THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION. If you are in any doubt as to what action you should take, you are recommended to seek your own personal financial advice immediately from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under the Financial Services and Markets Act 2000 if you are in the United Kingdom, or from another appropriately authorised independent financial adviser if you are in a territory outside the United Kingdom.

This document, which comprises a prospectus (the "Prospectus") relating to the New Tesco Shares prepared in accordance with the Prospectus Rules of the Financial Conduct Authority (the "FCA") made under section 73A of the Financial Services and Markets Act 2000 (the "FSMA"), has been approved by the FCA in accordance with section 85 of the FSMA and made available to the public in accordance with Rule 3.2 of the Prospectus Rules.

The existing Tesco Shares are currently listed on the premium listing segment of the Official List maintained by the FCA (the "UK Official List") and traded on the London Stock Exchange's main market for listed securities. In addition, the existing Tesco Shares are currently admitted to the secondary listing segment of the Official List maintained by the Irish Stock Exchange (the "Irish Official List") and traded on its main market for listed securities. Applications have been made to the FCA for the New Tesco Shares to be admitted to the premium listing segment of the UK Official List and to the London Stock Exchange for the New Tesco Shares to be admitted to trading on its main market for listed securities. Application has also been made to the Irish Stock Exchange for the New Tesco Shares to be admitted to listing on the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities (the "Irish Application"). Tesco PLC (the "Company" or "Tesco") has requested that the FCA provides a certificate of approval and a copy of this Prospectus to the Central Bank of Ireland (the "CBI") in connection with the Irish Application. It is expected that UK Admission will become effective, and that dealings on the London Stock Exchange in the New Tesco Shares will commence, at 8.00 a.m. on the Effective Date which, subject to the satisfaction of certain conditions, including the sanction of the Scheme by the Court, is expected to occur at 8.00 a.m. on 5 March 2018. It is expected that Irish Admission will become effective, and that dealings on the Irish Stock Exchange in the New Tesco Shares will commence, at 8.00 a.m. on 5 March 2018. No application will be made for the New Tesco Shares to be admitted to listing or dealt with on any other exchange. The New Tesco Shares will, when issued, rank *pari passu* in all respects with the existing Tesco Shares.

The Tesco Directors and the Proposed Directors, whose names appear in Part 5 of this Prospectus, and the Company accept responsibility for the information contained in this Prospectus. To the best of the knowledge of the Tesco Directors, the Proposed Directors and the Company (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this Prospectus is in accordance with the facts and contains no omission likely to affect the import of such information.

Prospective investors are advised to examine all the risks that might be relevant in connection with the value of an investment in the New Tesco Shares. Prospective investors should read the entire document and, in particular, ("Risk Factors") for a discussion of certain factors that should be considered in connection with an investment in the Company, the Combined Group, the Tesco Shares and the New Tesco Shares.

TESCO

TESCO PLC

(incorporated under the Companies Act 1929 and registered in England and Wales with registered number 00445790)

Proposed issue of up to 1,590,000,000 new ordinary shares in Tesco PLC in connection with its proposed merger with Booker Group plc and application for admission of up to 1,590,000,000 new ordinary shares in Tesco PLC to the premium listing segment of the UK Official List and to trading on the London Stock Exchange and to the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange

Sponsor

Barclays

Prospective investors should only rely on the information contained in this Prospectus and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and the documents (or parts thereof) incorporated by reference herein and, if given or made, such information or representation must not be relied upon as having been so authorised by the Company, the Tesco Directors, the Proposed Directors or the Sponsor. In particular, the contents of the Company's and Booker's websites do not form part of this document and investors should not rely on them.

Without prejudice to any legal or regulatory obligation on the Company to publish a supplementary prospectus, neither the delivery of this document nor UK Admission nor Irish Admission shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Tesco Group or the Combined Group taken as a whole since the date of this document or that the information in it is correct as of any time after the date of this document. The Company will comply with its obligation to publish a supplementary prospectus containing further updated information if so required by law or by any regulatory authority but assumes no further obligation to publish additional information.

Barclays Bank PLC, acting through its Investment Bank ("Barclays") is authorised in the United Kingdom by the Prudential Regulation Authority (the "PRA") and regulated by the PRA and the FCA in the United Kingdom. Barclays is acting exclusively for Tesco PLC and no one else in connection with the Merger, UK Admission and this Prospectus, and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Merger, UK Admission or this Prospectus and will not be responsible to anyone other than Tesco PLC for providing the protections afforded to its clients, or for providing advice, in relation to the Merger, UK Admission or this Prospectus or any other transaction, arrangement or matter referred to in this Prospectus.

Greenhill & Co. International LLP ("Greenhill"), is regulated in the United Kingdom by the FCA. Greenhill is acting exclusively for Tesco PLC and no one else in connection with the Merger, UK Admission and this Prospectus, and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Merger, UK Admission or this Prospectus and will not be responsible to anyone other than Tesco PLC for providing the protections afforded to its clients, or for providing advice, in relation to the Merger, UK Admission or this Prospectus or any other transaction, arrangement or matter referred to in this Prospectus.

Citigroup Global Markets Limited ("Citi") is authorised in the United Kingdom by the Prudential Regulation Authority (the "PRA") and regulated by the PRA and the FCA in the United Kingdom. Citi is acting exclusively for Tesco PLC and no one else in connection with the Merger, UK Admission and this Prospectus, and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Merger, UK Admission or this Prospectus and will not be responsible to anyone other than Tesco PLC for providing the protections afforded to its clients, or for providing advice, in relation to the Merger, UK Admission or this Prospectus or any other transaction, arrangement or matter referred to in this Prospectus.

