,292 million against the carrying value of property, plant and equipment across the Group. We focused on this area because the determination of whether or not an impairment charge for property, plant and equipment was necessary involved significant judgements by the directors about the future results of the business and assessment of future plans for the Group's property portfolio in a number of territories. In particular we focused on the reasonableness and impact of key assumptions including: • the cash flow forecasts derived from internal forecasts and the assumptions around the future performance; • the discount rate and the long term growth rate including the assessment of risk factors and growth expectations of the relevant territory; and • the assumptions used in the valuations prepared to support the fair value of certain assets and also the assessment of the external valuers as management's expert.	We evaluated management's impairment calculations in local territories, assessing the future cash flow forecasts used in the models, and the process by which they were drawn up, including comparing them to the latest Board approved budgets, and we tested the mechanics of the underlying calculations. We understood and challenged: • the assumptions used in the Group's five-year Plan and the long term growth rates by comparing them to economic and industry forecasts; • the discount rate by assessing the cost of capital and other inputs and comparable organisations; and • the assumptions used by the external valuers to determine the fair market value of the assets. In performing the above work we utilised our specialist forecasting and valuations knowledge to provide challenge and external market data points to assess the reasonableness of the assumptions used by management. We performed sensitivity analysis around the key drivers of growth rates within the cash flow forecasts to ascertain the extent of change in those assumptions that either individually or collectively would be required for the assets to be further impaired and also considered the likelihood of such a movement in those key assumptions arising. Whilst recognising that cash flow forecasting, impairment modelling and property valuations are all inherently judgemental, we concluded that the assumptions used by management were within an acceptable range of reasonable estimates.

Independent auditors' report to the members of Tesco PLC
continued

Area of focus	How our audit addressed the area of focus

Inventory

Area of focus

Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies) and page 113 (notes).

The Group held inventory of £2,957 million at 28 February 2015. The valuation of inventory was a focus of our audit for the following reasons:

- the Group has changed its provisioning methodology for slow moving inventory from an approach based on inventory ageing to one based on forecast inventory usage. The new method of estimating provisions for realisable value requires judgement as it applies provisioning percentages to estimates of future sales. The impact of this 'change in estimate' has been charged to the income statement in the current period and, at £323 million, is material; and
- the Group has also revised its methodology for including directly attributable overheads within its determination of the cost of inventory. These overheads relate to additional costs incurred through the distribution and in-store processes of bringing inventory to its final destination. This change has involved both a 'change in accounting policy' in respect of the type of overheads included and also a 'change in estimate' of the quantum of costs to include. The directors have determined that the element relating to the type of overheads included, which, as a change in accounting policy would normally be reflected retrospectively in the prior period financial statements, is not material. The directors have therefore recorded the impact of this change in accounting policy (£59 million) in the current period income statement along with the impact of the change in estimate of the quantum of costs to include (£109 million).

In addition, given the value of the inventory balance in the UK retail business (£1,637 million) our UK component team identified the existence of inventory to be a particular area of focus for its audit.

How our audit addressed the area of focus

We examined the basis of the new methodology with respect to slow moving inventory provisions and the appropriateness of the provisioning percentages applicable to individual categories of inventory. We determined that the new methodology of estimating inventory provisions was acceptable. This change in methodology represents a change in estimate and consequently recording the impact in the current period income statement is appropriate. We also agreed that the disclosure of the impact of this change as a 'one-off' cost is appropriate.

We examined the changes the Group has made to its assessment of costs directly related to bringing inventory to its final destination (and hence included in the cost of inventory). The new methodology remains compliant with Accounting Standards. We concurred with the directors that the amounts relating to the changes made to the types of costs which are capitalised in inventory are not material to the Group's financial statements and consequently recording the impact of this change in accounting policy along with the impact of the change in estimate in the current period income statement is acceptable. We also agreed that the disclosure of the impact of these changes as a 'one-off' cost is appropriate.

We attended physical inventory counts in all countries within the scope of our audit. In the UK we attended 93 physical inventory counts during the period, performing our own sample counts and checking that the accounting records reflected these physical counts. The counting differences identified, which were immaterial, were adjusted in the accounting records and these differences were at a level consistent with the normal shrinkage provisions held by Tesco UK.

Impairment of investment in associated undertakings

Area of focus

Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies) and page 112 (notes).

During the period the Group completed the transaction with China Resources Enterprises Limited (CRE) to combine their respective Chinese retail operations. The Group holds a 20% equity interest in the enlarged retail operations and accounts for this interest as an associated undertaking.

Following a reduction in the trading performance of the combined business in China management has performed an impairment review of the carrying value and recorded an impairment charge in the current period of £630 million.

We focused on this area due to the significant and complex judgements (both valuation techniques and underlying internal and external assumptions) required over determining the fair value of the Group's associate in China.

How our audit addressed the area of focus

We assessed and challenged the valuation approach and assumptions used by the third party valuer commissioned by the directors. This included understanding and challenging the independence, scope of work, growth rate and discount rate assumptions of the directors' third party valuation expert.

We have considered the historic and forecast macro-economic and food retail sector performance and conditions in China.

We have also considered the implied revenue and profit multiples generated by the external valuation and compared them to other comparable companies operating in the food retail sector in China.

Whilst recognising that valuing businesses is inherently judgemental we concluded that the valuation determined by the directors from the third party valuation was within an acceptable range.

Area of focus	How our audit addressed the area of focus

Provisions and reserves in Tesco Bank

Refer to page 37 (Audit Committee Report), page 88 (Accounting Policies) and page 125 (notes).

We focused on this area because the directors make complex and subjective judgements over both timing of recognition of provisions for impairment and other regulatory matters and the estimate of the quantum of any such amounts.

The areas we particularly focused on were:

- loan and credit card impairment provisions which are judgemental and material. Judgement is required to assess factors such as the loss given default, probability of default and loss emergence period before arriving at an impairment provision;
- provisions for customer redress (PPI and Consumer Credit Act) which is an area where there continues to be a high level of judgement with changes to key assumptions as actual experience is taken into consideration having the potential to materially alter the level of provision recognised; and
- Tesco Underwriting Limited insurance reserving which continues to be an area of judgement, with a number of assumptions inputting into the overall reserve amounts.

We assessed and challenged management's assumptions for loan and credit card impairment, particularly the level of recovery on historically defaulted receivables and the level of more recent defaults, testing whether they are supportable by reference to internal historical financial information, external market data or robust management rationale.

We assessed and challenged the assumptions made by management in calculating the provisions for customer redress. We examined historical data to assess whether trends in customer claims have been appropriately reflected in the provisions. We read legal advice received by Tesco Bank to corroborate the basis on which the provisions were calculated.

We evaluated the work performed by independent actuaries and challenged the key assumptions the directors have made for insurance reserving by using our market knowledge of the UK Motor and Household insurance products.

As a result of our work we considered the above provisions and reserves in Tesco Bank to be within an acceptable range of reasonable estimates.

Management override of controls

Refer to page 37 (Audit Committee Report).

As described in the Corporate Governance Report on pages 32 and 33, matters surrounding the commercial income issue are now the subject of an investigation by the Serious Fraud Office (SFO) in the UK. We considered the impact of the override of controls relating to those matters. As explained above we focused on this area and our testing was designed to ensure we appropriately addressed the risk of material misstatement.

The challenges faced by the Group this year have caused the directors to examine closely those areas of the financial statements where higher levels of management judgement are required. There is a risk that an undue level of conservatism could have been applied when drawing conclusions from this examination. We considered this risk when auditing judgemental areas, and in our overall review of whether the financial statements presented a true and fair view.

We assessed the overall control environment of the Group, with a particular focus on changes introduced since the Group's announcement in September 2014 relating to the commercial income misstatement. Our procedures included:

- understanding the overall governance and oversight process including the independence and objectivity of those charged with governance and the quality and timeliness of the information provided to them. In particular we considered how the oversight process had been impacted by the several recent changes in Board and senior management positions;
- consideration of the Group's code of conduct and whistle-blowing processes and the communication of these across the Group. Since the September 2014 announcement, the Board has initiated a Group wide communication programme emphasising the importance of culture, integrity and ethics. We read the associated communications and considered the impact of the programme;
- examining the scope and results of the work carried out by Internal Audit. Following the September 2014 announcement, Internal Audit completed its scheduled programme of work to perform a review of the UK commercial income process, and to examine controls around other areas of significant accounting judgement. We took account of the results of this work when planning and performing our audit procedures; and
- evaluating the specific changes made to the commercial income processes and controls, and the staff training used to launch these changes. These changes were made mid-way through the accounting period and did not operate fully throughout the period. We therefore did not place any significant reliance on these controls as part of our 2014/15 audit of commercial income.

We also tested manual journal entries and incorporated an element of unpredictability in the timing of our work and the selection of our samples into our testing plans.

We examined the significant accounting estimates and judgements relevant to the financial statements for evidence of bias by the directors that represented a risk of material misstatement. These estimates included the areas of impairment and provisioning as set out in the areas of focus above. As shown by our overall opinion on the financial statements, we were satisfied that the level of conservatism remains within an acceptable range.

Independent auditors' report to the members of Tesco PLC continued

Area of focus	How our audit addressed the area of focus
Compliance with laws and regulations	
Refer to page 37 (Audit Committee Report). Tesco is currently under investigation by the SFO in the UK following the September 2014 announcement relating to the commercial income misstatement. The outcome of this investigation will not be known for some time. However should fines be levied as a result, these could be material. We focused on this area given the level of judgement required by the directors in assessing whether a provision for future fines is required at this time.	We met with Tesco internal and external legal teams to understand and discuss the status of any legal claims. We read the minutes of Board meetings and the Executive Committee to consider whether the directors are aware of amounts that should be provided for. We read the disclosures made in the Annual Report relating to the SFO investigation. We obtained confirmation from the directors (via the management representation letter) that no provisions are required at this stage.

How we tailored the audit scope

In identifying these areas of focus and in ensuring that we performed enough work to be able to give an opinion on the financial statements as a whole, we took into account: the geographic structure of the Group; the accounting processes and controls; and the industry in which the Group operates, and tailored the scope of our audit accordingly.

The Group's accounting process is structured around a local finance function in each geographical location and a shared service centre in Bangalore, India that carries out shared services activities for some of the locations. Each of the local finance functions report into the central Group finance function. The local finance functions consist of 19 operating and head office reporting units and a number of joint ventures and associates. The geographical locations and the shared service centre maintain their own accounting records and controls and report to the Group finance team through an integrated consolidation system.

In establishing the overall approach to the Group audit, we determined which locations were significant to the Group's results either due to size or their risk characteristics. Accordingly we identified six trading units and the head office reporting unit for which we determined that we needed to conduct audit work over the complete financial information. These seven reporting units were the UK, Turkey, Korea, Thailand, Tesco Bank, Dunnhumby and the Group head office and accounted for 99% of the Group's profit before tax before restructuring and other one-off items and the reversal of commercial income recognised in previous periods, of which the main UK trading business contributed 20%. Audits of the complete financial information were also performed for a further six trading units where there are local statutory reporting requirements. These trading units were Republic of Ireland, Czech Republic, Slovakia, Poland, Hungary and Malaysia. In each geographical location we used PwC component auditors to audit and report on the complete financial information of the unit in that location. In relation to the shared service centre in Bangalore each component auditor instructed specified audit procedures be performed over the balances and transactions processed that were relevant to their reporting location and required for the purposes of auditing the complete financial information for that location.

Where the work was performed by component auditors, under our instruction, we determined the level of involvement we needed to have in the audit work at those reporting locations to be able to conclude whether sufficient appropriate audit evidence had been obtained as a basis for our opinion on the Group financial statements as a whole.

The Group consolidation, financial statement disclosures and financial statement items accounted for centrally, including derivative financial instruments, hedge accounting, goodwill impairment, and share based payments were also audited by the Group engagement team at the head office.

Materiality

The scope of our audit was influenced by our application of materiality. We set certain quantitative thresholds for materiality. These, together with qualitative considerations, helped us to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and on the financial statements as a whole. In addition, we used our quantitative assessment of materiality when assessing the impact of identified misstatements arising during the period that could have an impact on the current period and/or the prior period.

- where misstatements were identified which related to the current period income statement the quantitative materiality set out in the table below (£50 million) was used to determine whether misstatements should be adjusted. For misstatements that did not impact profits and only affected the balance sheet we did not consider it appropriate to use a standard, profit based measure of materiality and our quantitative assessment had regard to whether the misstatement was above 5% of the balance sheet line to which it related and/or 1% of total assets; and
- where misstatements were identified in the current period which related to financial statements issued in prior periods (for example the commercial income issue described above) we considered the quantitative materiality of these items in two ways – by considering the impact on previously reported profits against the profit based materiality we determined in the previous period (in 2013/14 this was £150 million) and also the impact on the previously reported balance sheet using the balance sheet metrics referred to in the previous bullet.

For all misstatements we also considered whether their nature or other qualitative factors meant that they were material.

Based on our professional judgement, we determined materiality for the financial statements as a whole as follows:

Overall Group Materiality	£50 million (2013/14: £150 million).
How we determined it	Professional judgement having applied benchmark percentages to a number of profit measures and considering the overall scale of the business. Overall Group materiality in 2013/14 was £150 million, which represented approximately 5% of profit before tax adjusted for restructuring and one-off items.
Rationale for benchmark applied	Given the significant reduction in the Group's profits compared to the prior period we considered materiality in a number of different ways, including: • the methodology we used in the prior period, namely 5% of statutory profit before tax adjusted for restructuring and one-off items. This would have resulted in an indicative overall materiality of £22 million; and • our standard benchmark of 5% applied to a three period average of statutory profit before tax adjusted for restructuring and one-off items. This would resulted in an indicative overall materiality of £117 million. In our professional judgement, we concluded that the higher end of the range (£117 million) would encompass amounts which, if impacting reported profits, could influence decisions made by the company's members as a body, and which therefore would be considered material. We also concluded, in our professional judgement that amounts at the lower end of the range (£22 million) would not influence such decisions, given the scale of Tesco's operations. We therefore determined that an appropriate level of materiality for performing the 2014/15 audit would be within this range, whilst at neither the upper nor lower ends. Based on our professional judgement, we selected an overall materiality level of £50 million.

We agreed with the Audit Committee that we would report to them misstatements identified during our audit above £2.5 million (2013/14: £7 million) as well as misstatements below that amount that, in our view, warranted reporting for qualitative reasons.

Going concern

Under the Listing Rules we are required to review the directors' statement, set out on page 71, in relation to going concern. We have nothing to report having performed our review.

As noted in the directors' statement, the directors have concluded that it is appropriate to prepare the financial statements using the going concern basis of accounting. The going concern basis presumes that the Group has adequate resources to remain in operation, and that the directors intend it to do so, for at least one year from the date the financial statements were signed. As part of our audit we have concluded that the directors' use of the going concern basis is appropriate.

However, because not all future events or conditions can be predicted, these statements are not a guarantee as to the Group's ability to continue as a going concern.

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors' Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK and Ireland) reporting

Under ISAs (UK and Ireland) we are required to report to you if, in our opinion:	
• information in the Annual Report is: – materially inconsistent with the information in the audited financial statements; or – apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or – otherwise misleading.	We have no exceptions to report arising from this responsibility.
• the statement given by the directors on page 74, in accordance with Code Provision C.1.1, that they consider the Annual Report taken as a whole to be fair, balanced and understandable and provides the information necessary for members to assess the Group's performance, business model and strategy is materially inconsistent with our knowledge of the Group acquired in the course of performing our audit.	We have no exceptions to report arising from this responsibility.
• the section of the Annual Report on pages 37 to 39, as required by Code Provision C.3.8, describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee.	We have no exceptions to report arising from this responsibility.

Independent auditors' report to the members of Tesco PLC
continued

Adequacy of information and explanations received
Under the Companies Act 2006 we are required to report to you if, in our opinion, we have not received all the information and explanations we require for our audit. We have no exceptions to report arising from this responsibility.

Directors' remuneration
Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors' remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Corporate governance statement
Under the Listing Rules we are required to review the part of the Corporate Governance Statement relating to the parent company's compliance with ten provisions of the UK Corporate Governance Code. We have nothing to report having performed our review.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors
As explained more fully in the Directors' Responsibilities Statement on page 74, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors. This report, including the opinions, has been prepared for and only for the company's members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Group's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors' judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter
We have reported separately on the parent company financial statements of Tesco PLC for the 53 week period ended 28 February 2015 and on the information in the Directors' Remuneration Report that is described as having been audited.

Mark Gill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 May 2015

Group income statement

53 weeks ended 28 February 2015	Notes	53 weeks 2015 £m	52 weeks 2014 £m
Continuing operations			
Revenue	2	62,284	63,557
Cost of sales		(64,396)	(59,547)
Gross (loss)/profit		(2,112)	4,010
Administrative expenses		(2,695)	(1,657)
(Losses)/profits arising on property-related items		(985)	278
Operating (loss)/profit		(5,792)	2,631
Share of post-tax (losses)/profits of joint ventures and associates	13	(13)	60
Finance income	5	90	132
Finance costs	5	(661)	(564)
(Loss)/profit before tax	3	(6,376)	2,259
Taxation	6	657	(347)
(Loss)/profit for the year from continuing operations		(5,719)	1,912
Discontinued operations			
Loss for the year from discontinued operations	7	(47)	(942)
(Loss)/profit for the year		(5,766)	970
Attributable to:			
Owners of the parent		(5,741)	974
Non-controlling interests		(25)	(4)
		(5,766)	970

(Losses)/earnings per share from continuing and discontinued operations

	Notes	53 weeks 2015	52 weeks 2014
Basic	9	(70.82)p	12.07p
Diluted	9	(70.82)p	12.06p

(Losses)/earnings per share from continuing operations

	Notes	53 weeks 2015	52 weeks 2014
Basic	9	(70.24)p	23.75p
Diluted	9	(70.24)p	23.72p

Non-GAAP measure: underlying profit before tax

	Notes	53 weeks 2015 £m	52 weeks 2014 £m
(Loss)/profit before tax		(6,376)	2,259
Adjustments for:			
Total restructuring and other one-off items	3	6,814	801
Reversal of commercial income recognised in previous years:			
Recognised in 13/14	3	53	–
Recognised in years prior to 13/14	3	155	–
Other items	3	315	(6)
Underlying profit before tax		961	3,054

The notes on pages 88 to 138 form part of these financial statements.

Group statement of comprehensive income (loss)

53 weeks ended 28 February 2015	Notes	53 weeks 2015 £m	52 weeks 2014 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	26	(1,473)	(713)
Tax on items that will not be reclassified	6	291	67
		(1,182)	(646)
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		(8)	(4)
Currency translation differences:			
Retranslation of net assets		5	(1,102)
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group Income Statement		(17)	–
Gains/(losses) on cash flow hedges:			
Net fair value losses		(2)	(235)
Reclassified and reported in the Group Income Statement		102	61
Tax on items that may be reclassified	6	(7)	97
		73	(1,183)
Total other comprehensive loss for the year		(1,109)	(1,829)
(Loss)/profit for the year		(5,766)	970
Total comprehensive loss for the year		(6,875)	(859)
Attributable to:			
Owners of the parent		(6,850)	(848)
Non-controlling interests		(25)	(11)
Total comprehensive loss for the year		(6,875)	(859)
Total comprehensive loss attributable to owners of the parent arises from:			
Continuing operations		(6,794)	138
Discontinued operations		(56)	(986)
		(6,850)	(848)

The notes on pages 88 to 138 form part of these financial statements.

Group balance sheet

	Notes	28 February 2015 £m	22 February 2014 £m
Non-current assets			
Goodwill and other intangible assets	10	3,771	3,795
Property, plant and equipment	11	20,440	24,490
Investment property	12	164	227
Investments in joint ventures and associates	13	940	286
Other investments	14	975	1,015
Loans and advances to customers	17	3,906	3,210
Derivative financial instruments	21	1,546	1,496
Deferred tax assets	6	514	73
		32,256	34,592
Current assets			
Inventories	15	2,957	3,576
Trade and other receivables	16	2,121	2,190
Loans and advances to customers	17	3,814	3,705
Derivative financial instruments	21	153	80
Current tax assets		16	12
Short-term investments		593	1,016
Cash and cash equivalents	18	2,165	2,506
		11,819	13,085
Assets of the disposal groups and non-current assets classified as held for sale	7	139	2,487
		11,958	15,572
Current liabilities			
Trade and other payables	19	(9,922)	(10,595)
Borrowings	20	(2,008)	(1,910)
Derivative financial instruments and other liabilities	21	(89)	(99)
Customer deposits and deposits from banks	23	(7,020)	(6,858)
Current tax liabilities		(95)	(494)
Provisions	24	(671)	(250)
		(19,805)	(20,206)
Liabilities of the disposal groups classified as held for sale	7	(5)	(1,193)
Net current liabilities		(7,852)	(5,827)
Non-current liabilities			
Borrowings	20	(10,651)	(9,303)
Derivative financial instruments and other liabilities	21	(946)	(770)
Post-employment benefit obligations	26	(4,842)	(3,193)
Deferred tax liabilities	6	(199)	(594)
Provisions	24	(695)	(183)
		(17,333)	(14,043)
Net assets		7,071	14,722
Equity			
Share capital	27	406	405
Share premium		5,094	5,080
All other reserves		(414)	(498)
Retained earnings		1,985	9,728
Equity attributable to owners of the parent		7,071	14,715
Non-controlling interests		–	7
Total equity		7,071	14,722

The notes on pages 88 to 138 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The financial statements on pages 83 to 138 were authorised for issue by the Directors on 5 May 2015 and are subject to the approval of the shareholders at the Annual General Meeting on 26 June 2015.

Group statement of changes in equity

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 22 February 2014	405	5,080	40	16	(44)	(490)	(20)	9,728	14,715	7	14,722
Loss for the year	–	–	–	–	–	–	–	(5,741)	(5,741)	(25)	(5,766)
Other comprehensive (loss)/income											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	(8)	(8)	–	(8)
Retranslation of net assets	–	–	–	–	–	5	–	–	5	–	5
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group Income Statement	–	–	–	–	–	(17)	–	–	(17)	–	(17)
Remeasurement losses on defined benefit pension schemes	–	–	–	–	–	–	–	(1,473)	(1,473)	–	(1,473)
Gains on cash flow hedges	–	–	–	–	100	–	–	–	100	–	100
Tax relating to components of other comprehensive income	–	–	–	–	(21)	14	–	291	284	–	284
Total other comprehensive (loss)/income	–	–	–	–	79	2	–	(1,190)	(1,109)	–	(1,109)
Total comprehensive (loss)/income	–	–	–	–	79	2	–	(6,931)	(6,850)	(25)	(6,875)
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(15)	–	(15)	–	(15)
Share-based payments	–	–	–	–	–	–	18	102	120	–	120
Issue of shares	1	14	–	–	–	–	–	–	15	–	15
Dividends	–	–	–	–	–	–	–	(914)	(914)	–	(914)
Changes in non-controlling interests	–	–	–	–	–	–	–	–	–	18	18
Tax on items charged to equity	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	1	14	–	–	–	–	3	(812)	(794)	18	(776)
At 28 February 2015	406	5,094	40	16	35	(488)	(17)	1,985	7,071	–	7,071

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 23 February 2013	403	5,020	40	16	91	547	(9)	10,535	16,643	18	16,661
Profit for the year	–	–	–	–	–	–	–	974	974	(4)	970
Other comprehensive (loss)/income											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	(4)	(4)	–	(4)
Retranslation of net assets	–	–	–	–	–	(1,095)	–	–	(1,095)	(7)	(1,102)
Remeasurement losses on defined benefit pension schemes	–	–	–	–	–	–	–	(713)	(713)	–	(713)
Losses on cash flow hedges	–	–	–	–	(174)	–	–	–	(174)	–	(174)
Tax relating to components of other comprehensive income	–	–	–	–	39	58	–	67	164	–	164
Total other comprehensive (loss)/income	–	–	–	–	(135)	(1,037)	–	(650)	(1,822)	(7)	(1,829)
Total comprehensive (loss)/income	–	–	–	–	(135)	(1,037)	–	324	(848)	(11)	(859)
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(12)	–	(12)	–	(12)
Share-based payments	–	–	–	–	–	–	1	58	59	–	59
Issue of shares	2	60	–	–	–	–	–	–	62	–	62
Dividends	–	–	–	–	–	–	–	(1,189)	(1,189)	–	(1,189)
Tax on items charged to equity	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	2	60	–	–	–	–	(11)	(1,131)	(1,080)	–	(1,080)
At 22 February 2014	405	5,080	40	16	(44)	(490)	(20)	9,728	14,715	7	14,722

The notes on pages 88 to 138 form part of these financial statements.