J&E Davy ("Davy"), which is authorised and regulated by the Central Bank of Ireland. Davy is acting exclusively for Tesco and no one else in connection with the Merger, Irish Admission and this Prospectus and will not regard any other person (whether or not a recipient of this Prospectus) as a client in relation to the Merger, Irish Admission or this Prospectus and will not be responsible to anyone other than Tesco PLC for providing the protections afforded to its clients, or for providing advice, in relation to the Merger, UK Admission or this Prospectus or any other transaction, arrangement or matter referred to in this Prospectus.

Barclays, Greenhill, Citi and Davy and any of their respective affiliates may have engaged in transactions with, and provided various investment banking, financial advisory and other services for, the Tesco Shareholders and the Company for which they would have received customary fees.

Apart from the responsibilities and liabilities, if any, which may be imposed on Barclays, Greenhill, Citi and Davy by the FSMA or the regulatory regime established thereunder, or under the regulatory regime of any jurisdiction where the exclusion of liability under the relevant regulatory regime would be illegal, void or unenforceable, Barclays (including its subsidiaries, branches and affiliates), Greenhill, Citi and Davy do not accept any responsibility whatsoever for, or make any representation or warranty, express or implied, as to the contents of this Prospectus or for any other statement made or purported to be made by it, or on its behalf, in connection with the Company, the New Tesco Shares or the Merger and nothing in this Prospectus will be relied upon as a promise or representation in this respect, whether or not to the past or future. Each of Barclays (including its subsidiaries, branches and affiliates), Greenhill, Citi and Davy accordingly disclaims all and any responsibility or liability, whether arising in tort, contract or otherwise (save as referred to above), which it might otherwise have in respect of this Prospectus or any such statement.

Recipients of this Prospectus are authorised solely to use it for the purpose of considering the terms of the Merger and may not reproduce or distribute this Prospectus, in whole or in part, and may not disclose any of the contents of this Prospectus or use any information herein for any purpose other than considering the terms of the Merger or an investment in the New Tesco Shares. Such recipients of this Prospectus agree to the foregoing by accepting delivery of this Prospectus.

Prior to making any decision as to whether to accept the terms of the Merger and acquire the New Tesco Shares, the Booker Shareholders, as prospective investors in the Company, should read this Prospectus in its entirety, together with the Scheme Document. In making an investment decision, each investor must rely on their own examination, analysis and enquiry of the Company and the terms of the Merger, including the merits and risks involved.

Prospective investors also acknowledge that (a) they have not relied on Barclays, Greenhill, City and Davy or any person affiliated with them in connection with any investigation of the accuracy of any information contained in this Prospectus or their investment decision, and (b) they have relied only on the information contained in this Prospectus and the documents (or parts thereof) incorporated herein by reference. No person has been authorised to give any information or make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied on as having been so authorised.

Persons who come into possession of this document should inform themselves about and observe any applicable restrictions and legal, exchange control or regulatory requirements, and pay any issue, transfer or other taxes due, in relation to the distribution of this document and the Merger. Any failure to comply with such restrictions or requirements, and pay any issue, transfer or other taxes due, may constitute a violation of the securities laws of any such jurisdiction.

THE CONTENTS OF THIS DOCUMENT ARE NOT TO BE CONSTRUED AS LEGAL, FINANCIAL OR TAX ADVICE. EACH PROSPECTIVE INVESTOR SHOULD CONSULT HIS, HER OR ITS OWN SOLICITOR, INDEPENDENT FINANCIAL ADVISER OR TAX ADVISER FOR LEGAL, FINANCIAL OR TAX ADVICE.

NEITHER THE COMPANY, NOR BARCLAYS NOR ANY OF THEIR RESPECTIVE REPRESENTATIVES IS MAKING ANY REPRESENTATION TO ANY PROSPECTIVE INVESTOR OF THE NEW TESCO SHARES REGARDING THE LEGALITY OF AN INVESTMENT IN THE NEW TESCO SHARES BY SUCH PROSPECTIVE INVESTOR UNDER THE LAWS APPLICABLE TO SUCH PROSPECTIVE INVESTOR.

THIS PROSPECTUS DOES NOT CONSTITUTE OR FORM PART OF ANY OFFER OR INVITATION TO SELL OR ISSUE, OR ANY SOLICITATION OF ANY OFFER TO PURCHASE OR SUBSCRIBE FOR, ANY SECURITIES BY ANY PERSON IN ANY CIRCUMSTANCES IN WHICH SUCH OFFER OR SOLICITATION IS UNLAWFUL.

Notice to Overseas Shareholders

The release, publication or distribution of this Prospectus and the issue of the New Tesco Shares pursuant to the Merger in certain jurisdictions may be restricted by law. No action has been or will be taken to permit the possession, issue or distribution of this Prospectus in any jurisdiction where action for that purpose may be required or doing so is restricted by law. Accordingly, this Prospectus may not be distributed or published in any jurisdiction except under circumstances that will result in compliance with any applicable laws and regulations. Persons into whose possession this Prospectus comes should inform themselves about and observe any such restrictions. Any failure to comply with these restrictions may constitute a violation of the securities laws of any such jurisdiction. To the fullest extent permitted by applicable law, the companies and persons involved in the Merger disclaim any responsibility or liability for the violation of such requirements by any person.

Unless an exemption under relevant securities laws is available, the Merger is not being, and will not be, made available, directly or indirectly, in or into or by the use of the mails of, or by any other means or instrumentality of interstate or foreign commerce of, or by any facility of a national state or other securities exchange of any Restricted Jurisdiction, and no person may vote in respect of the Merger by any such use, means, instrumentality or facility or from within any Restricted Jurisdiction.

Accordingly, copies of this Prospectus and all documents relating to the Merger are not being, and must not be, directly or indirectly, mailed, transmitted or otherwise forwarded, distributed or sent in, into or from any Restricted Jurisdiction and persons receiving this document (including, without limitation, agents, nominees, custodians and trustees) must not distribute, send or mail it in, into or from such jurisdiction. Any person (including, without limitation, any agent, nominee, custodian or trustee) who has a contractual or legal obligation, or may otherwise intend, to forward this Prospectus and/or any other related document to a jurisdiction outside the United Kingdom should inform themselves of, and observe, any applicable legal or regulatory requirements of such jurisdiction.

Notice to US holders of Booker Shares

The New Tesco Shares are expected to be issued in reliance upon the exemption from the registration requirements of the US Securities Act of 1933, as amended (the "US Securities Act") provided by Section 3(a)(10) thereof. Booker Shareholders (whether or not US Persons) who are or will be affiliates (within the meaning of the US Securities Act) of Tesco or Booker prior to, or of Tesco after, the Effective Date will be subject to certain US transfer restrictions relating to the New Tesco Shares received pursuant to the Scheme (as described below).

The New Tesco Shares have not been and will not be registered under the US Securities Act or under the securities laws of any state or other jurisdiction of the United States. Accordingly, the New Tesco Shares may not be offered, sold, resold, delivered, distributed or otherwise transferred, directly or indirectly, in or into the United States absent registration under the US Securities Act or an exemption therefrom.

The New Tesco Shares generally should not be treated as "restricted securities" within the meaning of Rule 144(a)(3) under the US Securities Act and persons who receive securities under the Scheme (other than "affiliates" as described in the paragraph below) may resell them without restriction under the US Securities Act.

Under US securities laws, persons who are or will be deemed to be affiliates (as defined under the US Securities Act) of Tesco or Booker prior to, or of Tesco after, the Effective Date may not resell the New Tesco Shares received under the Scheme without registration under the US Securities Act, except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Whether a person is an affiliate of a company for such purposes depends upon the circumstances, but affiliates of a company can include certain officers and directors and significant shareholders. Booker Shareholders who believe they may be affiliates for the purposes of the US Securities Act should consult their own legal advisers prior to any resale of New Tesco Shares received under the Scheme.

For the purposes of qualifying for the exemption from the registration requirements of the US Securities Act afforded by Section 3(a)(10), Booker will advise the Court through Counsel that its sanctioning of the Scheme will be relied upon by Tesco as an approval of the Scheme following a hearing on its fairness to Booker Shareholders, at which hearing all Booker Shareholders are entitled to attend in person or through Counsel to support or oppose the sanctioning of the Scheme and with respect to which notification has been given to all Booker Shareholders.

None of the securities referred to in this Prospectus have been approved or disapproved by the SEC, any state securities commission in the United States or any other US regulatory authority, nor have such authorities passed upon or determined the adequacy or accuracy of the information contained in this Prospectus. Any representation to the contrary is a criminal offence in the United States.

The Merger relates to the securities of a UK-registered company with listings on the London and Irish Stock Exchanges and is proposed to be effected by means of a scheme of arrangement under the laws of the United Kingdom. A transaction effected by means of a scheme of arrangement is not subject to proxy solicitation or tender offer rules under the US Exchange Act. The Merger is subject to United Kingdom disclosure requirements, which are different from certain United States disclosure requirements. The financial information included in this Prospectus has been or will be prepared in accordance with IFRS and may not be comparable to financial information of US companies or companies whose financial statements are prepared in accordance with generally accepted accounting principles in the United States.

Each US holder of Booker Shares is urged to consult his, her or its independent professional adviser immediately regarding the tax consequences of the Merger.

Tesco is a public limited company incorporated under English law. Many of the Tesco Directors are citizens of the United Kingdom (or other non-US jurisdictions), and all of the Company's material assets are located outside the United States. As a result, it may not be possible for investors to effect service of process within the United States upon the Tesco Directors or to enforce against them in the US courts judgments obtained in US courts predicated upon the civil liability provisions of the US federal securities laws. There is doubt as to the enforceability in England, in original actions or in actions for enforcement of judgments of the US courts, of civil liabilities predicated upon US federal securities laws.

Dated: 5 February 2018

CONTENTS

SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A-E (A.1 – E.7).

This summary contains all the Elements required to be included in a summary for this type of security and issuer. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements.

Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

SECTION A — INTRODUCTION AND WARNINGS		
A.1	***Warning to investors***	This summary should be read as an introduction to this Prospectus. Any decision to invest in the New Tesco Shares should be based on consideration of this Prospectus as a whole by the investor. Where a claim relating to the information contained in this Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated. Civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the Prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in the New Tesco Shares.
A.2	***Subsequent resale of securities or final placement of securities through financial intermediaries***	Not applicable. No consent has been given by the Company or any person responsible for drawing up this Prospectus to the use of this Prospectus for subsequent resale or final placement of the New Tesco Shares by financial intermediaries.