Group cash flow statement

53 weeks ended 28 February 2015	Notes	53 weeks 2015 £m	52 weeks 2014 £m
Cash flows from operating activities			
Cash generated from operations	29	1,467	4,316
Interest paid		(613)	(496)
Corporation tax paid		(370)	(635)
Net cash generated from operating activities		484	3,185
Cash flows from investing activities			
Acquisition/disposal of subsidiaries, net of cash acquired/disposed	31	(243)	(13)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		244	570
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(1,989)	(2,489)
Purchase of intangible assets		(329)	(392)
Net repayment of loans by joint ventures and associates		21	61
Investments in joint ventures and associates		(382)	(12)
Net proceeds from sale of/(investments in) short-term investments		423	(494)
Net proceeds from sale of/(investments in) other investments		48	(268)
Dividends received from joint ventures and associates		88	62
Interest received		104	121
Net cash used in investing activities		(2,015)	(2,854)
Cash flows from financing activities			
Proceeds from issue of ordinary share capital	27	15	62
Increase in borrowings		4,883	3,104
Repayment of borrowings		(3,185)	(1,912)
Repayment of obligations under finance leases		(3)	(9)
Rights issue to non-controlling interests		18	–
Dividends paid to equity owners	8	(914)	(1,189)
Net cash from financing activities		814	56
Net (decrease)/increase in cash and cash equivalents		(717)	387
Cash and cash equivalents at beginning of the year		2,813	2,531
Effect of foreign exchange rate changes		78	(105)
Cash and cash equivalents including cash held in disposal groups at the end of the year		2,174	2,813
Cash held in disposal groups	7	(9)	(307)
Cash and cash equivalents at the end of the year	18	2,165	2,506

The notes on pages 88 to 138 form part of these financial statements.

Notes to the Group financial statements

Note 1 Accounting policies

General information
Tesco PLC ('the Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 445790). The address of the registered office is Tesco House, Delamare Road, Cheshunt, Hertfordshire, EN8 9SL, UK.

The financial year represents the 53 weeks ended 28 February 2015 (prior financial year 52 weeks ended 22 February 2014). For the UK, the Republic of Ireland and the US, the results are for the 53 weeks ended 28 February 2015 (prior financial year 52 weeks ended 22 February 2014). For all other operations, the results are for the calendar year ended 28 February 2015 (prior calendar year ended 28 February 2014).

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

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

Discontinued operations
In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of the Chinese and US operations for the 13 weeks ended 28 May 2014 and the 53 weeks ended 28 February 2015, respectively, are presented within discontinued operations in the Group Income Statement and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. See Note 7 for further details.

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

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

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

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

Joint ventures and associates
The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint arrangements' and determined them to be joint ventures. This assessment required the exercise of judgement as set out in Note 13.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement and Group Statement of Other Comprehensive Income using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

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

Use of assumptions and estimates
The preparation of the consolidated Group financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical estimates and assumptions that are applied in the preparation of the consolidated financial statements include:

Depreciation and amortisation
The Group exercises judgement to determine useful lives and residual values of intangibles, property, plant and equipment and investment property. The assets are depreciated down to their residual values over their estimated useful lives.

Impairment
a) Impairment of goodwill
The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of the cash-generating units are based on the higher of value in use and fair value less cost of disposal. These calculations require the use of estimates as set out in Note 10.

b) Impairment of assets
The Group has determined each store as a separate cash-generating unit for impairment testing. Where there are indicators of impairment, the Group performs an impairment test. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Group's latest internal forecasts, and extrapolated beyond five years using estimated long-term growth rates. These calculations require the use of estimates as set out in Note 11. Fair value is determined by independent, professional valuers where appropriate.

c) Impairment of loans and advances to customers and banks
The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. These calculations require the use of estimates as set out in the accounting policy note for impairment of loans and advances to customers.

Commercial income
Accounting for the amount and timing of recognition of commercial income may require the exercise of judgement. The key estimates and judgements made in the recognition of commercial income are as follows:

- volume-related allowances relate to amounts receivable by the Group for achieving agreed purchase or sales targets within a set period. Where volume-related allowances span different accounting periods, the amount of income recognised in each period is estimated based on the probability that the Group will meet contractual target volumes based on historical and forecast performance; and
- promotional, marketing and other allowances cover amounts receivable by the Group to support the promotion, marketing and advertising of specific items including promotional pricing discounts, in-store displays, margin protection and cost reimbursements. There is limited judgement or estimation involved in recognising income for these allowances. The group assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements.

Refer to Note 3, Note 15, Note 16 and Note 19 for additional income statement and balance sheet disclosure.

Provisions
Provisions have been made for property contracts, dilapidations, restructuring, post-employment benefits and customer redress. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Property provisions
Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, and other onerous contracts related to property. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased property to the Group is based on the same assumptions for discount rates, growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11. The calculations also assume that the Group can sublet properties at market rents. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Note 1 Accounting policies continued

Provisions relating to Tesco Bank
The Group has provisions for potential customer redress. In 2010/11, the Financial Conduct Authority ('FCA') formally issued Policy Statement 10/12 ('PS 10/12'), which introduced new guidance in respect of Payment Protection Insurance ('PPI') customer redress and evidential provisions to the FCA Handbook with an implementation date of 1 December 2010. The Group continues to handle complaints and redress customers in accordance with PS 10/12.

During the course of the prior financial year the Group instigated a review of certain historic operational issues that had resulted in instances where certain of the requirements of the Consumer Credit Act ('CCA') for post contract documentation had not been fully complied with. In November 2013 the Office of Fair Trading ('OFT') wrote to lenders in the industry seeking confirmation of their compliance with the requirements of the CCA. The Group extended its earlier investigation to undertake further assurance work relating to compliance with the CCA. As a result, the Group determined that it was appropriate to redress certain customers affected by these breaches.

Extensive analysis has been undertaken of the relevant issues to identify where customers have been affected and to determine if the Group should take further action. The requirements of the CCA in respect to these issues are not straightforward and have not been subject to significant judicial consideration to date. In arriving at the provision required, the Group considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when it made its judgement. The provision represents management's best estimate at the reporting date of the cost of providing redress to those loan and credit card customers. In making the estimate, management have exercised judgement as to both the timescale for implementing the redress campaign and the final scope of any amounts payable. The OFT and the FCA have been advised of the Group's approach to determining the proposed customer redress. Oversight of CCA-related matters passed from the OFT to the FCA on 1 April 2014. Customer redress payments commenced in October 2014 and it is expected that these will continue into the first half of the next financial year.

The Group is part of an industry-wide Scheme of Arrangement established with the support of the relevant regulatory and customer protection bodies to address customer redress relating to the historic sale of certain cardholder protection products ('CPP') to credit card customers. Another industry-wide Scheme of Arrangement has been established to compensate those customers who were sold a similar product in earlier years. The level of provision held is based on assumptions relating to the number and value of cases for which compensation may be paid. In arriving at these assumptions management have exercised their judgement based on earlier redress programmes (including the CPP Scheme of Arrangement) and historic customer payment information. The level of the provision allows for the repayment of charges paid by the customer together with simple interest of 8.0%.

Inventories
An inventory provision is booked for cases where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value. The inventory provision is estimated taking into account various factors, including prevailing sales prices of inventory item, the seasonality of the item's sales profile and losses associated with slow moving inventory items.

Post-employment benefit obligations
The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions for post-employment benefit obligations are disclosed in Note 26.

Adoption of new and amended International Financial Reporting Standards
The Group has adopted the following new and amended standards as of 23 February 2014:

- IFRS 10 'Consolidated financial statements' builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. It also provides additional guidance to assist in the determination of control where this is difficult to assess;
- IFRS 11 'Joint arrangements' gives a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are now only two types of joint arrangements: joint operations and joint ventures;
- IFRS 12 'Disclosures of interests in other entities, includes the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and structured entities;
- IAS 32 (Amended) 'Financial instruments: Presentation' clarifies some of the requirements for offsetting financial assets and financial liabilities on the balance sheet; and
- IAS 36 (Amended) 'Impairment of assets' removed certain disclosures of the recoverable amount of cash generating units which had been included by the issue of IFRS 13.

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

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably.

Revenue is recorded net of returns, discounts/offers and value added taxes.

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

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

Financial services
Revenue consists of interest, fees and income from the provision of insurance.

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

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

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

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

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

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

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

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

Notes to the Group financial statements continued

Note 1 Accounting policies continued

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

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

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

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

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

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

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

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

Intangible assets
Acquired intangible assets
Separately acquired intangible assets, such as software, pharmacy licences, customer relationships, contracts and brands are measured initially at cost. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date. Intangible assets with finite useful lives are carried at cost and are amortised on a straight-line basis over their estimated useful lives, at 2%–100% of cost per annum.

Internally generated intangible assets – research and development expenditure
Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised only if specific criteria are met including that the asset created will probably generate future economic benefits.

Following the initial recognition of development expenditure, the cost is amortised over the asset's estimated useful life at 10%–25% of cost per annum.

Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life. The following depreciation rates are applied for the Group:

- freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost;
- leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease; and
- plant, equipment, fixtures and fittings and motor vehicles – at rates varying from 9%-50%.

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

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

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

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the Group Income Statement.

Investment property
Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Short-term and other investments
Short-term and other investments in the Group Balance Sheet comprise receivables, loan receivables and available-for-sale financial assets.

Receivables and loan receivables are recognised at amortised cost. Available-for-sale financial assets are recognised at fair value.

Refer to the financial instruments accounting policy for further detail.

Inventories
Inventories comprise goods and development properties held for resale. Inventories are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of inventories.

Cash and cash equivalents
Cash and cash equivalents in the Group Balance Sheet consist of cash at bank, in hand, demand deposits with banks, loans and advances to banks, certificate of deposits and other receivables together with short-term deposits with an original maturity of three months or less.

Non-current assets held for sale and discontinued operations
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Leases
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Refer to Note 34 for

Note 1 Accounting policies continued

additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

The Group as a lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

The Group as a lessee

Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Group Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Group Income Statement. Rentals payable under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the lease.

Sale and leaseback

A sale and leaseback transaction is one where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer.

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) whether or not the sale was made at the asset's fair value and the relationship with the buyer which is based on levels of control and influence (the buyer may be an associate, joint venture or an unrelated party).

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group Income Statement.

Post-employment and similar obligations

For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) whilst plan assets are recorded at fair value. The operating and financing costs of such plans are recognised separately in the Group Income Statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group Statement of Comprehensive Income.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is charged to the Group Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation

The tax expense included in the Group Income Statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Group Income Statement except to the extent that it relates to items recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, in which case it is recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, respectively.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Group Income Statement, except when it relates to items charged or credited directly to equity or other comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Foreign currencies

Transactions in foreign currencies are translated at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date. All differences are taken to the Group Income Statement.

The assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated into Pounds Sterling at exchange rates prevailing at the date of the Group Balance Sheet; profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group Statement of Comprehensive Income and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial assets and financial liabilities are recognised on the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables

Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Investments

Investments are recognised at trade date. Investments are classified as either held for trading or available-for-sale, and are recognised at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the Group Income Statement for the period. Interest calculated using the effective interest rate method is recognised in the Group Income Statement. Dividends on an available-for-sale equity instrument are recognised in the Group Income Statement when the entity's right to receive payment is established.

Loans and advances to customers

Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any impairment losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the Group Income Statement.

Impairment of loans and advances to customers

At each balance sheet date the Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk characteristics.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates.

The portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the Group Income Statement over the period of the borrowings on an effective interest basis.

Trade payables
Trade payables are non interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument. The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each period end to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. The classification of the effective portion when recognised in the Group Income Statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Group Statement of Changes in Equity until the forecasted transaction occurs or the original hedged item affects the Group Income Statement. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Group Statement of Changes in Equity is reclassified to the Group Income Statement.

Net investment hedging
Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in other comprehensive income are included in the Group Income Statement when the foreign operation is disposed of.

Treatment of agreements to acquire non-controlling interests
The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with non-controlling interests.

The net present value of the expected future payments are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the Group Income Statement within finance income or costs.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Provisions
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease.

Note 1 Accounting policies continued

Standards issued but not yet effective

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective. The Group has not applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

- IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018 subject to endorsement by the EU. IFRS 9 is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting; and
- IFRS 15, 'Revenues from Contracts with Customers', replaces IAS 18, 'Revenues', and introduces a five step approach to revenue recognition based on performance obligations in customer contracts. The International Accounting Standards Board ('IASB') has proposed to issue some clarifications and to defer the standard's effective date of 1 January 2017 to 1 January 2018. The effective date for the Group is also subject to EU endorsement.

The impact on the Group's financial statements of the future adoption of these standards is still under review.

Use of non-GAAP measures

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.

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.

Trading profit

Trading profit is an adjusted measure of operating profit and measures the performance of each segment before profits/(losses) arising on property-related items, the impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and costs arising from acquisitions, and goodwill impairment and restructuring and other one-off items. The IAS 19 pension charge is replaced with the 'normal' cash contributions for pensions. An adjustment is also made for the fair value of customer loyalty awards.

Underlying net interest

Underlying net interest, as included in underlying profit, excludes net pension finance costs and IAS 39 'Financial Instruments' – fair value measurements.

Underlying profit before tax

The Directors believe that underlying profit before tax and underlying diluted earnings per share measures provide additional useful information for shareholders on underlying trends and performance. These measures are used for performance analysis. Underlying profit is not defined by IFRS and therefore may not be directly comparable with other companies' adjusted profit measures. It is not intended to be a substitute for, or superior to, IFRS measurements of profit. Tax impact on non-GAAP measures is included within Note 9. The adjustments made to reported profit before tax are:

- IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements. Under IAS 32 and IAS 39, the Group applies hedge accounting to its various hedge relationships when allowed under IAS 39 and when practical to do so. Sometimes the Group is unable to apply hedge accounting to the arrangements but continues to enter into these arrangements as they provide certainty or active management of the exchange rates and interest rates applicable to the Group. The Group believes these arrangements remain effective and economically and commercially viable hedges despite the inability to apply hedge accounting. Where hedge accounting is not applied to certain hedging arrangements, the reported results reflect the movement in fair value of related derivatives due to changes in foreign exchange and interest rates. In addition, at each year end, any gain or loss accruing on open contracts is recognised in the Group Income Statement for the financial year, regardless of the expected outcome of the hedging contract on termination. This may mean that the Group Income Statement charge is highly volatile, whilst the resulting cash flows may not be as volatile. The underlying profit measure removes this volatility to help better identify the underlying performance of the Group;
- IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions. Under IAS 19, the cost of providing pension benefits in the future is discounted to a present value at the corporate bond yield rates applicable on the last day of the previous financial year. Corporate bond yield rates vary over time which in turn creates volatility in the Group Income Statement and Group Balance Sheet. IAS 19 also increases the charge for young pension schemes, such as the Group's, by requiring the use of rates which do not take into account the future expected returns on the assets held in the pension scheme which will fund pension liabilities as they fall due. The sum of these two effects can make the IAS 19 charge disproportionately higher and more volatile than the cash contributions the Group is required to make in order to fund all future liabilities. Therefore, within underlying profit the Group has included the 'normal' cash contributions for pensions but excluded the volatile element of IAS 19 to represent what the Group believes to be a fairer measure of the cost of providing post-employment benefits;
- IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods. Some operating leases have been structured in a way to increase annual lease costs as the businesses expand. IAS 17 requires the total expected cost of a lease to be recognised on a straight-line basis over the term of the lease, irrespective of the actual timing of the cost. This adjustment also impacts the Group's operating profit and rental income within the share of post-tax profits of joint ventures and associates;
- IFRS 3 (Revised) 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions. Under IFRS 3 intangible assets are separately identified and fair valued. The intangible assets are required to be amortised on a straight-line basis over their useful lives and as such is a non-cash charge that does not reflect the underlying performance of the business acquired. Similarly, the standard requires all acquisition costs to be expensed in the Group Income Statement. Due to their nature, these costs have been excluded from underlying profit as they do not reflect the underlying performance of the Group;
- IFRIC 13 'Customer Loyalty Programmes' – fair value of awards. The interpretation requires the fair value of customer loyalty awards to be measured as a separate component of a sales transaction. The underlying profit measure removes this fair value allocation to present underlying business performance, and to reflect the performance of the operating segments as measured by management;
- restructuring and other one-off items. These relate to certain costs associated with the Group's restructuring activities and certain one-off costs including costs relating to fair valuing the assets of a disposal group. These have been excluded from underlying profit as they do not reflect the underlying performance of the Group; and
- profits/losses from property-related items. These relate to the Group's property activities including gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. These have been excluded from underlying profit as they do not reflect the underlying performance of the Group.

Note 2 Segmental reporting

The Group's reporting segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Executive Committee as it is primarily responsible for the allocation of resources to segments and the assessment of performance of the segments.

The CODM considers the principal activities of the Group to be:

- retailing and associated activities ('Retail') in:
  - the UK;
  - Asia – India, Malaysia, South Korea, Thailand; and
  - Europe – Czech Republic, Hungary, Poland, the Republic of Ireland, Slovakia, and Turkey.
- retail banking and insurance services through Tesco Bank in the UK ('Bank').

The CODM uses trading profit, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' underlying trading performance for the financial year under evaluation. Trading profit is a consistent measure within the Group.

The Group's Chinese operations up to 28 May 2014 (previously reported as part of the Asia segment) and US operations have been treated as discontinued as described in more detail in Notes 1 and 7. The segment results do not include any amounts for these discontinued operations.

Inter-segment revenue between the operating segments is not material.

The segment results, the reconciliation of the segment measures to the respective statutory items included in the Group Income Statement, the segment assets and other segment information are as follows:

53 weeks ended 28 February 2015 At constant exchange rates*	UK £m	Asia £m	Europe £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations							
Sales including VAT (excluding IFRIC 13)	48,237	10,850	10,750	1,024	70,861	(1,207)	69,654
Revenue (excluding IFRIC 13)	43,579	10,217	9,245	1,024	64,065	(1,069)	62,996
Effect of IFRIC 13	(640)	(33)	(42)	–	(715)	3	(712)
Revenue	42,939	10,184	9,203	1,024	63,350	(1,066)	62,284
Trading profit	466	586	166	194	1,412	(22)	1,390
Trading margin***	1.1%	5.7%	1.8%	18.9%	2.2%		2.2%

53 weeks ended 28 February 2015 At actual exchange rates**	UK £m	Asia £m	Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Sales including VAT (excluding IFRIC 13)	48,231	10,501	9,898	1,024	69,654
Revenue (excluding IFRIC 13)	43,573	9,884	8,515	1,024	62,996
Effect of IFRIC 13	(640)	(33)	(39)	–	(712)
Revenue	42,933	9,851	8,476	1,024	62,284
Trading profit	467	565	164	194	1,390
Trading margin***	1.1%	5.7%	1.9%	18.9%	2.2%

52 weeks ended 22 February 2014 At actual exchange rates**	UK £m	Asia £m	Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Sales including VAT (excluding IFRIC 13)	48,177	10,947	10,767	1,003	70,894
Revenue (excluding IFRIC 13)	43,570	10,309	9,267	1,003	64,149
Effect of IFRIC 13	(513)	(33)	(46)	–	(592)
Revenue	43,057	10,276	9,221	1,003	63,557
Trading profit	2,191	692	238	194	3,315
Trading margin***	5.0%	6.7%	2.6%	19.3%	5.2%

* Constant exchange rates are the average actual periodic exchange rates for the previous financial year.
** Actual exchange rates are the average actual periodic exchange rates for that financial year.
*** Trading margin is based on revenue excluding the accounting impact of IFRIC 13.

Note 2 Segmental reporting continued

Reconciliation of trading profit to operating (loss)/profit

	2015 £m	2014 £m
Trading profit	1,390	3,315
Adjustments:		
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	(68)	(11)
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	(19)	(28)
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	(13)	(14)
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	–	(10)
Total restructuring and other one-off items (Note 3)	(6,814)	(801)
Reversal of commercial income recognised in previous years:		
Recognised in 13/14	(53)	–
Recognised in years prior to 13/14	(155)	–
Other (losses)/profits arising on property-related items	(60)	180
Operating (loss)/profit	(5,792)	2,631

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal groups). Net debt balances have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated, other than intercompany transactions with Tesco Bank in net debt.

At 28 February 2015	UK £m	Asia £m	Europe £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,636	835	77	1,223	–	3,771
Property, plant and equipment and investment property	10,683	6,148	3,687	86	–	20,604
Investments in joint ventures and associates	89	771	–	80	–	940
Other investments	–	–	–	827	148	975
Loans and advances to customers – non-current	–	–	–	3,906	–	3,906
Deferred tax asset	421	38	55	–	–	514
Non-current assets[a]	12,829	7,792	3,819	6,122	148	30,710
Inventories and trade and other receivables[b]	2,696	1,131	808	235	–	4,870
Trade and other payables	(6,733)	(1,979)	(965)	(245)	–	(9,922)
Loans and advances to customers – current	–	–	–	3,814	–	3,814
Customer deposits and deposits from banks	–	–	-	(7,020)		(7,020)
Total provisions	(1,044)	(143)	(89)	(90)	–	(1,366)
Deferred tax liability	–	(148)	(10)	(41)	–	(199)
Net current tax	(91)	4	3	5	–	(79)
Post-employment benefits	(4,604)	(65)	(173)	–	–	(4,842)
Assets held for sale and of the disposal groups[c]	61	51	18	–	–	130
Liabilities of the disposal groups[c]	–	–	–	–	(5)	(5)
Net debt[d]	–	–	–	(539)	(8,481)	(9,020)
Net assets	3,114	6,643	3,411	2,241	(8,338)	7,071

At 22 February 2014	UK £m	Asia £m	Europe £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,662	786	94	1,253	–	3,795
Property, plant and equipment and investment property	13,696	5,904	5,024	93	–	24,717
Investments in joint ventures and associates	122	87	–	77	–	286
Other investments	–	40	–	850	125	1,015
Loans and advances to customers – non-current	–	–	–	3,210	–	3,210
Deferred tax asset	–	25	48	-	–	73
Non-current assets[a]	15,480	6,842	5,166	5,483	125	33,096
Inventories and trade and other receivables[b]	3,002	1,204	1,132	174	–	5,512
Trade and other payables	(6,995)	(2,140)	(1,224)	(236)	–	(10,595)
Loans and advances to customers – current	–	–	–	3,705	–	3,705
Customer deposits and deposits from banks	–	–	–	(6,858)	–	(6,858)
Total provisions	(223)	(78)	(28)	(104)	–	(433)
Deferred tax liability	(373)	(158)	(39)	(24)	–	(594)
Net current tax	(393)	(89)	–	–	–	(482)
Post-employment benefits	(3,053)	(52)	(88)	–	–	(3,193)
Assets held for sale and of the disposal groups[c]	196	131	–	–	1,990	2,317
Liabilities of the disposal groups[c]	–	–	–	–	(1,184)	(1,184)
Net debt[d]	–	–	–	28	(6,597)	(6,569)
Net assets	7,641	5,660	4,919	2,168	(5,666)	14,722

[a] Excludes derivative financial instrument non-current assets of £1,546m (2014: £1,496m).
[b] Excludes loans to joint ventures of £207m (2014: £252m) and interest and other receivables of £1m (2014: £2m).
[c] Excludes net debt of the disposal groups of £9m (2014: £161m).
[d] Refer to Note 30.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Other segment information

53 weeks ended 28 February 2015	UK £m	Asia £m	Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment	1,071	378	179	14	1,642	–	1,642
Investment property	–	–	–	–	–	–	–
Goodwill and other intangible assets	350	19	21	45	435	–	435
Depreciation:							
Property, plant and equipment	(693)	(347)	(235)	(18)	(1,293)	–	(1,293)
Investment property	–	(1)	–	–	(1)	–	(1)
Amortisation of intangible assets	(150)	(16)	(23)	(68)	(257)	–	(257)
Impairment of intangible assets	(45)	–	(4)	(4)	(53)	–	(53)
Impairment of goodwill	(116)	–	–	–	(116)	–	(116)
Impairment of property, plant and equipment and investment property	(3,071)	(293)	(949)	–	(4,313)	–	(4,313)
Reversal of prior year impairment charge of property, plant and equipment and investment property	132	36	28	–	196	–	196

52 weeks ended 22 February 2014	UK £m	Asia £m	Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations* £m	Total £m
Capital expenditure (including acquisitions through business combinations):							
Property, plant and equipment	1,370	737	253	16	2,376	86	2,462
Investment property	–	–	–	–	–	–	–
Goodwill and other intangible assets	303	22	28	86	439	5	444
Depreciation:							
Property, plant and equipment	(642)	(320)	(307)	(17)	(1,286)	(26)	(1,312)
Investment property	–	(10)	(9)	–	(19)	–	(19)
Amortisation of intangible assets	(122)	(15)	(24)	(66)	(227)	(4)	(231)
Impairment of goodwill	–	–	–	–	–	–	–
Impairment of property, plant and equipment and investment property	(87)	(39)	(761)	–	(887)	–	(887)
Reversal of prior year impairment charge of property, plant and equipment and investment property	135	8	11	–	154	–	154

* Discontinued operations in this table represents amounts up until the point a disposal group is classified as such and comprise those of China in the first six months of the year ended 22 Febuary 2014.