SECTION B — ISSUER		
B.1	***Legal and commercial name***	Tesco PLC (referred to in this Prospectus as "Tesco" or the "Company").
B.2	***Domicile and legal form***	The Company was incorporated and registered in England and Wales on 27 November 1947, as Tesco Stores (Holdings) Limited, a private company limited by shares with the registered number 00445790, under the Companies Act 1929. The Company was re-registered as a public company limited by shares and renamed Tesco Stores (Holdings) public limited company on 14 December 1981, and was renamed Tesco PLC on 25 August 1983. The Company currently operates under the Companies Act 2006.

B.3	***Current operations and principal activities***	Tesco is one of the world's largest retailers, with over 460,000 colleagues serving millions of customers every week, from 6,809 stores in eight countries across the UK, ROI, Central Europe and Asia, and online, and with joint venture operations in China and India. Tesco's primary operations are in retailing, where it has four key categories of fresh food, packaged food and grocery goods, clothing and general merchandise, Tesco also sells fuel and operates in financial services, telecommunications services and in pharmacies in a number of its markets. In the UK, Tesco operates Tesco Bank, providing retail customers with a range of banking and insurance products, and through its dunnhumby subsidiary Tesco operates in the field of consumer insight. Tesco also has retail interests in China and India through joint ventures with local operators. Tesco faces strong competition from other large and established supermarket operators and, in certain markets, pureplay online operators. In the last three years Tesco has focused on simplifying the range of products offered, improving its service to customers and restoring trust in its brand and becoming more competitive, seeking to drive volume in core categories through its improved value proposition. Tesco set out its ambition in October 2016 to achieve a Tesco Group operating profit margin of between 3.5 per cent. and 4 per cent. by FY19/20, to be achieved through a number of strategic drivers including a reduction in its operating costs of £1.5 billion. The latest reported Tesco Group operating margin at the time the ambition was set out was 2.2 per cent., for the six months to 27 August 2016.
B.4a	***Significant recent trends***	As a retailer selling food and other goods it is important to Tesco that its offer to shoppers is competitively priced and offers good quality combined with excellent service. Competition in all the markets that Tesco operates in is high, with a combination of established operators, new entrants and online operators giving shoppers a wide amount of flexibility and choice in where they shop. In the UK market, in particular in recent years, competitors such as the German Retailers Aldi and Lidl have grown successfully, placing the established participants, including Tesco, under pressure. Tesco has responded to this successfully, with volume growth in its core food categories over the last eight quarters. These competitive pressures are expected to continue. Consumers continue to be attracted to online shopping, whether for browsing or shopping, for in store collection or home delivery, and Tesco therefore seeks to offer shopping in whatever form customers choose, at a price level that is economically sustainable.

The food market is constantly evolving. 'In home' consumption is significant and stable, but the eating out market continues to grow and evolve, with delivery and convenience becoming increasingly important to business customers and consumers. The Tesco Directors expect that the Combined Group will be well-positioned to offer a more innovative offer for customers and consumers in a larger and faster growing market.

There has been intense regulatory scrutiny of banks in recent years, with additional regulation and taxes that impact operators in this sector. Customer redress has also been a feature of the environment and as a result of seeking to mitigate the risks of incurring redress claims, operational costs have increased.

B.5 ***Description of the Tesco Group and the Combined Group***

Tesco is the ultimate parent company of the Tesco Group. The Tesco Group consists of a number of subsidiaries, joint ventures and associated undertakings held in varying percentages directly or indirectly by Tesco. The Tesco Group has subsidiary undertakings in countries including the UK, the ROI, Thailand, Malaysia, Hungary, Poland, Slovakia, and the Czech Republic and joint ventures in China and India. On Admission, Tesco will be the ultimate holding company of the Combined Group (including the Booker Group).

B.6 ***Major shareholders***

As at 1 February 2018 (being the Latest Practicable Date), in so far as it is known to Tesco, in accordance with DTR 5, the following persons are interested, directly or indirectly, in 3 per cent. or more of the voting rights in respect of the issued ordinary share capital of Tesco (together, the "Principal Shareholders") (being the threshold of notification under the DTRs):

Shareholder	Number of shares	Percentage holding as at the Latest Practicable Date	Anticipated number of shares immediately following Admission[a]	Anticipated percentage holding immediately following Admission[a]
BlackRock, Inc	543,470,778	6.63	621,768,127	6.39
Norges Bank	484,744,143	5.92	547,427,596	5.62
Schroders plc	406,295,163	4.96	407,626,351	4.19
GIC Private Limited	251,669,495	3.07	251,669,495	2.59

(a) This percentage assumes there is no additional issue of shares by either Tesco or Booker between 1 February 2018 and Admission, and no acquisition or disposal by these shareholders during that period.

The Shares owned by the Principal Shareholders rank *pari passu* with the other Shares in all respects, including as to voting rights.

As at 1 February 2018 (being the Latest Practicable Date), in so far as it is known to Tesco, no person or persons, directly or indirectly, jointly or severally, exercise or could exercise control over Tesco.