Note 2 Segmental reporting continued

The following tables provide further analysis of the Group Cash Flow Statement, including a split of cash flows between Retail and Bank as well as continuing operations and discontinued operations.

	Retail		Tesco Bank		Tesco Group	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Operating (loss)/profit of continuing operations	(5,973)	2,489	181	142	(5,792)	2,631
Operating loss of discontinued operations	(10)	(925)	–	–	(10)	(925)
Depreciation and amortisation	1,466	1,483	86	84	1,552	1,567
Losses/(profits) arising on one-off property-related items	805	(98)	–	–	805	(98)
Losses/(profits) arising on other property-related items	44	(134)	–	–	44	(134)
Losses arising on property-related items from discontinued operations	5	162	–	–	5	162
Losses/(profits) arising on sale of non property-related items	39	(1)	7	–	46	(1)
Loss arising on sale of subsidiaries and other investments	41	1	–	–	41	1
Impairment of goodwill	116	540	–	–	116	540
Impairment of other investments	–	42	–	–	–	42
Impairment of investments in/loans to joint ventures and associates	712	–	–	–	712	–
Net charge of property, plant and equipment and intangible assets not included in property-related items	3,316	715	4	–	3,320	715
Adjustment for non-cash element of pensions charges	68	11	–	–	68	11
Additional contribution into pension scheme	(13)	(4)	–	–	(13)	(4)
Share-based payments	99	46	6	1	105	47
Tesco Bank non-cash items included in profit before tax	–	–	58	76	58	76
Cash flow from operations excluding working capital	715	4,327	342	303	1,057	4,630
Decrease/(increase) in working capital	1,145	280	(735)	(594)	410	(314)
Cash generated from/(used in) operations	1,860	4,607	(393)	(291)	1,467	4,316
Interest paid	(609)	(490)	(4)	(6)	(613)	(496)
Corporation tax paid	(347)	(612)	(23)	(23)	(370)	(635)
Net cash generated from/(used in) operating activities	904	3,505	(420)	(320)	484	3,185
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,977)	(2,473)	(12)	(16)	(1,989)	(2,489)
Purchase of intangible assets	(267)	(301)	(62)	(91)	(329)	(392)
Non-GAAP measure: Free cash flow	(1,340)	731	(494)	(427)	(1,834)	304
Acquisition/disposal of subsidiaries, net of cash acquired/disposed	(243)	(13)	–	–	(243)	(13)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	244	570	–	–	244	570
Net repayment of loans by joint ventures and associates	21	54	–	7	21	61
Investments in joint ventures and associates	(382)	(12)	–	–	(382)	(12)
Net proceeds from sale of/(investments in) short-term investments	423	(494)	–	–	423	(494)
Net proceeds from sale of/(investments in) other investments	5	(207)	43	(61)	48	(268)
Dividends received from joint ventures and associates	81	47	7	15	88	62
Interest received	104	121	–	–	104	121
Net cash used in investing activities	(1,991)	(2,708)	(24)	(146)	(2,015)	(2,854)
Proceeds from issue of share capital	15	62	–	–	15	62
Increase in borrowings	4,385	3,104	498	–	4,883	3,104
Repayment of borrowings	(3,185)	(1,912)	–	–	(3,185)	(1,912)
Repayment of obligations under finance leases	(3)	(9)	–	–	(3)	(9)
Rights issue to non-controlling interests	18	–	–	–	18	–
Dividends paid to equity owners	(914)	(1,189)	–	–	(914)	(1,189)
Net cash from financing activities	316	56	498	–	814	56
Intra-Group funding and intercompany transactions	(77)	104	77	(104)	–	–
Net (decrease)/increase in cash and cash equivalents	(848)	957	131	(570)	(717)	387
Cash and cash equivalents at the beginning of the year	2,328	1,476	485	1,055	2,813	2,531
Effect of foreign exchange rate changes	78	(105)	–	–	78	(105)
Cash and cash equivalents at the end of the year	1,558	2,328	616	485	2,174	2,813
Cash held in disposal groups	(9)	(307)	–	–	(9)	(307)
Cash and cash equivalents not held in disposal groups	1,549	2,021	616	485	2,165	2,506

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	Continuing operations		Discontinued operations			Retail
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Operating (loss)/profit	(5,973)	2,489	(10)	(925)	(5,983)	1,564
Depreciation and amortisation	1,466	1,448	–	35	1,466	1,483
Losses/(profits) arising on one-off property-related items	805	(98)	–	150	805	52
Losses/(profits) arising on other property-related items	44	(134)	5	12	49	(122)
Losses/(profits) arising on sale of non property-related items	37	(1)	2	–	39	(1)
Loss arising on sale of subsidiaries and other investments	41	1	–	–	41	1
Impairment of goodwill	116	–	–	540	116	540
Impairment of other investments	–	42	–	–	–	42
Impairment of investments in/loans to joint ventures and associates	712	–	–	–	712	–
Net charge of impairment of property, plant and equipment and intangible assets not included in property-related items	3,316	708	–	7	3,316	715
Adjustment for non-cash element of pensions charge	68	11	–	–	68	11
Additional contribution into pension scheme	(13)	(4)	–	–	(13)	(4)
Share-based payments	104	41	(5)	5	99	46
Cash flow from/(used in) operations excluding working capital	723	4,503	(8)	(176)	715	4,327
Decrease/(increase) in working capital	1,322	243	(177)	37	1,145	280
Cash generated from/(used in) operations	2,045	4,746	(185)	(139)	1,860	4,607
Interest paid	(605)	(475)	(4)	(15)	(609)	(490)
Corporation tax paid	(343)	(594)	(4)	(18)	(347)	(612)
Net cash generated from/(used in) operating activities	1,097	3,677	(193)	(172)	904	3,505
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,941)	(2,207)	(36)	(266)	(1,977)	(2,473)
Purchase of intangible assets	(266)	(293)	(1)	(8)	(267)	(301)
Non-GAAP measure: Free cash flow	(1,110)	1,177	(230)	(446)	(1,340)	731

Note 3 Income and expenses

Continuing operations	2015 £m	2014 £m
(Loss)/profit before tax is stated after charging/(crediting) the following:		
Rental income, of which £40m (2014: £34m) relates to investment properties	(512)	(512)
Direct operating expenses arising on rental earning investment properties	19	5
Costs of inventories recognised as an expense	46,541	46,832
Stock losses and provisions	1,759	1,316
Depreciation and amortisation charged	1,552	1,532
Operating lease expenses, of which £111m (2014: £102m) relates to hire of plant and machinery	1,486	1,414
Net impairment charge on property, plant and equipment and investment property	4,118	733
Impairment of goodwill and other intangibles	169	–
Impairment of investment in and loans to joint ventures and associates	712	–

Note 3 Income and expenses continued

Continuing operations	Notes	2015 £m	2014 £m
(Loss)/profit before tax from continuing operations		(6,376)	2,259
Adjustments for:			
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	1	26	11
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	1,26	204	117
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	1	12	22
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	1	13	14
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	1	–	10
Restructuring and other one-off items:			
Impairment of PPE and onerous lease provisions included within cost of sales	11	3,802	734
Impairment/(impairment release) of PPE and onerous lease provisions included within (losses)/profit arising on property-related items	11	925	(98)
Impairment of goodwill	10	116	–
Impairment of intangible fixed assets[a]		50	–
Impairment of investment in China associate[b]		630	–
Impairment of investment in and loans to joint ventures and associates[c]		82	–
Inventory valuations and provisions[d]		570	–
Provision for customer redress		27	63
ATM rates charge[e]		41	–
Loss on disposal/closure of non-core businesses[f]		81	–
Restructuring costs including trading store redundancies[g]		416	–
Other restructuring and one-off items		74	102
Total restructuring and other one-off items		6,814	801
Reversal of commercial income recognised in previous years[h]:			
Recognised in 13/14		53	–
Recognised in years prior to 13/14		155	–
Other losses/(profits) arising on property-related items		60	(180)
Underlying profit before tax from continuing operations		961	3,054

(a) As a result of changes to simplify the UK business, a number of IT projects have been cancelled, resulting in an impairment of intangible fixed assets. This charge has been recognised in cost of sales.

(b) Increasing competition from Chinese e-commerce businesses as well as the financial impact of a longer-than-expected integration of operations is expected to affect short-to-medium-term profitability of the associate, resulting in an impairment charge in the year recognised in administrative expenses.

(c) Investments in and loans to the Harris + Hoole and Euphorium businesses have been impaired as a result of the strategic decision to slow the roll-out of these brands recognised in administrative expenses.

(d) This includes a £402m charge relating to increased inventories provisioning due to changes to range and stockholding, including general merchandise transformation, and the adoption of a forward looking provisioning methodology. An additional £107m charge relates to changes in the estimate of in-store payroll overheads which are directly attributable to inventories, arising due to the change in focus of our in-store activities. The Group has also changed its accounting policy to exclude certain in-store overheads from directly attributable costs in order to reflect more reliable and relevant information. If the policy change were applied retrospectively, it would have reduced the 2013/14 inventories balance by £59m, of which £10m would have impacted the prior year income statement. As these amounts are not material, the prior year comparatives have not been restated and the cumulative policy adjustment of £61m has been reflected in the current year.

(e) During the year, the Group received a notification from the Valuation Office that it had moved to a separate assessment of rates for ATM sites in Tesco stores. This resulted in a backdated charge of £41m. The charge in respect of the current year is included in underlying profit within cost of sales.

(f) This includes the loss on disposal of Blinkbox Movies and Music, and redundancy cost, asset impairments and other costs associated with the closure of non-core businesses including Blinkbox Books and Tesco Broadband. Of this loss, £74m has been recognised in cost of sales and £7m was recognised in administrative expenses.

(g) Restructuring costs include redundancy and compensation costs related to changes in store colleague working arrangements in the UK, Europe and Asia, redundancy costs relating to Head Office restructures across the Group, and the redundancy cost of store closures in the UK. £266m has been recognised in costs of sales and £150m within administrative expenses.

Commercial income

(h) On 22 September 2014 the Group announced that the previous guidance given on 29 August 2014 regarding profit for the six months to 23 August 2014 was overstated principally due to the accelerated recognition of commercial income and delayed accrual of costs. The internal investigation into the appropriate recognition included a review of whether the impact of accelerated recognition should be attributed to prior years.

At the time of the interim results, the impacts on prior years were estimated as resulting in the profit before tax for the year ended 22 February 2014 being overstated by £70m and for the years prior to that being overstated by a total of £75m.

Following further investigations, these estimates have been revised to a total overstatement to profit before tax of £53m for the year ended 22 February 2014, and a total overstatement of £155m for the years prior to that.

On the basis that these figures are not material in the prior years, a prior year restatement has not been made with the amounts instead being corrected in the current year. The impact of this has been separately identified in the reconciliation of profit before tax to underlying profit above as the correction does not reflect current year performance.

Notes to the Group financial statements continued

Note 3 Income and expenses continued

During the financial year the Group obtained the following services from the Group's auditor, PricewaterhouseCoopers LLP, and network firms:

	2015 £m	2014 £m
Audit services		
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.0	0.8
The audit of the accounts of the Company's subsidiaries	3.6	3.5
Audit-related assurance services	0.8	1.2
Total audit and audit related services	5.4	5.5
Non-audit services		
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	–	–
Taxation advisory services	0.9	0.6
All other non-audit services	2.4	4.1
Total auditor remuneration	8.7	10.2

In addition to the amounts shown above, the auditor received fees of £0.2m (2014: £0.2m) for the audit of the main Group pension scheme.

A description of the work of the Audit Committee is set out in the Corporate Governance Report on page 32 and includes how objectivity and independence is safeguarded when non-audit services are provided by PricewaterhouseCoopers LLP.

Note 4 Employment costs, including Directors' remuneration

Continuing operations	2015 £m	2014 £m
Wages and salaries	6,581	6,121
Social security costs	473	471
Post-employment defined benefits (Note 26)	631	542
Post-employment defined contributions (Note 26)	24	32
Share-based payments expense (Note 25)	144	82
Termination benefits	416	23
	8,269	7,271

The average number of employees by operating segment during the financial year was:

	Average number of employees		Average number of full-time equivalents	
	2015	2014	2015	2014
UK	315,829	317,847	215,747	217,158
Asia	96,471	96,296	86,436	88,616
Europe	90,813	92,694	80,327	82,741
Tesco Bank	3,871	3,607	3,576	3,353
Total	506,984	510,444	386,086	391,868

Note 5 Finance income and costs

Continuing operations	2015 £m	2014 £m
Finance income		
Interest receivable and similar income	90	132
Total finance income	90	132
Finance costs		
GBP MTNs	(191)	(223)
EUR MTNs	(155)	(130)
USD Bonds	(85)	(91)
Other MTNs	(2)	(4)
Finance charges payable under finance leases and hire purchase contracts	(9)	(10)
Other interest payable	(101)	(68)
Capitalised interest (Note 11)*	44	79
Net pension finance costs (Note 26)**	(136)	(106)
IAS 32 and 39 'Financial Instruments' – fair value remeasurements**	(26)	(11)
Total finance costs	(661)	(564)

* A deferred tax liability is recognised in respect of capitalised interest at the applicable rate in the country in which the interest is capitalised.
** Underlying net interest cost of £(409)m (2014: £(315)m), as included in underlying profit, excludes net pension finance costs of £(136)m (2014: £(106)m and IAS 32 and 39 'Financial Instruments' – fair value remeasurements of £(26)m (2014: £(11)m).

GBP MTNs

Interest payable on the 4% RPI GBP MTN 2016 includes £8m (2014: £9m) of Retail Price Index ('RPI') related amortisation.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £7m (2014: £11m) of RPI related amortisation.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £7m (2014: £7m) of RPI related amortisation.

Note 6 Taxation

Recognised in the Group Income Statement

Continuing operations	2015 £m	2014 £m
Current tax (credit)/charge		
UK corporation tax	(141)	519
Foreign tax	73	203
Adjustments in respect of prior years	(16)	(50)
	(84)	672
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	(641)	(93)
Adjustments in respect of prior years	36	(85)
Change in tax rate	32	(147)
	(573)	(325)
Total income tax (credit)/charge	(657)	347

The Finance Act 2013 included legislation to reduce the main rate of UK corporation tax from 23% to 21% from 1 April 2014 and to 20% from 1 April 2015. These rate reductions are therefore included in these consolidated financial statements.

Reconciliation of effective tax charge

	2015 £m	2014 £m
(Loss)/profit before tax	(6,376)	2,259
Tax credit/(charge) at 21.2% (2014: 23.1%)	1,352	(522)
Effect of:		
Non-deductible expenses	(604)	(109)
Differences in overseas taxation rates	(36)	(12)
Adjustments in respect of prior years	(20)	135
Share of (losses)/profits of joint ventures and associates	(3)	14
Change in tax rate	(32)	147
Total income tax credit/(charge) for the year	657	(347)
Effective tax rate	10.3%	15.4%

Tax on items credited directly to the Group Statement of Changes in Equity

	2015 £m	2014 £m
Current tax credit/(charge) on:		
Share-based payments	–	1
Deferred tax credit/(charge) on:		
Share-based payments	–	(1)
Total tax on items credited/(charged) to the Group Statement of Changes in Equity	–	–

Tax relating to components of the Group Statement of Comprehensive Income

	2015 £m	2014 £m
Current tax credit/(charge) on:		
Pensions	–	–
Foreign exchange movements	14	58
Fair value of movement on available-for-sale investments	(1)	–
Fair value movements on cash flow hedges	(3)	4
Deferred tax credit/(charge) on:		
Pensions	291	67
Fair value movements on cash flow hedges	(17)	35
Total tax on items credited to the Group Statement of Comprehensive Income	284	164

Notes to the Group financial statements continued

Note 6 Taxation continued

Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years:

	Property-related items* £m	Retirement benefit obligation £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial Instruments £m	Other pre/post tax temporary differences £m	Total £m
At 23 February 2013	(1,622)	539	21	83	40	(24)	7	(956)
Credit/(charge) to the Group Income Statement	282	29	19	9	(19)	2	3	325
Charge to the Group Statement of Changes in Equity	–	–	(1)	–	–	–	–	(1)
Credit to the Group Statement of Comprehensive Income	–	67	–	–	–	35	–	102
Discontinued operations	–	–	3	5	7	–	–	15
Business combinations	–	–	–	–	–	–	–	–
Foreign exchange and other movements**	32	(1)	–	(13)	(4)	–	–	14
At 22 February 2014	(1,308)	634	42	84	24	13	10	(501)
Credit/(charge) to the Group Income Statement	363	35	(40)	184	46	(6)	(9)	573
Charge to the Group Statement of Changes in Equity	–	–	–	–	–	–	–	–
Credit/(charge) to the Group Statement of Comprehensive Income	–	291	–	–	–	(17)	–	274
Discontinued operations	2	–	–	(19)	(2)	–	–	(19)
Business combinations	–	–	–	–	–	–	–	–
Foreign exchange and other movements**	(10)	(3)	1	(1)	1	–	–	(12)
At 28 February 2015	(953)	957	3	248	69	(10)	1	315

* Property-related items include a deferred tax liability on rolled over gains of £294m (2014: £294m) and deferred tax assets on capital losses of £101m (2014: £58m). The remaining balance relates to accelerated tax depreciation.

** The deferred tax charge/credit for foreign exchange and other movements is £12m debit (2014: £14m credit) relating to the retranslation of deferred tax balances at the balance sheet date and is included within the Group Statement of Comprehensive Income under the heading currency translation differences.

Certain deferred tax assets and liabilities have been offset and are analysed as follows:

	2015 £m	2014 £m
Deferred tax assets	514	73
Deferred tax liabilities	(199)	(594)
Deferred tax assets/(liabilities) relating to disposal groups	–	20
	315	(501)

Unrecognised deferred tax assets and liabilities

No deferred tax liability is recognised on temporary differences of £3.0bn (2014: £4.0bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 28 February 2015 is estimated to be £200m (2014: £213m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Deferred tax assets in relation to continuing operations have not been recognised in respect of the following items (because it is not probable that future taxable profits will be available against which the Group can utilise the benefits):

	2015 £m	2014 £m
Deductible temporary differences	97	27
Tax losses	66	66
	163	93

As at 28 February 2015, the Group has unused trading tax losses from continuing operations of £631m (2014: £398m) available for offset against future profits. A deferred tax asset has been recognised in respect of £335m (2014: £95m) of such losses. No deferred tax asset has been recognised in respect of the remaining £296m (2014: £303m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £118m that will expire by 2019 (2014: £71m by 2018) and £15m that will expire between 2020 and 2035 (2014: £142m between 2019 and 2034). Other losses will be carried forward indefinitely.

Note 7 Discontinued operations and non-current assets classified as held for sale

	2015 £m	2014 £m
Assets of the disposal groups	9	2,160
Non-current assets classified as held for sale	130	327
Total assets of the disposal groups and non-current assets classified as held for sale	139	2,487
Total liabilities of the disposal groups	(5)	(1,193)
Total net assets of the disposal groups and non-current assets classified as held for sale	134	1,294

The non-current assets classified as held for sale consist mainly of properties in the UK and Korea due to be sold within one year.

Discontinued operations

On 28 May 2014 the Group completed its formation of a new venture with China Resources Enterprise Limited ('CRE'). The new venture is classified as an associate within continuing operations. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Chinese operations for the period up to 28 May 2014 have been classified as a disposal group. In addition the US operations, representing the remaining costs of the orderly restructuring process, continues to be classified as a disposal group.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement	US		China		Total	
	2015 £m	2014 £m	2015* £m	2014 £m	2015 £m	2014 £m
Revenue	–	496	281	1,489	281	1,985
Expenses**	16	(762)	(315)	(2,163)	(299)	(2,925)
Profit/(loss) before tax of discontinued operations	16	(266)	(34)	(674)	(18)	(940)
Taxation	–	6	(1)	(8)	(1)	(2)
Profit/(loss) after tax of discontinued operations	16	(260)	(35)	(682)	(19)	(942)
Loss after tax of disposal of Chinese operations	–	–	(28)	–	(28)	–
Total profit/(loss) after tax of discontinued operations	16	(260)	(63)	(682)	(47)	(942)
Loss per share impact from discontinued operations						
Basic					(0.58)p	(11.68)p
Diluted					(0.58)p	(11.66)p

	US		China		Total	
	2015 £m	2014 £m	2015* £m	2014 £m	2015 £m	2014 £m
Non-GAAP measure: underlying profit/(loss) before tax						
Underlying loss before tax of discontinued operations in the US & China	11	(95)	(25)	(97)	(14)	(192)

* The results of China are for the 13 weeks ended 28 May 2014, at which point the operations were contributed into a new venture with CRE.
** Includes fair value remeasurements, less costs to sell.

The Group exchanged its Chinese retail and property interests plus cash of £334m (£257m paid during the year, with £77m due in May 2015) for a 20% interest in the new venture. The loss after tax on disposal of the Group's Chinese operations is made up as follows:

	£m
Value of new investment	1,261
Cash paid and deferred payments	(334)
Net book value of assets contributed	(835)
Costs to sell and other provisions	(67)
Taxation	(53)
Loss after tax of disposal of Chinese operations	(28)

The loss in the year that resulted from remeasuring the retained investment to fair value on disposal was £10m.

Cost to sell and other provisions have decreased by £21m since the Group's interim results as a result of updates in estimates since that time.

Notes to the Group financial statements continued

Note 7 Discontinued operations and non-current assets classified as held for sale continued

Balance Sheet

	US 2015 £m	US 2014 £m	China 2014 £m	Total 2014 £m
Assets of the disposal groups				
Goodwill and other intangible assets	–	–	100	100
Property, plant and equipment	–	30	1,145	1,175
Investments in joint ventures and associates	–	–	162	162
Inventories	–	–	138	138
Trade and other receivables	–	–	278	278
Cash and cash equivalents	9	48	259	307
Total assets of the disposal groups	9	78	2,082	2,160
Liabilities of the disposal groups				
Trade and other payables	(5)	(33)	(864)	(897)
Borrowings	–	–	(283)	(283)
Other current liabilities	–	(13)	–	(13)
Total liabilities of the disposal groups	(5)	(46)	(1,147)	(1,193)
Total net assets of the disposal groups	4	32	935	967

Cash flow statement

	US		China		Total	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Net cash flows from operating activities	(27)	(106)	(166)	(66)	(193)	(172)
Net cash flows from investing activities	31	(1)	(35)	(290)	(4)	(291)
Net cash flows from financing activities	–	(7)	66	159	66	152
Net cash flows from discontinued operations	4	(114)	(135)	(197)	(131)	(311)
Intra-Group funding and intercompany transactions	(45)	146	29	217	(16)	363
Net cash flows from discontinued operations, net of intercompany	(41)	32	(106)	20	(147)	52
Net cash flows from disposal of subsidiary	–	–	(148)	–	(148)	–
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	(41)	32	(254)	20	(295)	52

Note 8 Dividends

	2015		2014	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	10.13	819	10.13	815
Current financial year interim dividend	1.16	95	4.63	374
Dividends paid to equity owners in the financial year	11.29	914	14.76	1,189
Current financial year proposed final dividend	–	–	10.13	819

As announced by the Company on 8 January 2015, the Board of Directors has decided not to recommend the payment of a final dividend in respect of the financial year ended 28 February 2015.

Note 9 Earnings (losses) per share and diluted earnings per share

Basic earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

Given the loss for the 53 weeks ended 28 February 2015, the Group has recognised a basic loss per share rather than a basic earnings per share. The dilutive effects have not been considered in calculating the diluted loss per share as this would reduce the loss per share. For the 53 weeks ended 28 February 2015 there were 12 million potentially dilutive share options. As the Group has recognised an underlying profit the dilutive effects have been considered in calculating the underlying earnings per share.

			2015			2014
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
(Loss)/profit (£m)						
Continuing operations	(5,694)	–	(5,694)	1,916	–	1,916
Discontinued operations	(47)	–	(47)	(942)	–	(942)
Weighted average number of shares (millions)	8,107	–	8,107	8,068	10	8,078
(Losses)/earnings per share (pence)						
Continuing operations	(70.24)	–	(70.24)	23.75	(0.03)	23.72
Discontinued operations	(0.58)	–	(0.58)	(11.68)	0.02	(11.66)
Total	(70.82)	–	(70.82)	12.07	(0.01)	12.06

There have been no transactions involving ordinary shares between the reporting date and the date of approval of these financial statements which would significantly change the earnings per share calculations shown above.

Reconciliation of non-GAAP underlying diluted earnings per share

	2015		2014	
	£m	Pence/share	£m	Pence/share
(Loss)/profit from continuing operations (diluted)	(5,694)	(70.24)	1,916	23.72
Adjustments for:				
IAS 32 and IAS 39 'Financial Instruments' – fair value remeasurements	26	0.32	11	0.14
IAS 19 'Employee Benefits' – non-cash Group Income Statement charge for pensions	204	2.52	117	1.45
IAS 17 'Leases' – impact of annual uplifts in rent and rent-free periods	12	0.15	22	0.27
IFRS 3 'Business Combinations' – intangible asset amortisation charges and costs arising from acquisitions	13	0.16	14	0.17
IFRIC 13 'Customer Loyalty Programmes' – fair value of awards	–	–	10	0.12
Total restructuring and other one-off items (Note 3)	6,814	84.06	801	9.92
Reversal of commercial income recognised in previous years:				
Recognised in 13/14	53	0.65	–	–
Recognised in years prior to 13/14	155	1.91	–	–
Other profits/(losses) arising on property-related items	60	0.74	(180)	(2.23)
Allocation of adjustments to non-controlling interests	(22)	(0.27)	–	–
Tax effect of adjustments at the effective rate of tax*	(856)	(10.56)	(122)	(1.51)
Dilutive effect**	–	(0.02)		
Underlying earnings from continuing operations	765	9.42	2,589	32.05

* The effective rate of tax on the total tax charge on all adjustments was 11.7% (2014: 15.4%). The effective rate of tax on underlying earnings was 20.7% (2014: 15.4%) which excludes certain permanent differences on which tax relief is not available.

** Under IAS 33 'Earnings per share', potentially dilutive share options are treated as dilutive only when their conversion would decrease earnings per share. All adjustments above have been based on 8,107 million (2014: 8,078 million) shares, with the (0.02) pence per share dilutive impact of the 12 million current year potentially dilutive share options factored in only when calculating the final underlying diluted earnings per share from continuing operations.

Notes to the Group financial statements continued

Note 10 Goodwill and other intangible assets

	Internally generated development costs £m	Pharmacy and software licences £m	Other intangible assets £m	Goodwill £m	Total £m
Cost					
At 22 February 2014	1,793	1,057	378	2,880	6,108
Foreign currency translation	–	(20)	(3)	(10)	(33)
Additions	206	79	26	98	409
Acquired through business combinations	–	–	25	–	25
Reclassification	(150)	154	1	–	5
Disposals	(109)	(37)	(8)	(19)	(173)
At 28 February 2015	1,740	1,233	419	2,949	6,341
Accumulated amortisation and impairment losses					
At 22 February 2014	908	533	278	594	2,313
Foreign currency translation	–	(17)	–	(54)	(71)
Amortisation charge	126	113	18	–	257
Impairment charge	43	7	2	116	168
Reclassification	2	–	(2)	–	–
Disposals	(89)	(11)	(2)	5	(97)
At 28 February 2015	990	625	294	661	2,570
Net carrying value					
At 28 February 2015	750	608	125	2,288	3,771
At 22 February 2014	885	524	100	2,286	3,795

	Internally generated development costs £m	Pharmacy and software licences £m	Other intangible assets £m	Goodwill £m	Total £m
Cost					
At 23 February 2013	1,655	1,004	366	3,580	6,605
Foreign currency translation	(6)	(40)	(12)	(111)	(169)
Additions	245	116	23	60	444
Reclassification	(31)	38	2	–	9
Disposals	(70)	(10)	(1)	–	(81)
Transfer to disposal group classified as held for sale	–	(51)	–	(649)	(700)
At 22 February 2014	1,793	1,057	378	2,880	6,108
Accumulated amortisation and impairment losses					
At 23 February 2013	916	440	261	626	2,243
Foreign currency translation	(3)	(24)	(3)	(32)	(62)
Amortisation charge	111	101	19	–	231
Reclassification	(48)	48	2	–	2
Disposals	(68)	(10)	(1)	–	(79)
Transfer to disposal group classified as held for sale	–	(22)	–	–	(22)
At 22 February 2014	908	533	278	594	2,313

Note 10 Goodwill and other intangible assets continued

Impairment of goodwill

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

In February 2015 and 2014 impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated.

Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections for generally five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. Given the current economic climate, a sensitivity analysis has been performed in assessing the recoverable amounts of goodwill.

The pre-tax discount rates used to calculate value in use range from 9% to 12% (2014: 7% to 11%). On a post-tax basis, the discount rates range from 7% to 10% (2014: 6% to 8%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit.

The forecasts are extrapolated beyond five years based on estimated long-term average growth rates of 2% to 3% (2014: 2% to 3%).

The challenging economic climate and significant shifts in the retail industry structure has resulted in revised forecast cash flows and updated discount rates. A resulting impairment charge has been recognised of £116m (2014: £nil) related to Dobbies (£83m) and other UK businesses (£33m). Dobbies and the other UK businesses are within the UK segment. This charge has been recognised in the cost of sales line in the Group Income Statement.

A final regulation has been published by the European Commission, imposing a cap on interchange fees on credit and debit cards. This change to existing interchange fees, which is expected to come into force during the first half of 2015, along with the forecast impact of mitigating management actions, has been considered as part of goodwill impairment testing for the Tesco Bank cash-generating unit. No reduction in the asset recognised has been required following completion of this review.

The components of goodwill are as follows:

	2015 £m	2014 £m
Malaysia	74	74
South Korea	502	475
Tesco Bank	802	802
Thailand	159	145
UK	722	761
Other	29	29
	2,288	2,286

Notes to the Group financial statements continued

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 22 February 2014	25,734	10,851	36,585
Foreign currency translation	(314)	(106)	(420)
Additions[b]	799	840	1,639
Acquired through business combinations	–	3	3
Reclassification	(591)	152	(439)
Classified as held for sale	30	(18)	12
Disposals	(360)	(229)	(589)
At 28 February 2015	25,298	11,493	36,791
Accumulated depreciation and impairment losses			
At 22 February 2014	4,985	7,110	12,095
Foreign currency translation	(186)	(96)	(282)
Depreciation charge	446	847	1,293
Impairment charge	3,029	1,263	4,292
Reversal of impairment charge	(169)	(7)	(176)
Reclassification	(358)	–	(358)
Classified as held for sale	(86)	(16)	(102)
Disposals	(232)	(179)	(411)
At 28 February 2015	7,429	8,922	16,351
Net carrying value[c][d]			
At 28 February 2015	17,869	2,571	20,440
At 22 February 2014	20,749	3,741	24,490
Construction in progress included above[e]			
At 28 February 2015	271	71	342
At 22 February 2014	612	80	692

[a] Other assets consist of plant, equipment, fixtures and fittings and motor vehicles.
[b] Includes £44m (2014: £79m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.4% (2014: 5.1%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.
[c] Net carrying value includes:
[i] Capitalised interest at 28 February 2015 of £820m (2014: £1,208m).
[ii] Assets held under finance leases which are analysed below:

	2015		2014	
	Land and buildings £m	Other[a] £m	Land and buildings £m	Other[a] £m
Cost	137	575	151	558
Accumulated depreciation and impairment losses	(61)	(532)	(50)	(529)
Net carrying value	76	43	101	29

These assets are pledged as security for the finance lease liabilities.

[d] The net carrying value of land and buildings comprises:

	2015 £m	2014 £m
Freehold	15,649	18,430
Long leasehold – 50 years or more	607	662
Short leasehold – less than 50 years	1,613	1,657
Net carrying value	17,869	20,749

[e] Construction in progress does not include land.

In the current year the Group reclassified property, plant and equipment with a net book value of £81m to development properties in inventories.

Note 11 Property, plant and equipment continued

	Land and buildings £m	Other[(a)] £m	Total £m
Cost			
At 23 February 2013	24,817	10,826	35,643
Foreign currency translation	(1,131)	(470)	(1,601)
Additions[(b)]	1,492	955	2,447
Acquired through business combinations	9	6	15
Reclassification	1,875	27	1,902
Classified as held for sale	(115)	–	(115)
Disposals	(239)	(133)	(372)
Transfer to disposal group classified as held for sale	(974)	(360)	(1,334)
At 22 February 2014	25,734	10,851	36,585
Accumulated depreciation and impairment losses			
At 23 February 2013	3,961	6,812	10,773
Foreign currency translation	(220)	(267)	(487)
Depreciation charge	466	846	1,312
Impairment charge	814	52	866
Reversal of impairment charge	(152)	(2)	(154)
Reclassification	282	1	283
Classified as held for sale	2	1	3
Disposals	(139)	(117)	(256)
Transfer to disposal group classified as held for sale	(29)	(216)	(245)
At 22 February 2014	4,985	7,110	12,095

(a)(b) See page 108 for footnotes.

During the prior year, it was concluded that the level of service provided to tenants of some malls operated by the Group were no longer considered insignificant and as a result a number of malls with a net book value of £1,623m were reclassified from investment property to property, plant and equipment.

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the balance sheet date. Recoverable amounts for cash-generating units are based on the higher of value in use or fair value less costs of disposal. The Group engaged external independent qualified valuers, where appropriate, to determine the fair value of the Group's property.

Fair values are determined in regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property and the location. In some cases, fair values include residual valuations where stores may be viable for redevelopment.

Value in use is generally calculated from cash flow projections for five years using data from the Group's latest internal forecast, the results of which are reviewed by the Board. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of 2% to 5% (2014: 2% to 5%).

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rates used to calculate value in use range from 9% to 12% (2014: 6% to 14%) depending on the specific conditions in which each store operates. On a post-tax basis, the discount rates range from 7% to 10% (2014: 6% to 12%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region.

An impairment charge of £4,292m (2014: £866m) has been recognised following a challenging economic climate and significant shifts in the retail industry structure, resulting in a revision of forecast cash flows and property fair values. This charge relates to properties in the UK of £3,052m (2014: £87m), Europe of £947m (2014: £740m) and Asia of £293m (2014: £39m). Of this charge, £3,291m (2014: £707m) related to trading stores has been classified as 'Impairment of PPE and onerous lease provisions included within cost of sales' and £874m (2014: £nil) related to construction in progress and closed stores has been classified as 'Impairment of PPE and onerous lease provisions included within (losses)/profits arising on property-related items' within non-GAAP measures in the Group Income Statement. The remaining £127m charge (2014: £159m) has not been treated as one-off within non-GAAP measures.

An impairment reversal of £176m (2014: £154m) was recognised relating to properties in the UK of £133m (2014: £136m), Europe of £28m (2014: £10m) and Asia of £15m (2014: £8m). Of this reversal, £25m (2014: £nil) has been classified as 'Impairment of PPE and onerous lease provisions included within cost of sales' and £97m (2014: £98m) has been classified as 'Impairment of PPE and onerous lease provisions included within (losses)/profits arising on property-related items'.

Notes to the Group financial statements continued

Note 12 Investment property

	2015 £m	2014 £m
Cost		
At beginning of the year	283	2,317
Foreign currency translation	(4)	(114)
Additions	–	–
Reclassification	87	(1,908)
Classified as held for sale	(51)	–
Disposals	(30)	(12)
At end of the year	285	283
Accumulated depreciation and impairment losses		
At beginning of the year	56	316
Foreign currency translation	(5)	(17)
Depreciation charge	1	19
Impairment charge	21	21
Reversal of impairment charge	(20)	–
Reclassification	92	(282)
Classified as held for sale	(1)	–
Disposals	(23)	(1)
At end of the year	121	56
Net carrying value at end of the year	164	227

The estimated fair value of the Group's investment property is £0.3bn (2014: £0.4bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

In the year there has been a £21m impairment charge for investment property which has been classified as 'Impairment of PPE and onerous lease provisions included within (losses)/profits arising on property-related items'.

In the prior year, it was concluded that the level of services provided to tenants of some malls operated by the Group were no longer considered insignificant and as a result a number of malls with a net book value of £1,623m were reclassified from investment property to property, plant and equipment.

Note 13 Group entities

Principal subsidiaries

The Group consolidates its subsidiary undertakings and its principal subsidiaries are:

	Business activity	Share of issued ordinary share capital and voting rights	Country of incorporation and principal country of operation
Tesco Stores Limited	Retail	100%	England
One Stop Stores Limited*	Retail	100%	England
Tesco Ireland Limited	Retail	100%	Republic of Ireland
Tesco-Global Stores Privately Held Co. Limited	Retail	100%	Hungary
Tesco Polska Sp. z o.o.	Retail	100%	Poland
Tesco Stores CR a.s.	Retail	100%	Czech Republic
Tesco Stores SR a.s.	Retail	100%	Slovakia
Tesco Kipa Kitle Pazarlama Ticaret ve Gida Sanayi A S	Retail	95%	Turkey
Homeplus Co. Limited	Retail	100%	South Korea
Homeplus Tesco Co. Limited	Retail	100%	South Korea
Ek-Chai Distribution System Co. Limited	Retail	86%**	Thailand
Tesco Stores (Malaysia) Sdn Bhn	Retail	70%	Malaysia
Dobbies Garden Centres Limited	Retail	100%	Scotland
Tesco Personal Finance Group Limited* (trading as Tesco Bank)	Financial Services	100%	Scotland
Tesco Distribution Limited	Distribution	100%	England
Tesco Property Holdings Limited	Property	100%	England
Tesco International Sourcing Limited	Purchasing	100%	Hong Kong
dunnhumby Limited	Data Analysis	100%	England
Tesco Corporate Treasury Services PLC*	Financial Services	100%	England
Tesco Food Sourcing Limited	Sourcing	100%	England
Tesco International Internet Retailing Limited*	Retail	100%	England
Tesco Joint Buying Service (Shanghai) Co. Limited	Retail	100%	People's Republic of China

* Held by the Parent Company (all other principal subsidiaries are held by an intermediate subsidiary).
** The Group has 86% of voting rights and 39% of issued ordinary share capital in Ek-Chai Distribution System Co. Limited.

The accounting period ends of the subsidiary undertakings consolidated in these financial statements are on or around 28 February 2015. The Group has taken advantage of the exemption under section 410(2) of the Companies Act 2006 by providing information only in respect of the subsidiary undertakings whose results or financial position, in the opinion of the Directors, principally affect the financial statements. A full list of the Group's subsidiary undertakings will be annexed to the next Annual Return filed at Companies House. There are no significant restrictions on the ability of subsidiary undertakings to transfer funds to the parent, other than those imposed by the Companies Act 2006.

Note 13 Group entities continued

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
Shopping Centres Limited[a]	Joint venture	Property investment	50%	England	United Kingdom
BLT Properties Limited[a]	Joint venture	Property investment	50%	England	United Kingdom
The Tesco British Land Property Partnership[b]	Joint venture	Property investment	50%	England	United Kingdom
Tesco BL Holdings Limited[b]	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Red Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Aqua Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Atrato Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Property Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
Arena (Jersey) Management Limited	Joint venture	Property investment	50%	Jersey	United Kingdom
The Tesco Property (No. 2) Limited Partnership	Joint venture	Property investment	50%	Jersey	United Kingdom
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Tesco Underwriting Limited[c]	Joint venture	Financial services	49.9%	England	United Kingdom
Gain Land Limited[d]	Associate	Retail	20%	British Virgin Islands	People's Republic of China/Hong Kong
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund[a]	Associate	Property investment	25%	Thailand	Thailand
Trent Hypermarket Limited[e]	Joint venture	Retail	50%	India	India

[a] Held by the Parent Company (all other significant joint ventures and associates are held by an intermediate subsidiary).
[b] The Tesco British Land Property Partnership and Tesco BL Holdings Limited are classified as assets held for sale at 28 February 2015. They are therefore excluded from the summarised financial information for joint ventures and associates for 2015 below. Further information is set out in Note 35.
[c] Tesco Underwriting Limited under IFRS 11 is treated as a joint venture because the Group has joint control over key management decisions.
[d] On 28 May 2014 the Group completed its formation of a new venture with China Resources Enterprise Limited. The new associate, Gain Land Limited, is a material associate to the Group.
[e] During the year the Group formed a new joint venture, Trent Hypermarket Limited, with Trent Limited at a cost of £102m.

The Group holds a 22% investment stake in Lazada Group GMBH ('Lazada'). This investment is not treated as an associate because the Group does not have the power to participate in key management decisions.

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2014 to 28 February 2015. The accounting period end dates of the joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of the joint ventures and associates to transfer funds to the parent, other than those imposed by the Companies Act 2006.

Summarised financial information for joint ventures and associates

The summarised financial information for UK Property joint ventures has been aggregated in order to provide useful information to users without excessive detail since these entities have similar characteristics and risk profiles largely based on the nature of their activites and geographic market.

The UK Property joint ventures involve the Group partnering with third parties in carrying out property investments in order to enhance returns from property and access funding whilst reducing risks associated with sole ownership. These property investments generally cover shopping centres and standalone stores. The Group enters into operating leases for some or all of the properties held in the joint ventures. These leases provide the Group with some rights over alterations and adjacent land developments. Some leases also provide the Group with options to purchase the other joint venturers' equity stakes at a future point in time. In some cases the Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria. In other cases, the Group carries out property management activities for third party rentals of shopping centre units.

The property investment activities are carried out in separate entities, usually partnerships or limited liability companies. The Group has assessed its ability to direct the relevant activities of these entities and impact Group returns and concluded that the entities qualify as joint ventures since decisions regarding them require the unanimous consent of both equity holders. This assessment included not only rights within the joint venture agreements, but also any rights within the other contractual arrangements between the Group and the entities.

Notes to the Group financial statements continued

Note 13 Group entities continued

The Group made a number of judgements and assertions in arriving at this determination, the key ones being:

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;
- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures or infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required.

	UK Property joint ventures		Gain Land Limited	
	2015 £m	2014 £m	2015 7 months to Dec 14 £m	2014 £m
Summarised Balance Sheet				
Non-current assets	5,768	6,247	4,543	–
Current assets (excluding cash & cash equivalents)	219	164	1,979	–
Cash and cash equivalents	115	130	579	–
Current liabilities*	(401)	(470)	(4,728)	–
Non-current liabilities*	(6,628)	(6,999)	(403)	–
Net (liabilities)/assets	(927)	(928)	1,970	–
Summarised Income Statement				
Revenue	418	434	4,811	–
Profit/(loss) after tax	15	39	(229)	–
Reconciliation to carrying amounts:				
Opening balance	90	87	–	–
Additions	–	–	1,261	–
Foreign currency translation	–	–	(2)	–
Share of profit/(loss)	15	36	(47)	–
Impairment of joint ventures and associates	–	–	(630)	–
Dividends received from joint ventures and associates	(56)	(33)	–	–
Closing balance	49	90	582	–
Group's share in ownership	50%	50%	20%	–
Group's share of net (liabilities)/assets	(464)	(464)	394	–
Goodwill	–	–	188	–
Cumulative unrecognised losses	138	162	–	–
Cumulative unrecognised hedge reserves	375	392	–	–
Carrying amount	49	90	582	–

* Included within current and non-current liabilities of UK Property joint ventures are £(750)m (2014: £(784)m) derivative balances related to swaps which hedge the cash flow variability exposures of the joint ventures.

At 28 February 2015, the Group has £179m (2014: £174m) loans to UK Property joint ventures and £nil (2014: £nil) to Gain Land Limited.

Individually immaterial joint ventures and associates

The Group also has interests in a number of individually immaterial joint ventures and associates excluding UK Property joint ventures and Gain Land Limited.

	Joint ventures		Associates	
	2015 £m	2014 £m	2015 £m	2014 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	252	53	57	143
Group's share of profit for the year	14	16	5	8

Unconsolidated structured entities

The Group has sponsored a number of structured entities. The Group led the formation of the entities and its name appears in the names of the entities and/or on the debt issued by the entities. The structured entities were set up to finance property purchases by some of the UK Property joint ventures in which the Group typically holds a 50% equity interest. The structured entities obtain debt financing from third party investors and lend the funds to these joint ventures, who use the funds to purchase the properties.

The liabilities of the UK Property joint ventures disclosed above include the loans due to these structured entities. The Group's exposure to the structured entities is limited to the extent of the Group's interests in the joint ventures. The liabilities of the structured entities are non-recourse to the Group.

The Group concluded that it does not control, and therefore should not consolidate, these structured entities, since it does not have power over the relevant activities of the structured entities, or exposure to variable returns from these entities.

Note 14 Other investments

	2015 £m	2014 £m
Loans receivable	35	69
Available-for-sale financial assets	940	946
	975	1,015

Available-for-sale financial assets mainly comprise investments in bonds with varied maturities of which £111m (2014: £167m) is current.

Note 15 Inventories

	2015 £m	2014 £m
Goods held for resale	2,825	3,467
Development properties	132	109
	2,957	3,576

Goods held for resale are net of £93m (2014: £82m) relating to commercial income. These commercial income amounts will be recognised in cost of sales upon sale of those inventories.

Note 16 Trade and other receivables

	2015 £m	2014 £m
Prepayments	352	321
Accrued income	183	265
Other receivables	1,336	1,330
Amounts owed by joint ventures and associates (Note 28)	250	274
	2,121	2,190

Trade and other receivables includes £97m (2014: £89m) within other receivables of amounts due from suppliers for commercial income which have been invoiced but for which there is no legal right or intention to offset against payables, and £158m (2014: £230m) within accrued income of amounts due from suppliers in relation to commercial income which have been earned but not yet invoiced.

Included within trade and other receivables are the following amounts receivable after more than one year:

	2015 £m	2014 £m
Prepayments and accrued income	19	19
Other receivables	468	432
Amounts owed by joint ventures and associates	149	195
	636	646

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from seven to sixty days.

At 28 February 2015, trade and other receivables of £31m (2014: £37m) were past due and impaired. The amount of the provision was £42m (2014: £46m). The ageing analysis of these receivables is as follows:

	2015 £m	2014 £m
Up to three months past due	2	4
Three to six months past due	2	2
Over six months past due	27	31
	31	37

At 28 February 2015, trade and other receivables of £146m (2014: £155m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2015 £m	2014 £m
Up to three months past due	117	124
Three to six months past due	14	15
Over six months past due	15	16
	146	155

No receivables have been renegotiated in the current or prior financial years.

Notes to the Group financial statements continued

Note 17 Loans and advances to customers

Tesco Bank has loans and advances to customers, as follows:

	2015 £m	2014 £m
Non-current	3,906	3,210
Current	3,814	3,705
	7,720	6,915

The maturity of these loans and advances is as follows:

At 28 February 2015	2015 £m	2014 £m
Repayable on demand or at short notice	3	3
Within three months	3,744	3,641
Greater than three months but less than one year	158	166
Greater than one year but less than five years	2,033	1,955
After five years	1,922	1,307
	7,860	7,072
Provision for impairment of loans and advances	(140)	(157)
	7,720	6,915

At 28 February 2015, £3.0bn (2014: £2.4bn) of the credit card portfolio had its legal interest assigned to a structured entity for use as collateral in securitisation transactions. Included within the unsecured lending balance is £nil (2014: £0.8bn) that has been prepositioned with the Bank of England for the purposes of contingent liquidity via the discount window facility and consequently is eligible for future participation in the Funding for Lending Scheme.

Provision for impairment of loans and advances

	£m
At 23 February 2013	(172)
Increase in allowance, net of recoveries, charged to the Group Income Statement	(55)
Amounts written off	66
Unwinding of discount	4
At 22 February 2014	(157)
Increase in allowance, net of recoveries, charged to the Group Income Statement	(48)
Amounts written off	62
Unwinding of discount	3
At 28 February 2015	(140)

Note 18 Cash and cash equivalents

	2015 £m	2014 £m
Cash at bank and in hand	2,134	2,261
Short-term deposits	31	245
	2,165	2,506

Cash of £593m (2014: £1,016m) held on money market funds is classed as short-term investments.

Note 19 Trade and other payables

	2015 £m	2014 £m
Trade payables	5,076	5,831
Other taxation and social security	366	399
Other payables	2,698	2,800
Amounts payable to joint ventures and associates (Note 28)	23	22
Accruals and deferred income	1,759	1,543
	9,922	10,595

Included in other payables are amounts of £147m (2014: £154m) which are non-current.

Netted against trade and other payables is £347m (2014: £547m) amounts receivable from suppliers in relation to commercial income that has been invoiced, for which there is a current legal right and intention to offset against amounts payable at the balance sheet date.