B.7	***Historical financial information***	The tables below set out the Tesco Group's selected financial information for the periods indicated, as reported in accordance with IFRS. The unaudited interim consolidated financial information for the Tesco Group as of and for each of the 26 weeks ended 27 August 2016 and 26 weeks ended 26 August 2017 has been extracted without material adjustment from the interim financial results announcement of Tesco on 4 October 2017. The audited consolidated financial information for the Tesco Group as of and for the 53 weeks ended 28 February 2015, the 52 weeks ended 27 February 2016 and the 52 weeks ended 25 February 2017 has been extracted without material adjustment from Tesco's Annual Reports and Financial Statements, each of which is incorporated by reference into this Prospectus. The income statement data in Part 7 – TESCO OPERATING AND FINANCIAL REVIEW has been restated to exclude the impact of discontinued operations. Refer to Part 7 – TESCO OPERATING AND FINANCIAL REVIEW for a reconciliation of the restated data to the previously reported financial information below.

Condensed consolidated income statement data

	Financial period			26 weeks ended	
			(£m)		
	53 weeks ended 28 February 2015	52 weeks ended 27 February 2016	52 weeks ended 25 February 2017	26 weeks ended 27 August 2016	26 weeks ended 26 August 2017
Revenue	62,284	54,433	55,917	27,338	28,348
Operating profit/ (loss)	(5,792)	1,046	1,017	515	885
Profit/(loss) before tax (continuing operations)	(6,376)	162	145	71	562
Taxation.................	657	54	(87)	(40)	(138)
Profit/(loss) from discontinued operations	(47)	(87)	(112)	(131)	211
Profit/(loss) for the period...........	(5,766)	129	(54)	(100)	635

Condensed consolidated balance sheet data

	As at			As at	
			(£m)		
	28 February 2015	27 February 2016	25 February 2017	27 August 2016	26 August 2017
Non-current assets.................	32,256	29,076	30,436	30,355	30,689
Current assets........	11,958	14,828	15,417	16,817	15,802
Net current liabilities	(7,852)	(4,886)	(3,988)	(4,451)	(4,104)
Non-current liabilities	(17,333)	(15,574)	(20,034)	(19,993)	(16,036)
Net assets	7,071	8,616	6,414	5,911	10,549
Total equity attributable to owners of the parent................	7,071	8,626	6,438	5,930	10,574

Condensed consolidated cash flow statement data

	Financial period			26 weeks ended	
			(£m)		
	53 weeks ended 28 February 2015	52 weeks ended 27 February 2016	52 weeks ended 25 February 2017	26 weeks ended 27 August 2016	26 weeks ended 26 August 2017
Net cash generated from operating activities	484	2,126	1,989	900	1,087
Net cash (used in)/ from investing activities	(2,015)	(615)	279	(901)	(41)
Net cash (used in)/ from financing activities	814	(604)	(1,387)	281	(556)
Cash and cash equivalents at the end of the period	2,165	3,082	3,821	3,355	4,319

Certain significant changes to the Tesco Group's financial condition and results of operations occurred during the 26 weeks ended 27 August 2016, the 26 weeks ended 26 August 2017, the 53 weeks ended 28 February 2015, and the 52 weeks ended 27 February 2016, and 25 February 2017, as described below.

During the 53 weeks ended 28 February 2015, the Tesco Group had performed a detailed review of its property portfolio, resulting in an impairment charge of £4,677 million. This reflected the impact of challenging industry conditions and profit decline on the balance sheet.

The Tesco Group has undertaken a number of strategic disposals which have affected its results of operations. The most significant recent disposals by the Tesco Group were:

- The disposal of the Tesco Group's 95.5 per cent. controlling interest in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (referred to as Turkish operations or Turkey) on 1 March 2017 for proceeds of approximately £38 million; and
- The disposal of the Tesco Group's Korean operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, on 22 October 2015 for cash consideration of £3,944 million before tax and other transaction costs.

Save as set out above, there has been no significant change in the financial condition and results of operations of the Tesco Group during or after the period covered by the historical financial information of the Tesco Group set out in this Prospectus.

The tables below set out the Booker Group's summary financial information for the periods indicated, as reported in accordance with IFRS. The unaudited interim consolidated financial information for the Booker Group as of and for each of the 24 weeks ended 9 September 2016 and 24 weeks ended 8 September 2017 has been extracted without material adjustment from interim financial results announcement of Booker on 12 October 2017. The audited consolidated financial information for the Booker Group as of and for each of the three years ended 27 March 2015, 25 March 2016, and 24 March 2017 has been extracted without material adjustment from Part 9: ("*Booker Historical Financial Information*") of this Prospectus.

Condensed consolidated income statement data

	52 weeks ended			24 weeks ended	
			(£m)		
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Revenue	4,753.0	4,991.5	5,327.9	2,524.4	2,587.3
Operating profit	140.3	152.8	176.1	81.4	89.1
Profit/(loss) before tax	138.8	150.8	174.0	81.0	88.0
Profit/(loss) after tax	117.7	127.8	153.8	67.8	74.7

Condensed consolidated balance sheet data

	52 weeks ended			24 weeks ended	
		(£m)		(£m)	
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Non-current assets	676.4	723.3	711.0	714.1	706.0
Current assets	599.6	662.4	725.5	637.4	683.6
Total liabilities	(677.9)	(795.5)	(830.9)	(842.6)	(846.7)
Net assets	598.1	590.2	605.6	508.9	542.9
Total equity attributable to owners of the company	598.1	590.2	605.6	508.9	542.9