Note 20 Borrowings

Current

	Par value	Maturity year	2015 £m	2014 £m
Commercial paper, bank loans and overdrafts	–	–	1,982	830
Loans from joint ventures (Note 28)	–	–	16	16
5% MTN	£600m	2014	–	628
2% USD Bond	$500m	2014	–	300
Other MTNs	–	–	–	130
Finance leases (Note 34)	–	–	10	6
			2,008	1,910

Non-current

	Par value	Maturity year	2015 £m	2014 £m
5.125% MTN	€600m	2015	–	528
4% RPI MTN*	£307m	2016	313	304
5.875% MTN	€1,039m	2016	872	1,011
2.7% USD Bond	$500m	2017	325	299
1.250% MTN	€500m	2017	362	411
5.5% USD Bond	$850m	2017	625	595
5.2% Tesco Bank Retail Bond	£125m	2018	135	139
3.375% MTN	€750m	2018	548	620
LIBOR + 0.45% Tesco Bank Bond	£150m	2019	149	–
1.375% MTN	€1,250m	2019	911	–
5.5% MTN	£350m	2019	353	352
1% RPI Tesco Bank Retail Bond	£60m	2019	60	60
2.125% MTN	€500m	2020	362	411
5% Tesco Bank Retail Bond	£200m	2020	205	197
LIBOR + 0.65% Tesco Bank Bond	£350m	2021	349	–
6.125% MTN	£900m	2022	895	948
5% MTN	£389m	2023	407	401
2.5% MTN	€750m	2024	547	–
3.322% LPI MTN**	£315m	2025	318	310
6% MTN	£200m	2029	261	242
5.5% MTN	£200m	2033	262	241
1.982% RPI MTN***	£261m	2036	263	256
6.15% USD Bond	$1,150m	2037	917	792
4.875% MTN	£173m	2042	175	174
5.125% MTN	€600m	2047	631	605
5.2% MTN	£279m	2057	275	274
Other loans	–	–	–	18
Finance leases (Note 34)	–	–	131	115
			10,651	9,303

* The 4% RPI MTN is redeemable at par, including indexation for increases in the Retail Price Index ('RPI') over the life of the MTN.
** The 3.322% Limited Price Inflation ('LPI') MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
*** The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

Borrowing facilities

The Group has the following undrawn committed facilities available at 28 February 2015, in respect of which all conditions precedent had been met as at that date:

	2015 £m	2014 £m
Expiring in less than one year	132	–
Expiring between one and two years	200	125
Expiring in more than two years	4,800	2,600
	5,132	2,725

The current year undrawn committed facilities include £2.2bn of bilateral facilities and a £2.6bn revolving credit facility.

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Notes to the Group financial statements continued

Note 21 Financial instruments

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IAS 39. Derivatives may qualify as hedges for accounting purposes and the Group's hedging policies are further described below.

Net finance cost of £46m (2014: £22m) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group Income Statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group Income Statement.

A gain of £27m on hedging instruments was recognised during the year, offset by a loss of £73m on hedged items (2014: a loss of £311m on hedging instruments was offset by a gain of £282m on hedged items).

Cash flow hedges

The Group uses forward contracts to hedge the foreign currency cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flows hedged will occur and will affect the Group Income Statement within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies.

Net investment hedges

The Group uses currency denominated borrowings and cross-currency swaps to hedge the exposure of a portion of its net investment in overseas operations against changes in value due to changes in foreign exchange rates. A net finance income of £nil (2014: £7m) was recorded resulting from net investment hedging ineffectiveness.

Gains and losses accumulated in equity are recycled to the Group Income Statement on disposal of overseas operations.

Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group Income Statement.

These instruments include index-linked swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group Income Statement within finance income or costs.

The fair values of derivative financial instruments have been disclosed in the Group Balance Sheet as follows:

	2015		2014	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	153	(89)	80	(99)
Non-current	1,546	(946)	1,496	(770)
	1,699	(1,035)	1,576	(869)

Note 21 Financial instruments continued

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2015				2014			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	23	721	(80)	2,303	71	2,057	(42)	1,492
Cross-currency swaps	561	1,201	(11)	817	583	2,055	(25)	551
Cash flow hedges								
Interest rate swaps and similar instruments	–	86	(199)	462	2	99	(110)	400
Cross-currency swaps	241	311	(170)	1,754	139	287	(115)	1,605
Index-linked swaps	119	942	–	–	90	920	–	–
Forward foreign currency contracts	84	974	(35)	1,271	10	739	(62)	2,123
Cash flow hedges and net investment hedges								
Cross-currency swaps	–	–	–	–	10	308	–	–
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	6	640	(6)	2,982	13	2,079	–	595
Cross-currency swaps	10	44	(1)	36	8	128	–	–
Index-linked swaps	580	3,589	(474)	3,589	614	3,619	(515)	3,589
Forward foreign currency contracts	75	1,292	(59)	965	36	1,035	–	181
Total	1,699	9,800	(1,035)	14,179	1,576	13,326	(869)	10,536

The carrying value and fair value of financial assets and liabilities are as follows:

	2015		2014	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	2,165	2,165	2,506	2,506
Loans and advances to customers – Tesco Bank	7,720	7,772	6,915	6,845
Short-term investments	593	593	1,016	1,016
Other investments	975	975	1,015	1,015
Joint venture and associates loan receivables (Note 28)	207	208	255	257
Other receivables	1	1	1	1
Derivative financial assets:				
Interest rate swaps and similar instruments	29	29	86	86
Cross-currency swaps	812	812	740	740
Index-linked swaps	699	699	704	704
Forward foreign currency contracts	159	159	46	46
Total financial assets	13,360	13,413	13,284	13,216
Liabilities				
Short-term borrowings:				
Amortised cost	(1,998)	(1,998)	(1,276)	(1,281)
Bonds in fair value hedge relationships	–	–	(628)	(660)
Long-term borrowings:				
Amortised cost	(7,193)	(7,299)	(4,901)	(5,702)
Bonds in fair value hedge relationships	(3,327)	(3,033)	(4,287)	(4,227)
Finance leases (Note 34)	(141)	(141)	(121)	(121)
Customer deposits – Tesco Bank	(6,914)	(6,873)	(6,078)	(6,044)
Deposits by banks – Tesco Bank	(106)	(106)	(780)	(780)
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	(285)	(285)	(152)	(152)
Cross-currency swaps	(182)	(182)	(140)	(140)
Index-linked swaps	(474)	(474)	(515)	(515)
Forward foreign currency contracts	(94)	(94)	(62)	(62)
Total financial liabilities	(20,714)	(20,485)	(18,940)	(19,684)
Total	(7,354)	(7,072)	(5,656)	(6,468)

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The above tables exclude payables/other receivables which have fair values equal to their carrying values.

Notes to the Group financial statements continued

Note 21 Financial instruments continued

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 28 February 2015 and 22 February 2014 are as follows:

At 28 February 2015	Available-for-sale £m	Loans and receivables/other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,165	–	2,165
Loans and advances to customers – Tesco Bank	–	7,720	–	7,720
Short-term investments	–	593	–	593
Other investments	940	35	–	975
Joint venture and associates loan receivables (Note 28)	–	207	–	207
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(6,914)	–	(6,914)
Deposits by banks – Tesco Bank	–	(106)	–	(106)
Short-term borrowings	–	(1,998)	–	(1,998)
Long-term borrowings	–	(10,520)	–	(10,520)
Finance leases (Note 34)	–	(141)	–	(141)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(256)	(256)
Cross-currency swaps	–	–	630	630
Index-linked swaps	–	–	225	225
Forward foreign currency contracts	–	–	65	65
	940	(8,958)	664	(7,354)

At 22 February 2014	Available-for-sale £m	Loans and receivables/other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,506	–	2,506
Loans and advances to customers – Tesco Bank	–	6,915	–	6,915
Short-term investments	–	1,016	–	1,016
Other investments	946	69	–	1,015
Joint venture and associates loan receivables (Note 28)	–	255	–	255
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(6,078)	–	(6,078)
Deposits by banks – Tesco Bank	–	(780)	–	(780)
Short-term borrowings	–	(1,904)	–	(1,904)
Long-term borrowings	–	(9,188)	–	(9,188)
Finance leases (Note 34)	–	(121)	–	(121)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(66)	(66)
Cross-currency swaps	–	–	600	600
Index-linked swaps	–	–	189	189
Forward foreign currency contracts	–	–	(16)	(16)
	946	(7,309)	707	(5,656)

The above tables exclude payables/other receivables which are classified under loans and receivables/other financial liabilities.

Note 21 Financial instruments continued

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 28 February 2015, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 28 February 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	828	–	112	940
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	29	–	29
Cross-currency swaps	–	812	–	812
Index-linked swaps	–	699	–	699
Forward foreign currency contracts	–	159	–	159
Total assets	828	1,699	112	2,639
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(285)	–	(285)
Cross-currency swaps	–	(182)	–	(182)
Index-linked swaps	–	(474)	–	(474)
Forward foreign currency contracts	–	(94)	–	(94)
Total liabilities	–	(1,035)	–	(1,035)
Total	828	664	112	1,604

At 22 February 2014	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	850	–	96	946
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	86	–	86
Cross-currency swaps	–	740	–	740
Index-linked swaps	–	704	–	704
Forward foreign currency contracts	–	46	–	46
Total assets	850	1,576	96	2,522
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(152)	–	(152)
Cross-currency swaps	–	(140)	–	(140)
Index-linked swaps	–	(515)	–	(515)
Forward foreign currency contracts	–	(62)	–	(62)
Total liabilities	–	(869)	–	(869)
Total	850	707	96	1,653

The following table presents the changes in Level 3 instruments for the year ending 28 February 2015:

	2015 £m	2014 £m
At beginning of the year	96	–
Gains/(losses) recognised in finance costs in the Group Income Statement	–	–
Gains/(losses) recognised in the Group Statement of Changes in Equity	(16)	–
Purchase of non-controlling interests	32	96
At end of the year	112	96

During the financial year, £nil (2014: £nil) of Level 2 assets were transferred to Level 1 and there were no transfers into or out of Level 3 fair value measurements.

In the second half of the year, the Group invested an additional £32m in Lazada, an online retailer.

Notes to the Group financial statements continued

Note 21 Financial instruments continued

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 28 February 2015 Financial assets offset	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not set off in the Group Balance Sheet: Financial instruments £m	Related amounts not set off in the Group Balance Sheet: Collateral £m	Net amount £m
Cash and cash equivalents	2,405	(240)	2,165	–	–	2,165
Derivative financial instruments	1,699	–	1,699	(331)	(2)	1,366
Trade and other receivables	2,490	(369)	2,121	–	–	2,121
Total	6,594	(609)	5,985	(331)	(2)	5,652
Financial liabilities offset						
Bank loans and overdrafts	(2,222)	240	(1,982)	–	–	(1,982)
Repurchases, securities lending and similar agreements*	(97)	–	(97)	103	–	6
Derivative financial instruments	(1,035)	–	(1,035)	331	61	(643)
Trade and other payables	(10,291)	369	(9,922)	–	–	(9,922)
Total	(13,645)	609	(13,036)	434	61	(12,541)

* Repurchases, securities lending and similar agreements are included within the deposits from banks balance of £106m (Note 23).

At 22 February 2014 Financial assets offset	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not set off in the Group Balance Sheet: Financial instruments £m	Related amounts not set off in the Group Balance Sheet: Collateral £m	Net amount £m
Cash and cash equivalents	2,882	(376)	2,506	–	–	2,506
Derivative financial instruments	1,576	–	1,576	(336)	(6)	1,234
Trade and other receivables	2,737	(547)	2,190	–	–	2,190
Total	7,195	(923)	6,272	(336)	(6)	5,930
Financial liabilities offset						
Bank loans and overdrafts	(1,206)	376	(830)	–	–	(830)
Repurchases, securities lending and similar agreements*	(765)	–	(765)	765	–	–
Derivative financial instruments	(869)	–	(869)	336	16	(517)
Trade and other payables	(11,142)	547	(10,595)	–	–	(10,595)
Total	(13,982)	923	(13,059)	1,101	16	(11,942)

* Repurchases, securities lending and similar agreements are included within the deposits from banks balance of £780m (Note 23).

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis, however each party to the master netting agreement or similar agreements will have the option to settle all such amounts on a net basis in the event of default of the other party.

Note 22 Financial risk factors

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below.

Risk management is carried out by a central treasury department under policies approved by the Board of Directors. The Board provides written principles for risk management, as described in the Principal risks and uncertainties on pages 22 to 25.

Interest rate risk

Interest rate risk arises from long-term borrowings. Debt issued at variable rates as well as cash deposits and short-term investments exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk. The Group's interest rate management policy is explained on page 25.

The Group has Retail Price Index ('RPI') debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has Limited Price Inflation ('LPI') debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt.

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 123.

Note 22 Financial risk factors continued

During 2015 and 2014, net debt was managed using derivative instruments to hedge interest rate risk.

	2015 Fixed £m	2015 Floating £m	2015 Total £m	2014 Fixed £m	2014 Floating £m	2014 Total £m
Cash and cash equivalents	–	2,165	2,165	–	2,506	2,506
Loans and advances to customers – Tesco Bank	4,041	3,679	7,720	3,440	3,475	6,915
Short-term investments	–	593	593	–	1,016	1,016
Other investments	904	71	975	855	160	1,015
Joint venture and associate loan receivables (Note 28)	141	66	207	163	92	255
Other receivables	1	–	1	1	–	1
Finance leases (Note 34)	(141)	–	(141)	(90)	(31)	(121)
Bank and other borrowings	(10,571)	(1,947)	(12,518)	(9,788)	(1,304)	(11,092)
Customer deposits – Tesco Bank	(2,868)	(4,046)	(6,914)	(2,707)	(3,371)	(6,078)
Deposits from banks – Tesco Bank	(106)	–	(106)	(780)	–	(780)
Derivative effect:						
Interest-rate swaps	(6,523)	6,523	–	(4,022)	4,022	–
Cross-currency swaps	1,973	(1,973)	–	2,418	(2,418)	–
Index-linked swaps	(567)	567	–	(553)	553	–
Total	(13,716)	5,698	(8,018)	(11,063)	4,700	(6,363)

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits with banks and financial institutions.

The net counterparty exposure under derivative contracts is £1.4bn (2014: £1.2bn). The Group considers its maximum credit risk to be £14.7bn (2014: £13.3bn) being the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 123.

Liquidity risk

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £5.1bn (2014: £2.7bn), which mature between 2016 and 2019.

The Group has a European Medium Term Note programme of £15.0bn, of which £7.4bn was in issue at 28 February 2015 (2014: £7.0bn), plus a Euro Commercial Paper programme of £2.0bn, £0.5bn of which was in issue at 28 February 2015 (2014: £nil), and a US Commercial Paper programme of $4.0bn, £0.7bn of which was in issue at 28 February 2015 (2014: £nil).

On 6 June 2014 and 1 July 2014, the Group issued £0.5bn and €2.0bn of long-term debt respectively. During the year, the Group repaid £0.6bn, $0.5bn, €0.6bn, ¥6.5bn, CNY0.7bn and MYR0.1bn of long-term debt.

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 123.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives. The potential cash outflow of £17.8bn is considered acceptable as it is offset by financial assets and trade receivables of £14.7bn (2014: £18.2bn offset by financial assets and trade receivables of £14.8bn).

The undiscounted cash flows will differ from both the carrying values and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 3% for the life of the liability (2014: 3%).

At 28 February 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,975)	(1,400)	(915)	(670)	(1,468)	(5,758)
Interest payments on borrowings	(403)	(406)	(343)	(306)	(283)	(2,968)
Customer deposits – Tesco Bank	(5,914)	(561)	(124)	(142)	(173)	–
Deposits from banks – Tesco Bank	(106)	–	–	–	–	–
Finance leases	(20)	(19)	(19)	(19)	(12)	(168)
Trade and other payables	(9,775)	(62)	(25)	(2)	(2)	(56)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	41	68	25	21	17	1,061
Net settled derivative contracts – payments	(97)	(77)	(61)	(42)	(22)	(19)
Gross settled derivative contracts – receipts	4,397	1,260	1,953	29	29	1,330
Gross settled derivative contracts – payments	(3,979)	(1,314)	(1,735)	(44)	(44)	(1,477)
Total	(17,827)	(2,515)	(1,244)	(1,175)	(1,958)	(8,055)

Notes to the Group financial statements continued

Note 22 Financial risk factors continued

At 22 February 2014	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,835)	(523)	(1,514)	(921)	(743)	(5,372)
Interest payments on borrowings	(459)	(404)	(377)	(306)	(270)	(3,152)
Customer deposits – Tesco Bank	(4,725)	(1,100)	(141)	(29)	(122)	–
Deposits by banks – Tesco Bank	(772)	(8)	–	–	–	–
Finance leases	(12)	(13)	(12)	(12)	(12)	(185)
Trade and other payables	(10,441)	(82)	(19)	(2)	(2)	(49)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	76	29	68	22	44	538
Net settled derivative contracts – payments	(91)	(75)	(59)	(52)	(70)	(345)
Gross settled derivative contracts – receipts	4,768	713	1,323	1,758	39	1,493
Gross settled derivative contracts – payments	(4,727)	(648)	(1,277)	(1,499)	(24)	(1,132)
Total	(18,218)	(2,111)	(2,008)	(1,041)	(1,160)	(8,204)

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional exposures that could significantly impact the Group Income Statement are hedged. These exposures are hedged via forward foreign currency contracts which are designated as cash flow hedges. The notional and fair value of these contracts is shown in Note 21;
- net investment exposure that arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group hedges a part of its investments in its international subsidiaries via foreign currency transactions and borrowings in matching currencies which are formally designated as net investment hedges; and
- loans to non-UK subsidiaries that are hedged via foreign currency transactions and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

The impact on the Group financial statements from foreign currency volatility is shown in the sensitivity analysis below.

Sensitivity analysis

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 28 February 2015. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt which has been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group Income Statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group Statement of Comprehensive Income;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group Income Statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group Income Statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the illustrative effect on the Group Income Statement and equity that would result, at the balance sheet date, from changes in UK interest rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	2015		2014	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2014: 1%)	57	–	5	–
10% appreciation of the Czech Koruna (2014: 15%)	(4)	39	–	49
10% appreciation of the Euro (2014: 5%)	(31)	(39)	(1)	(24)
5% appreciation of the Hungarian Florint (2014: nil)	(1)	13	–	–
5% appreciation of the South Korean Won (2014: 10%)	–	39	–	110
10% appreciation of the US Dollar (2014: 10%)	(3)	96	(4)	161
5% appreciation of the Polish Zloty (2014: 5%)	–	21	–	19
5% appreciation of the Hong Kong Dollar (2014: 10%)	–	4	–	29
10% appreciation of the Turkish Lira (2014: 35%)	–	1	–	79

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

Note 22 Financial risk factors continued

The impact on the Group Statement of Comprehensive Income from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group Statement of Comprehensive Income will largely be offset by the revaluation in equity of the hedged assets. The sensitivity movements in equity includes £100m (2014: £310m) in relation to loans to Group entities that form part of their net investment.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares.

The Group finances its operations by a combination of retained profits, debt capital market issues, commercial paper, bank borrowings, disposals of property assets and leases. The policy for debt is to ensure a smooth debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year with bonds redeemed of £1,493m (2014: £208m) and £2,095m of new bonds issued (2014: £844m). The Group borrows centrally and locally, using a variety of capital market instruments and borrowing facilities to meet the Group's business requirements of each local business.

Refer to Note 30 for the value of the Group's net debt (£8.5bn; 2014: £6.6bn), and the Group Statement of Changes in Equity for the value of the Group's equity (£7.1bn; 2014: £14.7bn).

Tesco Bank

Interest rate risk

Interest rate risk arises where assets and liabilities in Tesco Bank's banking activities have different repricing dates. Tesco Bank policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long-term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a 1% parallel movement in interest rates. Tesco Bank also use Economic Value Equity ('EVE') for risk management purposes with focus on the value of Tesco Bank in today's interest rate environment and its sensitivity to changes in interest rates. Interest rate risk is managed using interest rate swaps as the main hedging instrument.

Liquidity risk

Liquidity risk is the risk that Tesco Bank is unable to meet its payment obligations as they fall due. Liquidity risk is managed within Tesco Bank's banking activities and adheres to the liquidity requirements set by the Prudential Regulation Authority ('PRA'). Tesco Bank's Board has set a defined liquidity risk policy and contingency funding which is prudent and in excess of the minimum requirements as set out by the PRA and by Tesco Bank. A diversified portfolio of high-quality liquid and marketable assets is maintained. Cash flow commitments and marketable asset holdings are measured and managed on a daily basis. Tesco Bank has sufficient liquidity to meet all foreseeable outflow requirements as they fall due and its liquidity risk is further mitigated by its well diversified retail deposit base and a pool of surplus cash resources that are invested in a range of marketable assets.

Credit risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time.

Retail credit policy is managed through the credit risk policy framework with standards and limits defined at all stages of the customer lifecycle, including new account sanctioning, customer management and collections and recovery activity. Customer lending decisions are managed principally through the deployment of bespoke credit scorecard models and credit policy rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay an outstanding credit amount. Wholesale credit risk is managed using a limit-based framework, with limits determined by counterparty credit worthiness, instrument type and remaining tenor. A limits framework is also in place for the management of third party credit exposures.

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt. The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

Notes to the Group financial statements continued

Note 22 Financial risk factors continued

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business.

Credit quality of loans and advances

As at 28 February 2015	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	39	–	–	39
90–179 days past due	35	–	–	35
180 days plus past due	70	–	–	70
Past due but not defaulted				
Less than 29 days past due	34	2	–	36
30–59 days past due	9	–	–	9
60–119 days past due	6	–	–	6
Neither past due nor defaulted				
Low risk*	6,234	1,195	154	7,583
High risk**	76	6	–	82
Total	6,503	1,203	154	7,860

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

Credit quality of loans and advances

As at 22 February 2014	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	45	–	–	45
90–179 days past due	40	–	–	40
180 days plus past due	50	–	–	50
Past due but not defaulted				
Less than 29 days past due	38	–	–	38
30–59 days past due	9	–	–	9
60–119 days past due	6	–	–	6
Neither past due nor defaulted				
Low risk*	5,923	692	167	6,782
High risk**	98	4	–	102
Total	6,209	696	167	7,072

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off balance sheet items, mainly undrawn credit card facilities and mortgage offers, was £11.5bn (2014: £9.7bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited ('TU'), an authorised insurance company. Since late 2010 the majority of new business policies for home and motor insurance products sold by Tesco Bank have been underwritten by TU. The key insurance risks within TU relate to underwriting risk and specifically the potential for a major weather event to generate significant claims on home insurance, or on motor insurance the cost of settling bodily injury claims. Exposure to this risk is actively managed within TU with close monitoring of performance metrics and the use of reinsurance to limit TU's exposure above predetermined limits.

Note 23 Customer deposits and deposits by banks

	2015 £m	2014 £m
Customer deposits	6,914	6,078
Deposits by banks	106	780
	7,020	6,858

Included above is £1,000m (2014: £1,366m) non-current customer deposits and £nil (2014: £8m) non-current deposits by banks.

Deposits by banks include liabilities of £97m (2014: £765m) which have been sold under sale and repurchase agreements.

Note 24 Provisions

	Property provisions £m	Other provisions £m	Total £m
At 23 February 2013	358	102	460
Foreign currency translation	(12)	–	(12)
Amount released in the year	(35)	–	(35)
Amount provided in the year	53	63	116
Amount utilised in the year	(38)	(60)	(98)
Transfer to disposal group classified as held for sale	2	–	2
At 22 February 2014	328	105	433
Foreign currency translation	(1)	–	(1)
Amount released in the year	(104)	–	(104)
Amount provided in the year	773	362	1,135
Amount utilised in the year	(61)	(42)	(103)
Unwinding of discount	6	–	6
At 28 February 2015	941	425	1,366

The balances are analysed as follows:

	2015 £m	2014 £m
Current	671	250
Non-current	695	183
	1,366	433

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, and other onerous contacts related to property. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased property to the Group is based on the same assumptions for discount rates, growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11. The provision calculations also assume that the Group can sublet properties at market rents. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Based on the factors set out above, the Group has recognised a net onerous property provision charge in the year of £669m (2014: £18m charge) relating to contracts in the UK of £561m (2014: £(15)m release), Europe of £62m (2014: £27m charge) and Asia of £46m (2014: £6m charge). These provisions comprise obligations for future rents payable net of rents receivable on onerous leases and other onerous contracts relating to properties. Of this charge, £536m (2014: £27m) has been classified as 'Impairment of PPE and onerous lease provisions included within cost of sales', £120m (2014: £nil) has been classified as 'Impairment of PPE and onerous lease provisions included within (losses)/profits arising on property-related items' within non-GAAP measures in the Group Income Statement. The remaining £13m charge (2014: £(9)m release) has not been treated as one-off and is recognised in '(losses)/profits arising on property-related items.'

Other provisions

During the year, the Group announced cost saving initiatives including in the UK a restructuring of central overheads, simplification of store management structures and increased working hour flexibility. The Group authorised a detailed formal plan of restructuring relating to these and announced the plan to affected employees, leading to recognition of a restructuring provision of £325m.

The remainder of the other provisions relate mainly to provisions for Tesco Bank customer redress in respect of potential complaints arising from the historic sales of Payment Protection Insurance ('PPI'), in respect of customer redress relating to the historic sale of certain Cardholder Protection Products ('CPP') to credit card customers and in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act ('CCA') for post contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable. The balances are classified as current at the year end.

Notes to the Group financial statements continued

Note 25 Share-based payments

For continuing operations, the Group Income Statement charge for the year recognised in respect of share-based payments is £144m (2014: £82m), which is made up of share option schemes and share bonus payments. Of this amount, £123m (2014: £63m) will be settled in equity and £21m (2014: £19m) in cash.

Share option schemes

The Company had ten share option schemes in operation during the financial year, all of which are equity-settled schemes:

a) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

b) The Irish Savings-related Share Option Scheme (2000) permits the grant to Irish colleagues of options in respect of ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

c) The Approved Executive Share Option Scheme (1994) was adopted on 17 October 1994. The exercise of options granted under this scheme was conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

d) The Unapproved Executive Share Option Scheme (1996) was adopted on 7 June 1996. The exercise of options granted under this scheme was conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

e) The International Executive Share Option Scheme (1994) was adopted on 20 May 1994. This scheme permitted the grant to selected non-UK executives of options to acquire ordinary shares on substantially the same basis as their UK counterparts. The exercise of options granted under this scheme was conditional upon the achievement of a specified performance target related to the growth in earnings per share over a three-year period. No further options will be granted under this scheme and it has been replaced by the Discretionary Share Option Plan (2004). There were no discounted options granted under this scheme.

f) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of options in respect of ordinary shares to selected senior executives. Options are normally exercisable between three and ten years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' remuneration report.

g) The Performance Share Plan (2004) was adopted on 5 July 2004 and amended on 29 June 2007. This scheme permitted the grant of options in respect of ordinary shares to selected executives. Options granted before 29 June 2007 are normally exercisable between four and ten years from the date of grant for nil consideration. Options granted after 29 June 2007 are normally exercisable between three and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period. No further options will be granted under this scheme and it has been replaced by the Performance Share Plan (2011).

h) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and ten years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

i) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and ten years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

j) The Group New Business Incentive Plan (2007) was adopted on 29 June 2007. This Plan permitted the grant of options in respect of ordinary shares to selected executives. Options were to vest in four tranches between four and seven years from the date of grant. The exercise of options for nil consideration was conditional upon the achievement of specified performance targets related to the return on capital employed over the seven-year plan. The Performance Period for the Plan ended at the end of the 2013/14 financial year. Options did not vest under the Plan and lapsed on 14 April 2014, as stated in the Directors' Remuneration Report for the 2013/14 financial year.

Note 25 Share-based payments continued

The following tables reconcile the number of share options outstanding and the weighted average exercise price ('WAEP'):

For the year ended 28 February 2015

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 22 February 2014	122,602,128	331.31	4,899,521	331.89	8,152,965	397.59	52,804,433	376.63	32,586,360	379.15	21,099,083	0.00
Granted	220,096,960	150.00	4,961,170	150.00	–	0.00	–	0.00	–	0.00	5,105,144	0.00
Forfeited	(57,445,888)	330.84	(1,731,520)	344.18	(482,116)	400.30	(4,616,552)	394.86	(2,667,321)	388.13	(13,018,757)	0.00
Exercised	(948,908)	311.00	(6,521)	311.00	(136,476)	253.25	(2,875,288)	283.00	(822,049)	253.84	(1,460,694)	0.00
Outstanding at 28 February 2015	284,304,292	191.11	8,122,650	218.19	7,534,373	400.03	45,312,593	380.72	29,096,990	381.86	11,724,776	0.00
Exercisable at 28 February 2015	18,832,155	343.07	807,176	351.71	7,534,373	400.03	45,312,593	380.72	29,096,990	381.86	714,455	0.00
Exercise price range (pence)		311.00 to 386.00		328.00 to 364.00		312.75 to 473.75		310.00 to 473.75		310.00 to 473.75		0.00
Weighted average remaining contractual life (years)		0.42		0.42		2.65		2.89		2.95		8.46

* Nil cost share options granted include buyout awards made to Dave Lewis and Alan Stewart in respect of awards forfeited on leaving previous employers – see the Directors Remuneration Report for more detail.

For the year ended 22 February 2014

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 23 February 2013	127,212,551	338.85	4,886,834	338.78	12,592,329	399.01	80,439,020	382.62	53,665,107	387.64	19,778,825	0.00
Granted	29,258,434	322.00	1,294,873	322.00	–	–	–	–	–	–	7,003,764	0.00
Forfeited	(24,352,865)	365.89	(1,081,476)	353.68	(3,785,217)	418.07	(21,694,176)	419.27	(17,704,212)	415.76	(2,458,290)	0.00
Exercised	(9,515,992)	314.96	(200,710)	318.29	(654,147)	306.38	(5,940,411)	302.00	(3,374,535)	322.10	(3,225,216)	0.00
Outstanding at 22 February 2014	122,602,128	331.31	4,899,521	331.89	8,152,965	397.59	52,804,433	376.63	32,586,360	379.15	21,099,083	0.00
Exercisable at 22 February 2014	15,894,484	353.09	837,652	370.38	8,145,517	397.58	52,801,878	376.63	32,546,360	379.12	4,206,723	0.00
Exercise price range (pence)		311.00 to 410.00		311.00 to 386.00		253.25 to 473.75		253.25 to 473.75		253.25 to 473.75		0.00
Weighted average remaining contractual life (years)		0.44		0.44		3.63		3.78		3.88		4.18

Share options were exercised on a regular basis throughout the financial year. The average share price during the financial year ended 28 February 2015 was 245.50p (2014: 349.48p).

Notes to the Group financial statements continued

Note 25 Share-based payments continued

The fair value of share options is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2015		2014	
	SAYE	Nil cost	SAYE	Nil Cost
Expected dividend yield (%)	2.4%	0.0%	4.6%	0.0%
Expected volatility (%)	22–24%	24%	21–23%	27%
Risk-free interest rate (%)	0.9–1.3%	1.8%	1.2–1.8%	1.7%
Expected life of option (years)	3 or 5	6	3 or 5	6
Weighted average fair value of options granted (pence)	43.72	219.67	47.64	364.85
Probability of forfeiture (%)	14–16%	0%	14–16%	0%
Share price (pence)	187.00	219.67	362.00	364.85
Weighted average exercise price (pence)	150.00	0.00	322.00	0.00

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus schemes

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year, shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,600 per annum in 2014/15. Eligible Republic of Ireland colleagues are able to participate in a Share Bonus Scheme, an all-employee profit-sharing scheme. Each year, colleagues receive an award of either cash or shares based on a percentage of their earnings.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011). Awards made under this plan will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' Remuneration Report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

The number and weighted average fair value ('WAFV') of share bonuses awarded during the financial year were:

	2015		2014	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Shares In Success	18,949,708	307.15	14,776,516	383.55
Irish Share Bonus Scheme	84,454	292.00	96,668	384.55
Group Bonus Plan	2,808,053	285.43	598,842	375.18
Performance Share Plan	27,211,291	283.51	30,506,080	361.13

Note 26 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK, the Republic of Ireland, Thailand and South Korea. Of these schemes, the UK represents 95% of the defined benefit deficit (2014: 95%).

Defined contribution plans

The contributions payable for defined contribution schemes of £24m (2014: £32m) have been recognised in the Group Income Statement.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the 'Scheme'), which is a funded defined benefit pension scheme in the UK, the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2014 and all the relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise of:

a) representatives of the Group; and
b) the Scheme participants, in accordance with its articles of association and UK pension law.

All members are eligible to join the Career Average section of the Scheme ('Pension Builder'), where benefits are based on a member's salary and their length of service. There is a Final Salary section of the Scheme which was closed to new entrants in 2001.

Following the year end, the Group has entered consultation on the closure of the UK defined benefit pension scheme to new entrants and future accrual. This has had no impact on the results for the year ended 28 February 2015.

Note 26 Post-employment benefits continued

Towers Watson Limited, an independent actuary, carried out the latest triennial actuarial assessment of the scheme as at 31 March 2014, using the projected unit method. At 31 March 2014, the actuarial deficit was £2,751m. The market value of the scheme's assets was £8,020m and these assets represented 75% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The scheme has a duration of 24 years.

Scheme Liabilities as at 31 March 2014

The table below shows a breakdown of the liabilities held by the Scheme as at 31 March 2014, the date of the last triennial valuation:

	%
Active	55
Deferred	21
Pensioner	24

The table below shows a breakdown of the liabilities for active members held by the Scheme as at 31 March 2014:

	%
Pension Builder	57
Final Salary	43

Overseas

The most significant overseas schemes are the funded defined benefit schemes which operate in the Republic of Ireland, Thailand and South Korea. An independent actuary, using the projected unit method, carried out the latest actuarial assessment of the Republic of Ireland scheme as at 1 April 2013, Thailand as at 28 February 2013 and South Korea as at 28 February 2015.

The accounting valuations used have been based on the most recent actuarial valuations and updated by Towers Watson Limited to take account of the requirements of the applicable accounting standard in order to assess the liabilities of the schemes as at 28 February 2015. The schemes' assets are stated at their market values as at 28 February 2015. The liabilities relating to retirement healthcare benefits have also been determined in accordance with the applicable accounting standard.

Principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries were as follows:

	2015 %	2014 %
Discount rate	3.7	4.7
Price inflation	3.1	3.3
Rate of increase in deferred pensions*	2.1	2.3
Rate of increase in salaries	3.2	3.4
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.9	3.1
Benefits accrued after 1 June 2012	2.1	2.3
Rate of increase in career average benefits		
Benefits accrued before 1 June 2012	3.1	3.3
Benefits accrued after 1 June 2012	2.1	2.3

* In excess of any Guaranteed Minimum Pension ('GMP') element.

UK mortality assumptions

The Group conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2014 the following assumptions were adopted for funding purposes:

Base tables:
95% of the SAPS S2 normal male pensioners for male staff and 80% of the SAPS S2 normal light male pensioners for male senior managers.
SAPS S2 all female pensioners with multipliers of 100% for female staff and 80% for female senior managers.

These assumptions were used for the calculation of the pension liability as at 28 February 2015 for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2014 with CMI 2013 improvements. In addition, the allowance for future mortality improvements from 2014 is in line with CMI 2013 with a long term improvement rate of 1.25% per annum.

The following table illustrates the expectation of life of an average member retiring at age 65 at the reporting date and a member reaching age 65 at reporting date +25 years.

		2015 Years	2014 Years
Retiring at reporting date at age 65:	Male	23.0	22.9
	Female	24.4	24.4
Retiring at reporting date +25 years at age 65:	Male	25.3	25.2
	Female	26.7	26.6

Notes to the Group financial statements continued

Note 26 Post-employment benefits continued

Risks
The Group bears a numbers of risks in relation to the Scheme, which are described below:

Investment risk – The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.

Inflation risk – The Scheme's benefit obligations are linked to inflation therefore higher inflation will lead to higher liabilities. This will be partially offset by an increase in any Scheme assets that are linked to, or correlate with, inflation. Changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).

Changes in bond yields – A decrease in corporate bond yields will increase the Scheme's liabilities. However, this may be partially offset by an increase in the capital value of the Scheme's assets that have similar characteristics.

Life expectancy risk – The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities. To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years. Furthermore the Group has the ability to change this in the future if there are further unexpected changes in life expectancy.

An Audit & Risk Pensions Committee was established to further strengthen our Trustee Governance and provide greater oversight and stronger internal control over our risks. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance, and impacts of any regulatory changes.

A different approach is used to calculate the triennial actuarial liabilities and the accounting liabilities. The key difference is that the accounting valuation requires the discount rate to be set using corporate bonds whilst the actuarial liabilities discount rate is based on expected returns of Scheme assets.

Sensitivity analysis of significant actuarial assumptions

	2015 £m	2014 £m
Change in UK defined benefit obligation from a 0.1% increase in discount rate	340	240
Increase in UK defined benefit obligation from a 1% increase in pensions in payment	1,920	1,210
Increase in UK defined benefit obligation from a 1% increase in salary growth	310	320
Increase in UK defined benefit obligation from each additional year of longevity assumed	490	350

The method and assumptions used to determine sensitivity and their limitation is the effect of varying the assumption whilst holding all other assumptions constant.

Plan Assets
The table below shows a breakdown of the combined investments held by the Group's schemes:

	2015 £m	2014 £m
Equities		
UK	510	476
Europe	1,127	891
Rest of the world	3,866	3,029
	5,503	4,396
Bonds		
Government	1,122	280
Corporates – investment grade	316	744
Corporates – non-investment grade	43	170
	1,481	1,194
Property		
UK	704	519
Rest of the world	261	247
	965	766
Alternative assets		
Hedge funds	738	586
Private equity	491	472
Other	168	75
	1,397	1,133
Cash	331	635
Total market value of assets	9,677	8,124

At the year end, 73% (2014: 77%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The plan assets include £nil (2014: £3m) of the Group's transferable financial instruments. In addition, the plan assets include £166m (2014: £158m) relating to property used by the Group. In addition, Group property with net carrying value of £434m (2014: £416m) has been held as security in favour of the Scheme.

Note 26 Post-employment benefits continued

Movement in pension deficit during the financial year

Changes in the fair value of defined benefit pension assets are as follows:

	2015 £m	2014 £m
Opening fair value of defined benefit pension assets	8,124	7,206
Interest income	386	372
Return on plan assets greater than discount rate	874	253
Contributions by employer	563	531
Additional contribution by employer	13	4
Actual member contributions	11	12
Foreign currency translation	(15)	(14)
Benefits paid	(279)	(240)
Closing fair value of defined benefit pension assets	**9,677**	**8,124**

Changes in the present value of defined benefit pension obligations are as follows:

	2015 £m	2014 £m
Opening defined benefit pension obligation	(11,317)	(9,584)
Current service cost	(631)	(542)
Interest cost	(522)	(478)
Losses on change of financial assumptions	(2,553)	(938)
Losses on change of demographic assumptions	(66)	(6)
Experience gains/(losses)	272	(22)
Foreign currency translation	30	25
Benefits paid	279	240
Actual member contributions	(11)	(12)
Closing defined benefit pension obligation	**(14,519)**	**(11,317)**

The amounts that have been charged to the Group Income Statement and Group Statement of Comprehensive Income for the year ended 28 February 2015 are set out below:

	2015 £m	2014 £m
Analysis of the amount charged to operating profit:		
Current service cost	(631)	(542)
Total charge to operating profit	**(631)**	**(542)**
Analysis of the amount credited/(charged) to finance income/(cost):		
Interest on defined benefit pension assets	386	372
Interest on defined benefit pension obligation	(522)	(478)
Net pension finance cost (Note 5)	**(136)**	**(106)**
Total charge to the Group Income Statement	**(767)**	**(648)**
Analysis of the amount recognised in the Group Statement of Comprehensive Income:		
Return on plan assets greater than discount rate	874	253
Experience gains/(losses) on defined benefit pension obligation	272	(22)
Demographic assumption losses on defined benefit pension obligation	(66)	(6)
Financial assumption losses on defined benefit pension obligation	(2,553)	(938)
Foreign currency translation	15	11
Total losses recognised in the Group Statement of Comprehensive Income	**(1,458)**	**(702)**

Summary of movements in deficit during the financial year

	2015 £m	2014 £m
Deficit in schemes at beginning of the year	(3,193)	(2,378)
Current service cost	(631)	(542)
Net pension finance cost	(136)	(106)
Contributions by employer	563	531
Additional contribution by employer	13	4
Foreign currency translation	15	11
Remeasurements	(1,473)	(713)
Deficit in schemes at the end of the year	**(4,842)**	**(3,193)**
Deferred tax asset (Note 6)	957	634
Deficit in schemes at the end of the year, net of deferred tax	**(3,885)**	**(2,559)**

Notes to the Group financial statements continued

Note 26 Post-employment benefits continued

History of movements
The historical movement in defined benefit pension schemes' assets and liabilities and history of experience gains and losses are as follows:

	2015 £m	2014 £m	2013 £m	2012 £m	2011 £m
Total market value of assets	9,677	8,124	7,206	6,169	5,608
Present value of liabilities relating to unfunded pension schemes	(134)	(111)	(91)	(60)	(65)
Present value of liabilities relating to partially funded pension schemes	(14,385)	(11,206)	(9,493)	(7,981)	(6,899)
Pension deficit	(4,842)	(3,193)	(2,378)	(1,872)	(1,356)
Remeasurements on defined benefit pension assets	874	253	94	(168)	278
Experience gains/(losses) on defined benefit pension obligation	272	(22)	1	43	(25)

Post-employment benefits other than pensions
The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 28 February 2015 of £11m (2014: £12m) was determined in accordance with the advice of independent actuaries. During the year, £1m (2014: £1m) has been charged to the Group Income Statement and £1m (2014: £1m) of benefits were paid.

Expected contributions
The Company would make normal cash contributions of approximately £756m to defined benefit schemes in the financial year ending 27 February 2016, if all schemes remained open to new members and future accrual for the full year. This may change however depending on the outcome of the consultation on the closure of the UK defined benefit pension scheme.

A plan to pay £270m a year has been agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the scheme. Due to the timing of the agreement, a portion of this is included in the above value.

Note 27 Called up share capital

	2015		2014	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	8,095,821,091	405	8,054,054,930	403
Share options exercised	5,080,408	–	19,662,145	1
Share bonus awards issued	22,090,000	1	22,104,016	1
At end of the year	8,122,991,499	406	8,095,821,091	405

During the financial year, 5 million (2014: 20 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £14m (2014: £61m).

During the financial year, 22 million (2014: 22 million) ordinary shares of 5p each were issued in relation to share bonus awards for an aggregate consideration of £1.1m (2014: £1.1m).

Between 1 March 2015 and 17 April 2015 options over 5,533 ordinary shares were exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 1 March 2015 and 17 April 2015, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 28 February 2015, the Directors were authorised to purchase up to a maximum in aggregate of 810.1 million (2014: 806.5 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Note 28 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Trading transactions

	Sales to related parties		Purchases from related parties		Amounts owed by related parties		Amounts owed to related parties	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Joint ventures	430	366	549	533	17	19	22	6
Associates	–	7	14	18	26	–	1	17

Sales to related parties consists of services/management fees and loan interest.

Purchases from related parties include £430m (2014: £412m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Note 28 Related party transactions continued

Non-trading transactions

	Sale and leaseback of assets		Loans to related parties		Loans from related parties		Injection of equity funding	
	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m	2015 £m	2014 £m
Joint ventures	–	–	207	218	16	16	14	3
Associates	–	46	–	37	–	–	10	7

Transactions between the Group and the Group's pension plans are disclosed in Note 26.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 ('Regulations') apply. The accounts for those partnerships have been consolidated into these accounts pursuant to Regulation 7 of the Regulations.

In the prior year, the Group completed one sale and leaseback transaction involving property assets in Thailand. On 24 January 2014, one trading mall was sold to the Tesco Lotus Growth Fund, an associated entity of the Group, for a consideration of £46m. There were no sale and leaseback transactions in the current year.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Key management personnel compensation for the financial year was as follows:

	2015 £m	2014 £m
Salaries and short-term benefits	14	16
Pensions	3	3
Share-based payments	4	2
Joining costs and loss of office costs	8	1
	29	22

Of the total remuneration to key management personnel, £16m (2014: £16m) relates to Executive Committee members who are not on the PLC Board.

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the year end:

	Credit card and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 28 February 2015	19	1	16	1
At 22 February 2014	12	–	4	–

Notes to the Group financial statements continued

Note 29 Reconciliation of (loss) profit before tax to cash generated from operations

	2015 £m	2014 £m
(Loss)/profit before tax	(6,376)	2,259
Net finance costs (Note 5)	571	432
Share of post-tax losses/(profits) of joint ventures and associates (Note 13)	13	(60)
Operating (loss)/profit of continuing operations	(5,792)	2,631
Operating loss of discontinued operations	(10)	(925)
Depreciation and amortisation	1,552	1,567
Losses/(profits) arising on one-off property-related items from continuing operations	805	(98)
Losses/(profits) arising on other property-related items from continuing operations	44	(134)
Losses/(profits) arising on property-related items from discontinued operations	5	162
Loss/(profit) arising on sale of non property-related items	46	(1)
Loss arising on sale of subsidiaries and other investments	41	1
Impairment of goodwill (Note 10)	116	540
Impairment of other investments	–	42
Impairment of investments in/loans to joint ventures and associates	712	–
Net charge of impairment of property, plant and equipment and intangible assets not included in property-related items	3,320	715
Adjustment for non-cash element of pensions charges	68	11
Additional contribution into pension scheme	(13)	(4)
Share-based payments	105	47
Tesco Bank non-cash items included in profit before tax	58	76
Decrease/(increase) in inventories	577	(115)
Decrease/(increase) in development stock	59	(8)
Decrease/(increase) in trade and other receivables	32	(33)
(Decrease)/increase in trade and other payables	(449)	509
Increase/(decrease) in provisions	926	(73)
Tesco Bank increase in loans and advances to customers (Note 17)	(846)	(1,432)
Tesco Bank increase in trade and other receivables	(60)	(31)
Tesco Bank increase in customer and bank deposits and trade and other payables	186	867
Tesco Bank (decrease)/increase in provisions	(15)	2
Decrease/(increase) in working capital	410	(314)
Cash generated from operations	1,467	4,316

Decrease/(increase) in working capital includes the impact of translating foreign currency working capital movements at average exchange rates rather than year end exchange rates.

Losses/(profits) arising on property-related items from continuing operations shown above excludes movements in respect of provisions for onerous contracts of £136m (2014: continuing operations: £(46)m; discontinued operations: £(37)m). These are included in '(losses)/profits arising on property-related items' as per the Group Income Statement.

Impact of one-off items on working capital movements

The decrease/(increase) in working capital shown above includes a £1,805m decrease (2014: £109m decrease) due to the impact of one-off items in the year. This decrease is made up of a £569m (2014: £60m) decrease in inventories due to inventory valuations and provisions, a £964m increase (2014: £7m decrease) in provisions due to onerous lease provisions and restructuring provisions, and a £272m (2014: £56m) decrease in working capital amounts for trade and other receivables and trade and other payables, with the 2015 decrease principally due to the £208m corrections of commercial income.

Note 30 Analysis of changes in net debt

	At 22 February 2014 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Non-cash movements – China disposal £m	Reclassification of movements in net debt of disposal groups £m	At 28 February 2015 £m
Total Group								
Cash and cash equivalents	2,506	(717)	78	–	–	–	298	**2,165**
Short-term investments	1,016	(423)	–	–	–	–	–	**593**
Joint venture loans	252	(40)	(5)	–	2	(133)	131	**207**
Interest and other receivables	2	(14)	–	16	(8)	–	5	**1**
Bank and other borrowings	(10,817)	(1,704)	147	(34)	(55)	385	(280)	**(12,358)**
Interest payables	(275)	613	–	(506)	7	3	(2)	**(160)**
Finance lease payables	(121)	3	2	–	(25)	–	–	**(141)**
Net derivative financial instruments	618	6	(36)	22	–	–	–	**610**
Net derivative interest	89	(90)	–	55	–	–	–	**54**
Net debt of the disposal groups	161	–	–	–	–	–	(152)	**9**
Total Group	(6,569)	(2,366)	186	(447)	(79)	255	–	**(9,020)**
Tesco Bank								
Cash and cash equivalents	485	131	–	–	–	–	–	**616**
Joint venture loans	34	–	–	–	–	–	–	**34**
Bank and other borrowings	(485)	(643)	(5)	–	–	–	–	**(1,133)**
Interest payables	(1)	4	–	(4)	–	–	–	**(1)**
Net derivative financial instruments	(5)	–	(50)	–	–	–	–	**(55)**
Tesco Bank	28	(508)	(55)	(4)	–	–	–	**(539)**
Retail								
Cash and cash equivalents	2,021	(848)	78	–	–	–	298	**1,549**
Short-term investments	1,016	(423)	–	–	–	–	–	**593**
Joint venture loans	218	(40)	(5)	–	2	(133)	131	**173**
Interest and other receivables	2	(14)	–	16	(8)	–	5	**1**
Bank and other borrowings	(10,332)	(1,061)	152	(34)	(55)	385	(280)	**(11,225)**
Interest payables	(274)	609	–	(502)	7	3	(2)	**(159)**
Finance lease payables	(121)	3	2	–	(25)	–	–	**(141)**
Net derivative financial instruments	623	6	14	22	–	–	–	**665**
Net derivative interest	89	(90)	–	55	–	–	–	**54**
Net debt of the disposal groups	161	–	–	–	–	–	(152)	**9**
Net debt	(6,597)	(1,858)	241	(443)	(79)	255	–	**(8,481)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group Balance Sheet and the Group Cash Flow Statement.

Reconciliation of net cash flow to movement in net debt

	2015 £m	2014 £m
Net (decrease)/increase in cash and cash equivalents	**(717)**	387
Elimination of Tesco Bank movement in cash and cash equivalents	**(131)**	570
Retail cash movement in other net debt items		
Net (decrease)/increase in short-term investments	**(423)**	494
Net repayment of loans by joint ventures	**(40)**	(54)
Net increase in borrowings and lease financing	**(1,052)**	(1,183)
Net interest paid on components of net debt	**505**	369
Change in net debt resulting from cash flow	**(1,858)**	583
Retail net interest charge on components of net debt	**(443)**	(392)
Retail fair value and foreign exchange movements	**241**	(51)
Debt disposed on disposal of China operations	**255**	–
Retail other non-cash movements	**(79)**	(140)
Increase in net debt for the year	**(1,884)**	–
Opening net debt	**(6,597)**	(6,597)
Closing net debt	**(8,481)**	(6,597)

Notes to the Group financial statements continued

Note 31 Business combinations and other acquisitions

On 3 April 2014 the Group, through its subsidiary dunnhumby Ltd, acquired Sociomantic Labs ('Sociomantic'), a Berlin-based global leader in digital advertising solutions, for £124m which included £38m of deferred cash consideration. Sociomantic operates in 14 countries worldwide, with clients in retail, financial services and travel services.