Condensed consolidated cash flow statement data

	52 weeks ended			24 weeks ended	
			(£m)		
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Cash generated from operating activities	134.6	175.1	177.5	101.9	151.5
Net cash outflow from investing activities	(24.4)	(70.5)	(11.2)	3.4	(5.8)
Net cash outflow from financing activities	(112.8)	(124.2)	(133.0)	(127.0)	(141.3)
Cash and cash equivalents at the end of the period	147.0	127.4	160.7	105.7	165.1

		Certain significant changes to the Booker Group's financial condition and results of operations occurred during the 24 weeks ended 8 September 2017, and the 52 weeks ended 27 March 2015, 25 March 2016, and 24 March 2017, as described below: ● on 14 September 2015, the Booker Group acquired Musgrave Retail Partners GB Limited (together with its subsidiaries, including Budgens and Londis), which subsequently changed its name to Booker Retail Partners (GB) Limited. BRP was acquired for £40 million on a cash free and debt free basis with a normalised working capital level. Save as set out above, there has been no significant change in the financial condition and results of operations of the Booker Group during or after the period covered by the historical financial information of the Booker Group set out in this Prospectus.
B.8	***Pro forma financial information***	The unaudited pro forma income statement for the 52 weeks ended 25 February 2017 and statement of net assets as at 26 August 2017 of the Combined Group and related notes set out in Part 10 ("*Unaudited pro forma financial information of the Combined Group*") (the "Unaudited Pro Forma Financial Information") have been prepared to illustrate the effect of the Merger on the income statement of the Tesco Group as if the Merger had become effective on 28 February 2016 and statement of net assets of the Tesco Group as if the Merger had become effective on 26 August 2017. The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation and in a manner consistent with the accounting policies to be adopted by the Tesco Group in preparing its audited financial statements for the 52 weeks ended 24 February 2018. The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, addresses a hypothetical situation. It does not purport to represent what the Combined Group's financial position or results of operations actually would have been if the Merger had been completed on the date indicated, nor does it purport to represent the results of operations for any future period or financial position at any future date.

The Unaudited Pro Forma Financial Information does not constitute financial statements within the meaning of Section 434 of the Act. Investors should read the whole of this Prospectus and not rely solely on the summarised financial information contained in Part 10 ("*Unaudited pro forma financial information of the Combined Group*"). Deloitte's report on the Unaudited Pro Forma Financial Information is set out in Section B of Part 10 ("*Unaudited pro forma financial information of the Combined Group – Accountants' report on the unaudited pro forma financial information*").

Unaudited consolidated pro forma income statement of the Combined Group as if the Merger had become effective on 28 February 2016

£m	52 weeks ended Tesco 25 February 2017 (i)	52 weeks ended Booker 24 March 2017 (ii)	Finance Income (iii)	Acquisition adjustments (iv)	Pro forma income statement for the Combined Group
Revenue	**55,917**	**5,328**	**–**	**–**	**61,245**
Cost of sales	(53,015)	(5,036)	–	–	(58,051)
Gross profit	**2,902**	**292**	**–**	**–**	**3,194**
Administrative expenses	(1,995)	(116)	–	(62)	(2,173)
Profits arising on property-related items	110	–	–	–	110
Operating profit/(loss)	**1,017**	**176**	**–**	**(62)**	**1,131**
Share of post-tax losses of joint ventures and associates	(107)	–	–	–	(107)
Finance income	109	–	(2)	–	107
Finance costs	(874)	(2)	–	–	(876)
Profit/(loss) before tax	**145**	**174**	**(2)**	**(62)**	**255**
Taxation	(87)	(20)	–	–	(107)
Profit/(loss) for the year from continuing operations	**58**	**154**	**(2)**	**(62)**	**148**
Discontinued operations					
Loss for the year from discontinued operations	(112)	–	–	–	(112)
Profit/(loss) for the year	**(54)**	**154**	**(2)**	**(62)**	**36**
Attributable to:					
Owners of the Parent	(40)	154	(2)	(62)	50
Non-controlling interests	(14)	–	–	–	(14)
	(54)	**154**	**(2)**	**(62)**	**36**

(i) The Tesco income statement has been extracted without material adjustment from the audited Tesco Group income statement within Tesco's 2017 Annual Report and Financial Statements.

(ii) The Booker income statement has been extracted without material adjustment from the consolidated income statement within Part 9: ("*Booker Historical Financial Information*") of this Prospectus. There were no accounting policy adjustments to align to policies adopted by Tesco.

(iii) Adjustments for finance income reflect an amount of interest which accrued on cash held in ring-fenced accounts until released as cash consideration on completion of the Merger as shown in note (iii a) to the unaudited pro forma net assets statement. For the purpose of the pro forma, this is treated as if the cash consideration was paid on 28 February 2016 and therefore represents an adjustment for a 12 month period. The tax impact of this adjustment is not considered to be material. The nature of this adjustment means that an adjustment of a similar nature will have a continuing impact on the Combined Group.