The Sociomantic acquisition generated goodwill of £87m and other acquisitions generated goodwill of £11m. The goodwill represents synergies within the operating models and the economies of scale expected from incorporating the operations of the acquired entities within the Group.

Cash flows from acquisitions, net of cash acquired, were £(86)m (2014: £(52)m) and from disposals, net of cash disposed, were £(157)m (2014: £39m).

Note 32 Commitments and contingencies

Capital commitments

At 28 February 2015, there were commitments for capital expenditure contracted for, but not provided for of £182m (2014: £270m), principally relating to store development.

Contingent liabilities

The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

On 22 September 2014, the Group announced that it had identified an overstatement of its expected profit for the first half of the year, as contained in guidance it had issued in August. The Serious Fraud Office ('SFO') commenced an investigation into accounting practices at the Group on 29 October 2014. It is not possible to predict the timescale or outcome of the SFO investigation, but the SFO could decide to prosecute individuals and the Group, and there is the possibility of fines, or other consequences. The Group is cooperating with the SFO.

Class actions have been filed in the United States District Court for the Southern District of New York against the Group, its former Chairman, two former Directors and the former Managing Director of its UK business for alleged violations of US federal securities laws. The Court has appointed the lead plaintiff to take forward the claim on behalf of all investors and has ordered them to file their claim by the end of April 2015. The Group then intends to file a motion to dismiss the complaint. All of the plaintiffs dealt through the American Depository Receipts ('ADR') programme which represents approximately 2% of the Group's issued share capital.

In addition, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement, and purport to have secured third party funding for such litigation. No such litigation has yet been formally threatened or commenced.

All such matters are periodically assessed with the assistance of external professional advisers, where appropriate, to determine the likelihood of the Group incurring a liability and to evaluate the extent to which a reliable estimate of any liability can be made. However, the likely outcome on the Group of the SFO investigation and any litigation relating to the above issues that either has been or may potentially be brought against the Group is subject to a number of significant uncertainties. These cannot currently be determined, although they could have a material and adverse impact on the Group's financial condition and/or results. Accordingly, no provision has been made in respect of these matters.

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, see Note 11. There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group.

Tesco PLC has irrevocably guaranteed the liabilities of the following Irish subsidiary undertakings, which undertakings have been exempted pursuant to section 17(1) of the Companies (Amendment) Act 1986 of Ireland from the provisions of section 7 (other than subsection (1)(b)) of that Act:

Monread Developments Limited; Edson Properties Limited; Edson Investments Limited; Cirrus Finance (2009) Limited; Commercial Investments Limited; Chirac Limited, Clondalkin Properties Limited; Golden Island Management Services Limited; Tesco Ireland Pension Trustees Limited; Orpingford; Tesco Trustee Company of Ireland Limited; WSC Properties Limited; Thundridge; Pharaway Properties Limited; R.J.D. Holdings; Nabola Development Limited; PEJ Property Investments Limited; Cirrus Finance Limited; Tesco Ireland Limited; Wanze Properties (Dundalk) Limited; Valiant Insurance Company; Tesco Ireland Holdings Limited.

Tesco Bank

At 28 February 2015, Tesco Bank had commitments of formal standby facilities, credit lines and other commitments to lend, totalling £11.5bn (2014: £9.7bn). The amount is intended to provide an indication of the potential volume of business and not of the underlying credit or other risks.

Note 33 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC ('TPF'), being the regulated entity at the balance sheet date:

	2015 £m	2014 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,041	913
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	36	33
Total tier 2 regulatory adjustments	(24)	(21)
Total regulatory capital	1,288	1,160

On 27 June 2013 the final Capital Requirements Directive ('CRD') IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules the Prudential Regulation Authority ('PRA') issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules will be phased in over the course of the next five years and, accordingly, the following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the year end and also the "end point" position, once all of the rules contained within CRD IV have come into force.

Note 33 Tesco Bank capital resources continued

The movement of tier 1 capital during the financial year is analysed as follows:

	2015 £m	2014 £m
At beginning of the year	913	705
Share capital and share premium	–	140
Profit attributable to shareholders	131	115
Other reserves	14	1
Ordinary dividends	(50)	(100)
Movement in material holdings	3	11
Increase in intangible assets	25	(30)
Other – Tier 1	(1)	–
At end of the year, excluding CRD IV adjustments	1,035	842
CRD IV adjustment – deferred tax liabilities related to intangible assets	6	–
CRD IV adjustment – movement in material holdings	–	32
CRD IV adjustment – other	–	39
At end of the year, including CRD IV adjustments	1,041	913

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Note 34 Lease commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings which are held under finance leases. The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments		Present value of net minimum lease payments	
	2015 £m	2014 £m	2015 £m	2014 £m
Within one year	20	12	10	6
Greater than one year but less than five years	70	49	35	14
After five years	167	185	96	101
Total minimum lease payments	257	246	141	121
Less future finance charges	(116)	(125)		
Present value of minimum lease payments	141	121		
Analysed as:				
Current finance lease payables	10	6		
Non-current finance lease payables	131	115		
	141	121		

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2015 £m	2014 £m
Within one year	1,324	1,334
Greater than one year but less than five years	4,686	4,676
After five years	9,697	9,911
Total minimum lease payments	15,707	15,921

Future minimum rentals payable under non-cancellable operating leases after five years are analysed further as follows:

	2015 £m	2014 £m
Greater than five years but less than ten years	4,243	4,250
Greater than ten years but less than fifteen years	2,853	2,894
After fifteen years	2,601	2,767
Total minimum lease payments – after five years	9,697	9,911

The Group has used operating lease commitments discounted at 7% (2014: 7%) of £9,353m (2014: £9,419m) in its calculation of total indebtedness.

Operating lease payments represent rentals payable by the Group for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation linked, fixed rates, resets to market rents and hybrids of these.

Notes to the Group financial statements continued

Note 34 Lease commitments continued

The Group has lease break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date. The current market value of these properties is £4.7bn (2014: £5.4bn) and the total lease rentals, if they were to be incurred following the option exercise date, would be £3.9bn (2014: £4.2bn) using current rent values. The lease break options are exercisable between 2015 and 2023.

The additional lease rentals if incurred following the option exercise date would be as follows:

	2015 £m	2014 £m
Within one year	10	–
Greater than one year but less than five years	372	336
Greater than five years but less than ten years	1,095	1,045
Greater than ten years but less than fifteen years	1,084	1,257
After fifteen years	1,349	1,611
Total contingent additional lease rentals	3,910	4,249

Operating lease commitments with joint ventures and associates

Since 1988 the Group has entered into several joint ventures and associates and sold and leased back properties to and from these joint ventures and associates. The terms of these sale and leasebacks vary, however, common factors include: the sale of the properties to the joint venture or associate at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor

The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease payments are contractually receivable from tenants:

	2015 £m	2014 £m
Within one year	211	193
Greater than one year but less than five years	314	256
After five years	297	196
Total minimum lease receivables	822	645

Note 35 Events after the reporting period

On 20 March 2015 the Group regained sole ownership of 21 stores which were previously held in a joint venture with British Land Co PLC ('British Land'). The Group received British Land's share of the 21 stores and cash of £96m. In exchange, British Land took sole ownership of three shopping centres, three retail parks and three standalone stores which were held in two joint ventures between the two companies as at 28 February 2015. The Group will continue to lease the stores at these sites at market rents which are not subject to RPI-indexed increases.

Tesco PLC – Parent Company balance sheet

	Notes	28 February 2015 £m	22 February 2014 £m
Non-current assets			
Investments	5	13,504	13,691
Derivative financial instruments	10	1,439	1,430
		14,943	15,121
Current assets			
Derivative financial instruments	10	19	64
Debtors	6	12,248	12,536
Short-term investments	7	593	1,016
Cash and cash equivalents		22	106
		12,882	13,722
Creditors – amounts falling due within one year			
Borrowings	9	(632)	(1,705)
Derivative financial instruments	10	(61)	(130)
Other creditors	8	(6,607)	(8,953)
		(7,300)	(10,788)
Net current assets		5,582	2,934
Total assets less current liabilities		20,525	18,055
Creditors – amounts falling due after more than one year			
Borrowings	9	(7,440)	(7,953)
Derivative financial instruments	10	(635)	(703)
		(8,075)	(8,656)
Net assets		12,450	9,399
Capital and reserves			
Called up share capital	13	406	405
Share premium	14	5,094	5,080
Profit and loss reserve	14	6,950	3,914
Total equity		12,450	9,399

The notes on pages 140 to 144 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The Parent Company financial statements on pages 139 to 144 were authorised for issue by the Directors on 5 May 2015 and are subject to the approval of the shareholders at the Annual General Meeting on 26 June 2015.

Tesco PLC
Registered number 00445790

Notes to the Parent Company financial statements

Note 1 Accounting policies

Basis of preparation
The Parent Company financial statements have been prepared on a going concern basis using the historical cost convention modified for the revaluation of certain financial instruments and in accordance with generally accepted accounting principles ('UK GAAP') and the Companies Act 2006. The Parent Company's principal accounting policies have been applied consistently during the year.

The financial year represents the 53 weeks to 28 February 2015 (prior financial year 52 weeks to 22 February 2014).

A summary of the Company's significant accounting policies is set out below.

Exemptions
The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented a Profit and Loss Account for the Company alone.

The Company has taken advantage of the FRS 29 'Financial Instruments: Disclosures' exemption and not provided derivative financial instrument disclosures of the Company alone.

The Company is also exempt under the terms of FRS 8 'Related Party Disclosures' from disclosing related party transactions with wholly owned entities within the Tesco Group.

Short-term investments
Current asset investments relate to money market deposits which are recognised initially at fair value, and subsequently at amortised cost. All income from these investments is included in the Profit and Loss Account as interest receivable and similar income.

Investments in subsidiaries and joint ventures
Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies
Transactions in foreign currencies are translated at the exchange rate on the date of transaction. At the balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated at the rates prevailing on the balance sheet date.

Share-based payments
The fair value of employee share option plans is calculated at the grant date using the Black-Scholes model. The resulting cost is charged to the Profit and Loss Account over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments
Financial assets and financial liabilities are recognised on the Company's Balance Sheet when the Company becomes party to the contractual provisions of the instrument.

Debtors
Debtors are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments
Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Borrowings
Interest-bearing bank loans and overdrafts are initially recognised at the value of the amount received, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between cost and redemption value being recognised in the Company Profit and Loss Account over the period of the borrowings on an effective interest basis.

Other creditors
Other creditors are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting
The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company Profit and Loss Account. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the items being hedged.

In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument. The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an on-going basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as falling due after more than one year.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Company Profit and Loss Account, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction.

The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in equity.

The associated cumulative gain or loss is removed from equity and recognised in the Company Profit and Loss Account in the same period during which the hedged transaction affects the Company Profit and Loss Account. The classification of the effective portion when recognised in the Company Profit and Loss Account is the same as the classification of the hedged transaction. Any element of the re-measurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company Profit and Loss Account.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting or is de-designated. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in equity until the forecasted transaction occurs or the original hedged item affects the Company Profit and Loss Account. If a forecasted hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in equity is transferred to the Company Profit and Loss Account.

Pensions
The Company participates in the Tesco PLC Pension Scheme and cannot identify its share of the underlying assets and liabilities of the scheme. Accordingly, as permitted by FRS 17 'Retirement Benefits', the Company has accounted for the scheme as a defined contribution scheme, and the charge for the period is based upon the cash contributions payable.

Taxation
Corporation tax payable is provided on the taxable profit for the year, using the tax rates enacted or substantively enacted by the balance sheet date.

The Company may surrender Group relief to group companies and consequently there may be no tax charge in the Profit and Loss Account

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the balance sheet date and would give rise to an obligation to pay more or less tax in the future. Deferred tax assets are recognised to the extent that they are recoverable. They are regarded as recoverable to the extent that on the basis of all available evidence, it is regarded as more likely than not that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted. Deferred tax is measured on a non-discounted basis at the tax rates that are expected to apply in the periods in which the timing differences reverse, based on tax rates and laws that have been substantively enacted at the balance sheet date.

Note 2 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 in the Group financial statements.

Note 3 Employment costs, including Directors' remuneration

	2015 £m	2014 £m
Wages and salaries*	22	21
Social security costs	3	2
Other pension costs	2	2
Share-based payment expense	4	1
	31	26

* The wages and salaries expense includes a recharge from Tesco Stores Limited for Board-related functions.

The average number of employees (all Directors of the Company) during the financial year was 10 (2014: 10).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 46 to 69.

Note 4 Dividends

For details of dividends see Note 8 in the Group financial statements.

Note 5 Investments

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 22 February 2014	15,740	16	15,756
Additions	1,111	16	1,127
Disposals	(421)	(6)	(427)
At 28 February 2015	16,430	26	16,456
Impairment			
At 22 February 2014	2,065	–	2,065
Impairment	887	–	887
At 28 February 2015	2,952	–	2,952
Net carrying value			
At 28 February 2015	13,478	26	13,504
At 22 February 2014	13,675	16	13,691

For a list of the Company's principal operating subsidiary undertakings and joint ventures see Note 13 in the Group financial statements.

Additions include £792m investments made as part of a restructuring exercise in preperation for the sale of the Chinese operations.

Impairment includes £783m relating to the Group's disposal of the Chinese operations and subsequent impairment of the resulting China associate. Refer to Note 3 in the Group financial statements for further details.

Note 6 Debtors

	2015 £m	2014 £m
Amounts owed by Group undertakings*	12,061	12,378
Amounts owed by joint ventures and associates**	120	127
Other debtors	12	11
Deferred tax asset***	55	20
	12,248	12,536

Amounts owed by Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of debtor relationship.

* Amounts owed by Group undertakings, £nil (2014: £65m) is due after more than one year.
** Of amounts owed by joint ventures and associates, £112m (2014: £125m) is due after more than one year.
*** The deferred tax asset recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 22 February 2014	20	–	20
Charge to the Profit and Loss account for the year	(1)	40	39
Movement in reserves for the year	(4)	–	(4)
At 28 February 2015	15	40	55

Notes to the Parent Company financial statements
continued

Note 7 Short-term investments

	2015 £m	2014 £m
Short-term investments	593	1,016

Note 8 Other creditors

	2015 £m	2014 £m
Amounts falling due within one year:		
Amounts owed to Group undertakings	6,558	8,898
Other creditors	39	50
Taxation and social security	4	1
Accruals and deferred income	6	4
	6,607	8,953

Amounts owed to Group undertakings are either interest-bearing or non-interest bearing depending on the type and duration of creditor relationship.

Note 9 Borrowings

	Par value	Maturity year	2015 £m	2014 £m
Bank loans and overdrafts	–	–	622	658
Loans from joint ventures	–	–	10	10
5% MTN	£600m	2014	–	628
2.0% MTN	\$500m	2014	–	300
5.125% MTN	€600m	2015	–	528
4% RPI MTN*	£307m	2016	313	304
5.875% MTN	€1,039m	2016	872	1,011
2.7% MTN	\$500m	2017	325	299
5.5% USD Bond	\$850m	2017	625	595
3.375% MTN	€750m	2018	548	620
5.5% MTN	£350m	2019	353	352
6.125% MTN	£900m	2022	895	948
5% MTN	£389m	2023	407	401
3.322% LPI MTN**	£315m	2025	318	310
6% MTN	£200m	2029	261	242
5.5% MTN	£200m	2033	262	241
1.982% RPI MTN***	£261m	2036	263	256
6.15% USD Bond	\$1,150m	2037	917	792
4.875% MTN	£173m	2042	175	174
5.125% MTN	€600m	2047	631	605
5.2% MTN	£279m	2057	275	274
Other MTNs	–	–	–	110
			8,072	9,658

* The 4% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.
** The 3.322% LPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
*** The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

	2015 £m	2014 £m
Repayment analysis:		
Amounts falling due within one year	632	1,705
	632	1,705
Amounts falling due after more than one year:		
Amounts falling due between one and two years	1,510	528
Amounts falling due between two and five years	1,526	2,829
Amounts falling due after more than five years	4,404	4,596
	7,440	7,953
	8,072	9,658

Note 10 Derivative financial instruments

The fair value of derivative financial instruments has been disclosed in the Company's Balance Sheet as:

	2015		2014	
	Asset £m	Liability £m	Asset £m	Liability £m
Amounts falling due within one year	19	(61)	64	(130)
Amounts falling due after more than one year	1,439	(635)	1,430	(703)
Total	1,458	(696)	1,494	(833)

	2015				2014			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	15	65	–	–	61	1,065	–	–
Cross-currency swaps	561	1,201	(11)	817	583	2,055	(25)	551
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(199)	400	–	–	(110)	400
Cross-currency swaps	242	311	(8)	483	139	287	(103)	782
Index-linked swaps	113	882	–	–	86	860	–	–
Forward foreign currency contracts	2	99	(1)	474	2	486	(1)	196
Derivatives in cash flow hedge and not in a formal relationship*								
Cross-currency swaps	–	–	–	–	10	308	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	508	3,339	(417)	3,339	583	3,354	(499)	3,339
Forward foreign currency contracts	17	1,361	(60)	1,285	30	828	(95)	2,085
Total	1,458	7,258	(696)	6,798	1,494	9,243	(833)	7,353

* These are designated as cash flow hedges and net investment hedges at Group level but for PLC financial statements are classified as cash flow hedges and 'not in a formal hedge relationship'.

Note 11 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, see Note 25 in the Group financial statements.

Share option schemes

The number of options and WAEP of share option schemes relating to the Company employees are:

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
For the year ended 28 February 2015	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 22 February 2014	9,108	332.59	19,008	315.65	9,475,594	374.24	10,714,937	0.00
Granted	–	–	–	–	–	–	2,771,506	0.00
Forfeited	(9,108)	332.59	–	–	(1,954,751)	402.69	(9,229,019)	0.00
Exercised	–	–	–	–	(1,368,026)	315.78	(1,436,186)	0.00
Outstanding at 28 February 2015	–	–	19,008	315.65	6,152,817	378.20	2,821,238	0.00
Exercisable at 28 February 2015	–	–	19,008	315.65	6,152,817	378.20	631,436	0.00
Exercise price range (pence)	–	–	–	312.75 to 318.60	–	312.75 to 473.75	–	0.00
Weighted average remaining contractual life (years)	–	–	–	0.66	–	2.71	–	8.71

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
For the year ended 22 February 2014	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 24 February 2013	17,390	346.61	57,184	367.22	13,988,866	384.66	14,317,776	0.00
Granted	1,862	322.00	–	–	–	–	1,978,324	0.00
Forfeited	(6,292)	378.28	(38,176)	392.90	(3,577,576)	424.36	(2,550,724)	0.00
Exercised	(3,852)	316.15	–	–	(935,696)	338.40	(3,030,439)	0.00
Outstanding at 22 February 2014	9,108	332.59	19,008	315.65	9,475,594	374.24	10,714,937	0.00
Exercisable at 22 February 2014	–	–	19,008	315.65	9,475,594	374.24	4,206,723	0.00
Exercise price range (pence)	–	–	–	312.75 to 318.60	–	312.75 to 473.75	–	0.00
Weighted average remaining contractual life (years)	–	–	–	1.68	–	3.57	–	4.18

Notes to the Parent Company financial statements continued

Note 11 Share-based payments continued

Share bonus schemes
The number and WAFV of share bonuses awarded during the financial year relating to the Company employees are:

	2015		2014	
	Shares number	WAFV pence	Shares number	WAFV pence
Shares In Success	1,302	307.15	847	383.55
Executive Incentive Scheme	–	–	–	–
Performance Share Plan	–	–	–	–

Note 12 Pensions

The total cost of the pension scheme to the Company was £2.5m (2014 £2.3m). Further disclosure relating to the Tesco PLC Pension Scheme can be found in Note 26 of the Group financial statements.

Note 13 Called up share capital

	2015		2014	
	Ordinary shares of 5p each		Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	8,095,821,091	405	8,054,054,930	403
Share options	5,080,408	–	19,662,145	1
Share bonus awards	22,090,000	1	22,104,016	1
At end of the year	8,122,991,499	406	8,095,821,091	405

During the financial year, 5 million (2014: 20 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £14m (2014: £61m).

During the financial year, 22 million (2014: 22 million) ordinary shares of 5p each were issued in relation to share bonus awards for an aggregate consideration of £1.1m (2014: £1.1m).

Between 1 March 2015 and 17 April 2015, options over 5,533 ordinary shares were exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 1 March 2015 and 17 April 2015, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 28 February 2015, the Directors were authorised to purchase up to a maximum in aggregate of 810.1 million (2014: 806.5 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Note 14 Reserves

	2015 £m	2014 £m
Share premium account		
At beginning of the year	5,080	5,020
Premium on issue of shares less costs	14	60
At end of the year	5,094	5,080

	2015 £m	2014 £m
Profit and loss reserve		
At beginning of the year	3,914	5,041
Share-based payments	116	54
Dividends	(914)	(1,189)
Net movement on cash flow hedges	15	(78)
Profit after tax for the year	3,819	86
At end of the year	6,950	3,914

Note 15 Post balance sheet events

On 20 March 2015 the Company entered into an agreement to sell its wholly owned subsidiary Tesco (Partnership) Limited, which is the holding company of the joint venture Tesco British Land Property Partnership, and its investment in the joint venture Tesco BL Holdings Limited to British Land Co PLC ('British Land'). This formed part of the transaction in which the Group regained sole ownership of 21 stores which were previously held in a joint venture with British Land. The Group received British Land's share of 21 stores and cash of £96m. In exchange, British Land took sole ownership of three shopping centres, three retail parks and three standalone stores which were held in the above two joint ventures between the two companies as at 28 Febuary 2015.

Independent auditors’ report to the members of Tesco PLC

Report on the parent company financial statements

Our opinion

In our opinion, Tesco PLC’s parent company financial statements (the ‘financial statements’):

- give a true and fair view of the state of the parent company’s affairs as at 28 February 2015;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

What we have audited

Tesco PLC’s financial statements comprise:

- the parent company balance sheet as at 28 February 2015; and
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

Certain required disclosures have been presented elsewhere in the Annual Report, rather than in the notes to the financial statements. These are cross-referenced from the financial statements and are identified as audited.

The financial reporting framework that has been applied in the preparation of the financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice).

Other required reporting

Consistency of other information

Companies Act 2006 opinion

In our opinion, the information given in the Strategic Report and the Directors’ Report for the financial period for which the financial statements are prepared is consistent with the financial statements.

ISAs (UK & Ireland) reporting

Under International Standards on Auditing (UK and Ireland) (‘ISAs (UK & Ireland)’) we are required to report to you if, in our opinion, information in the Annual Report is:

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

We have no exceptions to report arising from this responsibility.

Adequacy of accounting records and information and explanations received

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

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors’ Remuneration Report to be audited are not in agreement with the accounting records and returns.

We have no exceptions to report arising from this responsibility.

Directors’ remuneration

Directors’ remuneration report – Companies Act 2006 opinion

In our opinion, the part of the Directors’ Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

Other Companies Act 2006 reporting

Under the Companies Act 2006 we are required to report to you if, in our opinion, certain disclosures of directors’ remuneration specified by law are not made. We have no exceptions to report arising from this responsibility.

Responsibilities for the financial statements and the audit

Our responsibilities and those of the directors

As explained more fully in the Directors’ Responsibilities Statement, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the company’s members as a body in accordance with Chapter 3 of Part 16 of the Companies Act 2006 and for no other purpose. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

What an audit of financial statements involves

We conducted our audit in accordance with ISAs (UK & Ireland). An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the parent company’s circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the directors; and
- the overall presentation of the financial statements.

We primarily focus our work in these areas by assessing the directors’ judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Other matter

We have reported separately on the group financial statements of Tesco PLC for the period ended 28 February 2015.

Mark Gill (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
London
5 May 2015


PINOT GRIGIO
tomato
ketchup

Other information

Supplementary information (unaudited)

Total sales performance at actual rates (52 week year)*

	Q1 2014/15	Q2 2014/15	Q3 2014/15	Q4 2014/15	H1 2014/15	H2 2014/15	FY 2014/15
Including Fuel:							
UK	(2.0)%	(3.2)%	(1.7)%	0.2%	(2.6)%	(0.8)%	(1.7)%
Asia	(8.9)%	(6.4)%	(2.5)%	1.4%	(8.4)%	0.3%	(4.1)%
Europe	(7.1)%	(10.5)%	(8.7)%	(7.5)%	(9.3)%	(7.6)%	(8.5)%
International	(8.0)%	(8.4)%	(5.6)%	(3.0)%	(8.8)%	(3.6)%	(6.2)%
Tesco Bank	3.6%	5.8%	2.7%	(3.5)%	4.6%	(0.4)%	2.1%
Group	(3.7)%	(4.7)%	(2.8)%	(0.9)%	(4.4)%	(1.7)%	(3.0)%
Excluding Fuel:							
UK	(1.7)%	(3.3)%	(2.6)%	0.6%	(2.5)%	(1.0)%	(1.8)%
Asia	(8.9)%	(6.4)%	(2.5)%	1.4%	(8.4)%	0.3%	(4.1)%
Europe	(6.9)%	(10.3)%	(8.6)%	(6.7)%	(9.1)%	(7.2)%	(8.1)%
International	(8.0)%	(8.3)%	(5.5)%	(2.6)%	(8.7)%	(3.3)%	(6.0)%
Tesco Bank	3.6%	5.8%	2.7%	(3.5)%	4.6%	(0.4)%	2.1%
Group	(3.8)%	(4.9)%	(3.5)%	(0.6)%	(4.5)%	(1.8)%	(3.2)%

Total sales performance at constant rates (52 week year)*

	Q1 2014/15	Q2 2014/15	Q3 2014/15	Q4 2014/15	H1 2014/15	H2 2014/15	FY 2014/15
Including Fuel:							
UK	(2.0)%	(3.2)%	(1.7)%	0.2%	(2.6)%	(0.8)%	(1.7)%
Asia	1.5%	(0.9)%	(1.7)%	(2.4)%	(0.5)%	(1.3)%	(0.9)%
Europe	(0.7)%	(1.9)%	(0.6)%	0.6%	(1.8)%	0.7%	(0.6)%
International	0.5%	(1.4)%	(1.1)%	(0.9)%	(1.1)%	(0.3)%	(0.7)%
Tesco Bank	3.6%	5.8%	2.7%	(3.5)%	4.6%	(0.4)%	2.1%
Group	(1.2)%	(2.5)%	(1.5)%	(0.2)%	(2.0)%	(0.6)%	(1.3)%
Excluding Fuel:							
UK	(1.7)%	(3.3)%	(2.6)%	0.6%	(2.5)%	(1.0)%	(1.8)%
Asia	1.5%	(0.9)%	(1.7)%	(2.4)%	(0.5)%	(1.3)%	(0.9)%
Europe	(0.6)%	(1.6)%	(0.3)%	1.4%	(1.6)%	1.2%	(0.2)%
International	0.5%	(1.2)%	(1.0)%	(0.5)%	(1.0)%	(0.1)%	(0.6)%
Tesco Bank	3.6%	5.8%	2.7%	(3.5)%	4.6%	(0.4)%	2.1%
Group	(0.9)%	(2.5)%	(2.0)%	0.1%	(1.9)%	(0.7)%	(1.3)%

* Growth rates are shown on a continuing operations basis. Quarterly growth rates are based on comparable days for the current year and the previous year comparison. Half 1 growth rates are based on comparable days for the current year and the previous year comparison for the UK and the Republic of Ireland. All other countries are for 177 days ended 24 August 2014 compared to 178 days ended 25 August 2013. Half 2 growth rates are based on comparable days for the current year and the previous year comparison for the UK and the Republic of Ireland. All other countries are for 188 days ended 28 February 2015 compared to 187 days ended 28 February 2014. Growth rates shown are on an excluding week 53 basis for the UK and Republic of Ireland and exclude the 7 days ended 28 February 2015.

Like-for-Like sales performance (inc. VAT, exc. Fuel)*

	Q1 2014/15	Q2 2014/15	Q3 2014/15	Q4 2014/15	H1 2014/15	H2 2014/15	FY 2014/15
UK	(3.7)%	(5.4)%	(4.2)%	(1.0)%	(4.6)%	(2.6)%	(3.6)%
inc. VAT, inc. fuel	(3.8)%	(5.0)%	(3.2)%	(1.3)%	(4.4)%	(2.2)%	(3.3)%
exc. VAT, exc. fuel	(3.8)%	(5.5)%	(4.4)%	(1.2)%	(4.6)%	(2.8)%	(3.7)%
exc. VAT, exc. fuel, IFRIC 13 compliant	(4.0)%	(5.5)%	(5.1)%	(1.7)%	(4.8)%	(3.4)%	(4.1)%
Asia	(3.2)%	(4.9)%	(5.0)%	(4.7)%	(4.1)%	(4.8)%	(4.4)%
Malaysia	(2.3)%	(6.8)%	(8.7)%	(3.6)%	(4.7)%	(6.0)%	(5.3)%
South Korea	(2.8)%	(4.7)%	(4.0)%	(4.4)%	(3.8)%	(4.2)%	(4.0)%
Thailand	(5.3)%	(4.7)%	(4.5)%	(3.3)%	(5.0)%	(3.8)%	(4.4)%
Europe	(1.0)%	(2.5)%	(1.2)%	1.0%	(1.8)%	0.0%	(0.8)%
Czech Republic	1.6%	1.3%	2.9%	6.5%	1.5%	4.9%	3.2%
Hungary**	2.7%	(0.6)%	1.4%	4.7%	1.0%	3.2%	2.1%
Poland	0.5%	(2.4)%	(2.5)%	(1.2)%	(1.0)%	(1.8)%	(1.4)%
Slovakia	(5.8)%	(4.6)%	(2.1)%	0.6%	(5.2)%	(0.6)%	(2.8)%
Turkey	3.4%	3.6%	6.7%	13.8%	3.5%	10.9%	7.0%
Republic of Ireland	(5.5)%	(7.3)%	(6.2)%	(6.3)%	(6.4)%	(6.3)%	(6.3)%
International	(2.2)%	(3.7)%	(3.1)%	(1.9)%	(3.0)%	(2.4)%	(2.7)%
Group	(3.2)%	(4.8)%	(3.8)%	(1.3)%	(4.0)%	(2.5)%	(3.3)%

* Like-for-Like growth shown on a continuing operations basis.
** Following the introduction of legislation preventing large retailers from selling tobacco in mid-July 2013, Hungary Like-for-Like growth is shown on an excluding tobacco basis. Including tobacco sales, in 2014/15, Q1 was 0.0%, Q2 was (2.0)%, H1 was (1.1)% and FY was 1.1%.

Sales performance (inc. fuel, exc. IFRIC 13)

	Sales growth (inc. VAT)				Revenue (exc. VAT)			
	Constant rates			Actual rates				
Continuing operations	Like-for-Like %	Net new stores %	Total %	Total %	In local currency m	£m	Average exchange rate	Closing exchange rate
Including Fuel:								
UK*	(3.3)%	1.6%	(1.7)%	(1.7)%	42,778	42,778	n/a	n/a
Malaysia	(5.3)%	2.4%	(2.9)%	(9.7)%	4,536	841	5.393	5.556
South Korea	(4.0)%	2.2%	(1.8)%	(1.6)%	9,253,377	5,383	1,719	1,693
Thailand	(4.4)%	5.8%	1.4%	(5.8)%	190,944	3,615	52.82	49.83
Czech Republic	2.2%	(1.0)%	1.2%	(9.5)%	40,808	1,175	34.73	37.83
Hungary**	2.1%	(0.8)%	1.3%	(8.3)%	569,644	1,461	389.9	417.6
Poland	(1.4)%	1.1%	(0.3)%	(6.4)%	11,162	2,114	5.280	5.720
Slovakia	(3.1)%	1.4%	(1.7)%	(7.7)%	1,318	1,047	1.259	1.377
Turkey	4.3%	1.0%	5.3%	(9.1)%	2,223	617	3.603	3.879
Republic of Ireland*	(6.4)%	1.4%	(5.0)%	(10.8)%	2,556	2,030	1.259	1.377

* Total growth rates shown are on an exc. week 53 basis for the UK and Republic of Ireland and exclude the 7 days ended 28 February 2015.
** Following the introduction of legislation preventing large retailers from selling tobacco in mid-July 2013, Hungary Like-for-Like growth is shown on an excluding tobacco basis.

Supplementary information (unaudited) continued

UK sales area by size of store

Store size	February 2015			February 2014		
sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0–3,000	2,557	5.3	12.5%	2,378	5.0	12.0%
3,001–20,000	321	4.0	9.5%	322	4.1	9.7%
20,001–40,000	306	9.1	21.5%	305	9.1	21.8%
40,001–60,000	195	10.4	24.5%	193	10.2	24.4%
60,001–80,000	123	7.9	18.7%	121	7.7	18.5%
80,001–100,000	45	4.1	9.6%	45	4.1	9.8%
Over 100,000	14	1.6	3.7%	14	1.6	3.8%
Total*	3,561	42.4	100.0%	3,378	41.8	100.0%

* Including franchise stores.

Group space summary

Actual Group space – store numbers

	2013/14 year end	2014/15 year end	Net gain	Openings H1	Openings H2	Closures / Disposals	Repurposing / Extensions[(a)]	% of Group at year end[(b)]
Extra	247	250	3	1	2	–	4	3.2%
Homeplus	12	11	(1)	–	–	(1)	–	0.1%
Superstore	482	487	5	2	6	(3)	–	6.2%
Metro	195	191	(4)	–	–	(4)	–	2.5%
Express	1,672	1,735	63	38	28	(3)	–	22.2%
Dotcom only	6	6	–	–	–	–	–	0.1%
Total Tesco[(c)]	2,614	2,680	66	41	36	(11)	4	34.3%
One Stop	722	770	48	26	28	(6)	–	9.9%
Dobbies	34	35	1	–	1	–	–	0.4%
Total UK[(c)]	3,370	3,485	115	67	65	(17)	4	44.6%
Malaysia	49	54	5	1	4	–	7	0.7%
South Korea	433	425	(8)	–	2	(11)	8	5.4%
Thailand	1,737	1,759	22	53	4	(35)	4	22.5%
Asia[(c)]	2,219	2,238	19	54	10	(46)	19	28.6%
Czech Republic	211	209	(2)	–	–	(2)	1	2.7%
Hungary	220	209	(11)	1	1	(13)	–	2.7%
Poland	455	449	(6)	4	3	(13)	4	5.7%
Slovakia	150	155	5	4	1	–	–	2.0%
Turkey	192	173	(19)	3	–	(22)	–	2.2%
Republic of Ireland	146	149	3	2	3	(2)	–	1.9%
Europe[(c)]	1,374	1,344	(30)	14	8	(52)	5	17.2%
International[(c)]	3,593	3,582	(11)	68	18	(98)	24	45.8%
Group[(c)]	6,963	7,067	104	135	83	(115)	28	90.4%
South Korea Franchise	198	543	345	178	193	(25)	(1)	6.9%
Czech Franchise	136	131	(5)	–	–	(5)	–	1.7%
One Stop (UK) Franchise	8	76	68	22	50	(4)	–	1.0%
Total Franchise	342	750	408	200	243	(34)	(1)	9.6%
Group[(d)]	7,305	7,817	512	335	326	(149)	27	100.0%

[(a)] Extensions/repurposed stores are not included in the net gain for 'number of stores', since they are expansions/reductions in the space of existing stores. South Korea and South Korea Franchise totals include one store conversion that is therefore included in the net gain for 'number of stores'.
[(b)] Based on Group including franchise stores.
[(c)] Excluding franchise stores.
[(d)] Including franchise stores.

Supplementary information (unaudited) continued

Group space summary continued

Actual Group space – '000 sq. ft.

	2013/14 year end	2014/15 year end	Net gain	Openings H1	Openings H2	Closures / Disposals	Repurposing / Extensions	% of Group at year end*
Extra	17,610	17,763	153	74	125	–	(46)	16.1%
Homeplus	523	488	(35)	–	–	(35)	–	0.4%
Superstore	14,110	14,254	144	60	171	(87)	–	12.9%
Metro	2,191	2,150	(41)	–	–	(41)	–	1.9%
Express	3,883	4,030	147	91	64	(8)	–	3.7%
Dotcom only	716	716	–	–	–	–	–	0.7%
Total Tesco**	39,033	39,401	368	225	360	(171)	(46)	35.7%
One Stop	1,142	1,235	93	51	52	(10)	–	1.1%
Dobbies	1,638	1,648	10	–	10	–	–	1.5%
Total UK**	41,813	42,284	471	276	422	(181)	(46)	38.3%
Malaysia	4,029	4,025	(4)	43	121	–	(168)	3.6%
South Korea	13,583	13,447	(136)	–	70	(29)	(177)	12.2%
Thailand	15,585	15,712	127	215	132	(78)	(142)	14.2%
Asia**	33,197	33,184	(13)	258	323	(107)	(487)	30.0%
Czech Republic	5,704	5,653	(51)	–	–	(15)	(36)	5.1%
Hungary	7,288	7,026	(262)	3	2	(267)	–	6.4%
Poland	9,714	9,736	22	83	53	(76)	(38)	8.8%
Slovakia	3,900	3,928	28	22	6	–	–	3.6%
Turkey	3,984	3,663	(321)	67	–	(388)	–	3.3%
Republic of Ireland	3,477	3,560	83	72	44	(33)	–	3.2%
Europe**	34,067	33,566	(501)	247	105	(779)	(74)	30.4%
International**	67,264	66,750	(514)	505	428	(886)	(561)	60.4%
Group**	109,077	109,034	(43)	781	850	(1,067)	(607)	98.7%
South Korea Franchise	356	1,216	860	494	445	(78)	(1)	1.1%
Czech Franchise	129	122	(7)	–	–	(7)	–	0.1%
One Stop (UK) Franchise	10	102	92	29	68	(5)	–	0.1%
Total Franchise	495	1,440	945	523	513	(90)	(1)	1.3%
Group***	109,572	110,474	902	1,304	1,363	(1,157)	(608)	100.0%

* Based on Group including franchise stores.
** Excluding franchise stores.
*** Including franchise stores.

Group space summary continued

Group space forecast to 27 February 2016 – '000 sq. ft.

	2014/15 year end	2015/16 year end	Net gain	Openings H1	Openings H2	Closures / Disposals	Repurposing / Extensions	% of Group at year end*
Extra	17,763	17,890	127	–	127	–	–	16.2%
Homeplus	488	297	(191)	–	–	(191)	–	0.3%
Superstore	14,254	14,067	(187)	16	–	(203)	–	12.7%
Metro	2,150	2,036	(114)	–	20	(134)	–	1.8%
Express	4,030	4,089	59	35	69	(45)	–	3.7%
Dotcom only	716	716	–	–	–	–	–	0.6%
Total Tesco**	39,401	39,095	(306)	51	216	(573)	–	35.3%
One Stop	1,235	1,298	63	43	28	(8)	–	1.2%
Dobbies	1,648	1,678	30	30	–	–	–	1.5%
Total UK**	42,284	42,071	(213)	124	244	(581)	–	38.0%
Malaysia	4,025	4,155	130	54	76	–	–	3.8%
South Korea	13,447	13,065	(382)	–	108	–	(490)	11.8%
Thailand	15,712	15,916	204	165	39	–	–	14.4%
Asia**	33,184	33,136	(48)	219	223	–	(490)	30.0%
Czech Republic	5,653	5,572	(81)	–	–	(81)	–	5.0%
Hungary	7,026	7,026	–	–	–	–	–	6.3%
Poland	9,736	9,612	(124)	–	–	(124)	–	8.7%
Slovakia	3,928	3,973	45	28	17	–	–	3.6%
Turkey	3,663	3,610	(53)	–	5	(58)	–	3.3%
Republic of Ireland	3,560	3,560	–	–	–	–	–	3.2%
Europe**	33,566	33,353	(213)	28	22	(263)	–	30.1%
International**	66,750	66,489	(261)	247	245	(263)	(490)	60.1%
Group**	109,034	108,560	(474)	371	489	(844)	(490)	98.1%
South Korea Franchise	1,216	1,642	426	181	245	–	–	1.5%
Czech Franchise	122	95	(27)	–	–	(27)	–	0.1%
One Stop (UK) Franchise	102	352	250	131	119	–	–	0.3%
Total Franchise	1,440	2,089	649	312	364	(27)	–	1.9%
Group***	110,474	110,649	175	683	853	(871)	(490)	100.0%

* Based on Group including franchise stores.
** Excluding franchise stores.
*** Including franchise stores.

Supplementary information (unaudited) continued

Tesco Bank income statement

Income Statement	2014/15* £m	2013/14 £m
Revenue		
Interest receivable and similar income	537	507
Fees and commissions receivable	487	496
	1,024	1,003
Direct Costs		
Interest payable	(153)	(149)
Fees and commissions payable	(29)	(29)
	(182)	(178)
Gross profit	842	825
Other expenses:		
Staff costs	(152)	(146)
Premises and equipment	(90)	(87)
Other administrative expenses	(272)	(266)
Depreciation and amortisation (excluding amortisation of intangibles arising on acquisition)	(81)	(71)
	(595)	(570)
Trading profit before provisions for bad and doubtful debts	247	255
Provisions for bad and doubtful debts	(53)	(61)
Trading profit	194	194
Deduct: Tesco Bank intangibles**	(5)	(12)
Restructuring and other one-off items***	(35)	(63)
Deduct: management charges	(1)	(1)
Deduct: IAS 17 Leasing charge	(1)	–
Operating profit	152	118
Net finance costs: Movements on derivatives and hedge accounting	(19)	6
Net finance costs: interest	(4)	(6)
Share of profit of joint ventures and associates	5	2
Profit before tax	134	120

* These results are for the 12 months ended 28 February 2015 and the previous year comparison is made with the 12 months ended 28 February 2014.
** Tesco Bank intangibles relate to the non-cash amortisation of intangible assets that were recognised on acquisition.
*** Restructuring and other one-off items in 2014/15 includes an increase on PPI provision of £27m and restructure costs of £8m.

The above is not a primary statement, nor a note to the financial statements and does not form part of the Group Income Statement. It is supplementary information to aid understanding of our non retail business.

Financial calendar

Financial year end 2014/15	28 February 2015
Annual General Meeting/1Q interim management statement	26 June 2015
Half-year end 2015/16	29 August 2015
Interim results	7 October 2015
3Q and Christmas interim management statement	14 January 2016
Financial year end 2015/16	27 February 2016

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

Glossary

Capex % of sales
Capital expenditure as defined below, divided by Group sales including VAT and excluding IFRIC 13.

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

Constant tax rate
Using the prior year's effective tax rate.

EBITDAR
Operating profit before depreciation, amortisation, rent and movements in impairments of property, plant and equipment, investment property and intangible assets.

Fixed charge cover
The ratio of EBITDAR (excluding Tesco Bank EBITDAR) divided by financing costs (net interest including capitalised interest and excluding IAS 32 and 39 impacts and pension finance costs) plus operating lease expenses.

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.

Gearing
Net debt divided by total equity.

Growth in sales
The YoY% movement in sales for continuing operations excluding VAT excluding PFS and excluding IFRIC 13 for 52 weeks at constant fx rates.

Growth in trading profit
The YoY% movement in trading profit for continuing operations for 52 weeks at constant fx rates.

Loyal customers
Loyal customers are defined based on their frequency of spend and average weekly spend in our stores and online shopping over eight weeks.

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 indebtedness
The ratio of total indebtedness divided by EBITDAR (excluding Tesco Bank EBITDAR) from continuing operations.

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

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

Return
Profit (excluding the impact of one-off items) before interest after tax (applied at effective rate of tax).

Capital employed
Net assets (excluding the impact of one-off items) plus net debt plus dividend creditor less net assets held for resale and discontinued operations.

Total indebtedness
Net debt plus the IAS19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

Total shareholder return
The notional annualised return from a share, measured as the percentage change in the share price, plus the dividends paid with the gross dividends reinvested in Tesco shares. This is measured over both a one and five-year period. For example, five-year total shareholder return for 2013/14 is the annualised growth in the share price from 2008/09 and dividends paid and reinvested in Tesco shares, as a percentage of the 2008/09 share price.

Trading profit
Trading profit is an adjusted measure of operating profit and measures the performance of each segment before profits/losses arising on property-related items, the impact on leases of annual uplifts in rent and rent-free periods, intangible asset amortisation charges and costs arising from acquisitions, and goodwill impairment and restructuring and other one-off costs. The IAS 19 pension charge is replaced with the 'normal' cash contributions for pensions. An adjustment is also made for the fair value of customer loyalty awards.

Underlying diluted earnings per share
Underlying profit less tax at the effective tax rate and non-controlling interest divided by the diluted weighted average number of shares in issue during the year.

Underlying net interest
Underlying net interest, as included in underlying profit, excludes net pension finance costs and IAS 39 'Finance Instruments' – fair value measurements.

Underlying profit before tax
Underlying profit before tax excludes the impact of non-cash elements of IAS 17, 19, 32 and 39 (principally the impact of annual uplifts in rents and rent-free periods, pension costs, and the marking to market of financial instruments); the amortisation charge on intangible assets arising on acquisition and acquisition costs, and the non-cash impact of IFRIC 13. It also excludes profits/losses on property-related items and restructuring and other one-off costs.

Five-year record

	2011[b]	2012[a]	2013	2014	2015[q]
Financial statistics (£m)					
Sales including VAT excluding IFRIC 13	67,074	71,402	70,712	70,894	**69,654**
Revenue excluding IFRIC 13					
UK	40,766	42,803	43,582	43,570	**43,573**
Europe	9,192	9,866	9,319	9,267	**8,515**
Asia	9,802	10,828	10,045	10,309	**9,884**
US	495	–	–	–	**–**
Tesco Bank	919	1,044	1,021	1,003	**1,024**
Group revenue excluding IFRIC 13	61,174	64,541	63,967	64,149	**62,996**
Trading profit					
UK	2,504	2,478	2,272	2,191	**467**
Europe	527	529	329	238	**164**
Asia	605	737	733	692	**565**
US	(186)	–	–	–	**–**
Tesco Bank	264	225	191	194	**194**
Group trading profit	3,714	3,969	3,525	3,315	**1,390**
Operating profit[c]	3,917	4,182	2,382	2,631	**(5,792)**
Operating profit margin[c]	6.4%	6.5%	3.7%	4.1%	**(9.2%)**
Share of post-tax profits/(losses) of joint ventures and associates	57	91	72	60	**(13)**
Net finance costs	(333)	(235)	(397)	(432)	**(571)**
Profit/(loss) before tax	3,641	4,038	2,057	2,259	**(6,376)**
Taxation	(864)	(874)	(529)	(347)	**657**
Profit/(loss) for the year from continuing operations	2,777	3,164	1,528	1,912	**(5,719)**
Discontinued operations	(106)	(350)	(1,504)	(942)	**(47)**
Profit/(loss) for the year	2,671	2,814	24	970	**(5,766)**
Attributable to:					
Owners of the parent	2,655	2,806	28	974	**(5,741)**
Non-controlling interests	16	8	(4)	(4)	**(25)**
Underlying profit before tax – continuing operations[d]	3,853[o]	4,149[o]	3,280	3,054	**961**
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations	34.25p	39.23p	19.06p	23.72p	**(70.24)p**
Underlying diluted earnings per share – continuing operations	36.26p	40.31p	33.74p	32.05p	**9.42p**
Dividend per share[e]	14.46p	14.76p	14.76p	14.76p	**1.16p**
Return on capital employed ('ROCE')[f]	12.9%[h]	14.7%[i]	14.5%[p]	13.6%[p]	**4.1%**
Total shareholder return[g]	6.7%	(3.0)%	2.1%	3.7%	**(9.5)%**
Net debt (£m)	6,790	6,838	6,597	6,597	**8,481**
Enterprise value (£m)[j]	39,462	32,324	36,578	33,597	**28,415**
Group retail statistics					
Number of stores	5,265[k]	6,049	6,653	7,305	**7,817**
Total sales area – 000 sq. ft.[l]	103,172[k]	110,563	106,040	109,572	**110,474**
Average employees	488,347	514,615	506,856	510,444	**506,984**
Average full-time equivalent employees	382,049	401,791	388,375	391,868	**386,086**
UK retail statistics					
Number of stores	2,715	2,979	3,146	3,378	**3,561**
Total sales area – 000 sq. ft.[l]	36,722	39,082	40,495	41,823	**42,236**
Average full-time equivalent employees	200,966	205,852	213,304	217,158	**215,747**
Revenue per employee – £[m]	202,850	207,931	204,319	200,637	**201,963**
Weekly sales per sq. ft. – £[n]	24.95	24.86	24.15	23.33	**22.41**

(a) Excludes Japan and the US.
(b) Excludes Japan.
(c) Operating profit includes restructuring costs and profit arising on sale of fixed assets. Operating margin is based upon revenue excluding IFRIC 13.
(d) See glossary for definitions.
(e) Dividend per share relating to the interim and proposed final dividend.
(f) See glossary for definitions.
(g) See glossary for definitions. Measured over a 5 year period.
(h) Includes Japan and the US.
(i) Includes the US.
(j) Market capitalisation plus net debt.
(k) Includes franchise stores but excludes Japan.
(l) Store sizes exclude lobby and restaurant areas.
(m) Based on average number of full-time equivalent employees in the UK and revenue excluding IFRIC 13.
(n) Based on weighted average sales area and average weekly sales, excluding Dobbies stores.
(o) Includes profits/losses on property-related items.
(p) Excludes China.
(q) 53 weeks.

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