(iv) a) No pro forma impairment charge has been applied to the goodwill balance (arising from the acquisition accounting as set out in the pro forma statement of net assets below) in the period presented. No additional depreciation and amortisation charge has been applied for the IFRS 3 Business Combinations fair values of intangible assets and property, plant and equipment, as the fair value adjustments are considered impractical to do at this date.

b) For the purposes of the unaudited pro forma income statement, it is expected that total transaction costs of circa £88 million, will be incurred in relation to the Merger, of which £26 million had been recorded in Tesco's financial information for the 52 weeks ended 25 February 2017. The adjustment to the income statement is related to the transaction costs of circa £42 million and stamp duty costs of circa £20 million that have not been recorded in either Tesco's financial information for the 52 weeks ended 25 February 2017 or in Booker's financial information for the 52 weeks ended 24 March 2017. No tax benefit has been assumed for the transaction costs.

c) No adjustment has been made to reflect synergies that may arise subsequent to the Merger as these are dependent upon the future actions of management.

d) No adjustment has been made to reflect the financial results of either Tesco or Booker since 25 February 2017 and 24 March 2017 respectively.

Unaudited consolidated pro forma statement of net assets of the Combined Group as if the Merger had become effective on 26 August 2017

	Tesco As at 26 August 2017 (i)	Booker As at 8 September 2017 (ii)	Acquisition adjustments (iii)	Pro forma statement of net assets Combined Group
Non-Current Assets				
Goodwill, software and other intangible assets	2,752	465	3,403	6,620
Property, Plant and Equipment	18,429	211	–	18,640
Investment Property	74	–	–	74
Investment in joint ventures and associates	750	2	–	752
Other investments	832	–	–	832
Trade and other receivables	170	–	–	170
Loans and advances to customers	6,362	–	–	6,362
Derivative financial instruments	1,238	–	–	1,238
Deferred tax assets	82	28	–	110
	30,689	**706**	**3,403**	**34,798**
Current Assets				
Other investments	122	–	–	122
Inventories	2,488	356	–	2,844
Trade and other receivables	1,674	163	–	1,837
Loans and advances to customers	4,400	–	–	4,400
Derivative financial instruments	274	–	–	274
Current tax assets	10	–	–	10
Short-term investments	2,388	–	–	2,388
Cash and cash equivalents	4,319	165	(763)	3,721
	15,675	**684**	**(763)**	**15,596**
Assets of the disposal group and non-current assets classified as held for sale	127	–	–	127
	15,802	**684**	**(763)**	**15,723**
Current Liabilities				
Trade and other payables	(8,965)	(718)	(57)	(9,740)
Borrowings	(2,950)	–	–	(2,950)
Derivative financial instruments	(71)	–	–	(71)
Customer deposits and deposits from banks	(7,043)	–	–	(7,043)
Current tax liabilities	(343)	(21)	–	(364)
Provisions	(534)	–	–	(534)
	(19,906)	**(739)**	**(57)**	**(20,702)**
Liabilities of the disposal group classified as held for sale	–	–	–	–
Net current liabilities	**(4,104)**	**(55)**	**(820)**	**(4,979)**
Non-current liabilities				
Trade and other payables	(340)	(24)	–	(364)
Borrowings	(8,638)	–	–	(8,638)
Derivative financial instruments	(550)	–	–	(550)
Customer deposits and deposits from banks	(2,790)	–	–	(2,790)
Post-employment benefit obligations	(2,945)	(47)	–	(2,992)
Deferred tax liabilities	(102)	–	–	(102)
Provisions	(671)	(37)	–	(708)
	(16,036)	**(108)**	**–**	**(16,144)**
Net Assets	**10,549**	**543**	**2,583**	**13,675**

(i) The Tesco net assets have been extracted without material adjustment from Tesco's 2017/2018 Interim Results Statement.

(ii) The Booker net assets are based on the consolidated balance sheet as at 8 September 2017 without material adjustment as set out within the financial statements in Part 9: ("Booker Historical Financial Information") of this Prospectus. There were no accounting policy adjustments to align to policies adopted by Tesco. The order of line items and the presentational format matched those of Tesco's balance sheet.

(iii) a) The unaudited pro forma statement of net assets has been prepared on the basis that the Merger will be treated as an acquisition of Booker by Tesco in accordance with IFRS 3 Business Combinations. The pro forma statement of net assets does not reflect the fair value adjustments to the acquired assets and liabilities as the fair value measurement of these items will only be performed subsequent to completion of the Merger. For the purposes of the pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net assets acquired has been attributed to goodwill and no pro forma impairment charge has been applied to the goodwill balance in the period presented. When finalised following the completion of the Merger, the fair value adjustments may be material. The preliminary goodwill arising has been calculated as follows:

	£m
Cash consideration transferred[1]	763
Share consideration[2]	3,183
Less carrying amount of net assets acquired	543
Goodwill (before measurement of the net assets acquired and liabilities at their fair value)	3,403

(1) The calculation assumes that there will be 1,792,195,220 Booker shares in issue (taken from the Latest Practicable Date) and that each Booker shareholder will receive 42.6 pence per Booker share. It is assumed that this amount will be cash settled without the issuance of new debt by Tesco.

(2) The calculation is based on the Closing Price of Tesco shares of 206.3 pence and assumes that there will be 1,792,195,220 Booker shares in issue (all taken from the Latest Practicable Date) and that each Booker shareholder will receive 0.861 New Tesco Shares per Booker share.

b) For the purposes of the unaudited pro forma net asset statement, £88 million of transaction costs are expected to be incurred in relation to the Merger, of which £31 million has been recorded in Tesco's financial information as at 26 August 2017. The adjustment to the net assets statement is related to the transaction costs of circa £37 million and stamp duty costs of circa £20 million that have not been expensed in either Tesco's financial information up to 26 August 2017 or in Booker's financial information up to 8 September 2017. No tax benefit has been assumed for these transaction costs. These costs are not expected to be incurred on an ongoing basis in the Combined Group.

c) No adjustment has been made to reflect any synergies that may arise subsequent to the Merger as these are dependent upon the future actions of management. No adjustment has also been made to reflect the impact of any subsequent trading activities.

d) No adjustment has been made to reflect the financial results of either Tesco or Booker since the respective balance sheet dates.

B.9	***Profit forecast or estimate***	Tesco has made further progress towards meeting the medium-term ambitions outlined in October 2016. Since Tesco's 3Q and Christmas Trading Update was released on 11 January 2018, the Tesco Group's trading performance has been in line with management's expectations and the Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018. The Tesco Directors further intend to propose that shareholders approve the payment of a final dividend of 2.0 pence per Tesco Share in respect of the financial year ending 24 February 2018 at the Tesco 2018 annual general meeting. For the purposes of Rule 28 of the City Code, the following statement constitutes a profit forecast for the 52 weeks ending 24 February 2018: "*The Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018.*" For additional details relating to the basis of preparation for the Tesco Profit Forecast and the bases and assumptions on which it was prepared, please see Part 12 – TESCO PROFIT FORECAST.
B.10	***Qualifications in the audit report on the historical financial information***	Not applicable. There are no qualifications included in any audit report on the historical financial information included in this Prospectus.
B.11	***Insufficient working capital***	Not applicable. In the opinion of Tesco, the working capital available to the Tesco Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

SECTION C—SECURITIES		
C.1	***Type and class of securities***	Tesco intends to issue up to 1,590,000,000 New Tesco Shares to Booker Scheme Shareholders pursuant to the terms of the Merger. The New Tesco Shares will represent approximately 16 per cent. of the expected issued ordinary share capital of the Company immediately following Admission. When admitted to trading, the New Tesco Shares will be registered with ISIN number GB0008847096 and UK SEDOL number 0884709 (Irish SEDOL 0884709), and trade under the symbol "TSCO".
C.2	***Currency***	The currency of the New Tesco Shares is pounds sterling, the lawful currency of the UK.

C.3	***Issued Share Capital***	As at 1 February 2018 (being the Latest Practicable Date), the issued share capital of the Company is £409,589,935.95, comprising 8,191,798,719 Tesco Shares of five pence each, all of which are fully paid or credited as fully paid. Immediately following the Merger becoming effective, the issued share capital of the Company is expected to be £486,743,940.15 comprising 9,734,878,803 Tesco Shares of five pence each, all of which will be fully paid or credited as fully paid.
C.4	***Rights attaching to the Shares***	The rights attaching to the Tesco Shares and the New Tesco Shares will be uniform in all respects and they will form a single class for all purposes, including with respect to voting and for all dividends and other distributions thereafter declared, made or paid on the ordinary share capital of the Company. On a show of hands, every Tesco Shareholder who is present in person shall have one vote and on a poll every Tesco Shareholder present in person or by proxy shall have one vote per Tesco Share. Except as provided by the rights and restrictions attached to any class of shares, Tesco Shareholders will under general law be entitled to participate in any surplus assets in a winding up in proportion to their shareholdings.
C.5	***Restrictions on transfer***	There are no restrictions on the free transferability of the New Tesco Shares. The Tesco Board may refuse to register the transfer of Tesco Shares in limited circumstances customary for a UK public limited company.
C.6	***Admission***	The Tesco Shares are currently admitted to listing on the premium listing segment of the Official List maintained by the FCA and to trading on the London Stock Exchange's main market for listed securities and to the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange. Applications have been made to (a) the FCA for the New Tesco Shares to be admitted to the premium listing segment of the UK Official List, (b) the London Stock Exchange for the New Tesco Shares to be admitted to trading on its main market for listed securities, and (c) the Irish Stock Exchange for the New Tesco Shares to be admitted to listing on the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities.
C.7	***Dividend policy***	Reflecting Tesco's improved performance and the Tesco Board's confidence in its future prospects, on 4 October 2017 the Tesco Board announced a return to dividends and on 24 November 2017 paid an interim dividend of 1.0 pence per ordinary share (this follows payment of no dividend in the 52 weeks ended 25 February 2017 and 27 February 2016, and payment of a dividend of 1.16 pence per ordinary share in the 53 weeks ended 28 February 2015). The Tesco

		Board expects a broadly one-third, two-thirds split between the interim and final dividend (and is intending to pay a final dividend for the 52 weeks ending 24 February 2018 of 2.0 pence per ordinary share (subject to shareholder approval)), with dividends expected to grow progressively from 2017, with the aim of achieving a target cover of approximately 2x earnings per share over the medium term.

	SECTION D—RISKS	
D.1	***Key information on the key risks specific to the Combined Group or its industry***	• An adverse change in macroeconomic conditions, whether domestically or internationally, may adversely affect consumer confidence, consumer spending decisions, relative competitive position and the cost of doing business, which could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects • A failure to ensure that the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group is competitive on price, range and service (as well as developing their online and other formats to compete in different markets) and that customers have a coherent, connected and engaging customer journey and in store experience differentiated from competitors may result in the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group losing market share • The Tesco Group may fail to achieve its Transformation Programmes and/or the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may fail to achieve other business strategy objectives resulting in a failure to maintain or increase operating margin and generate sufficient cash to meet business objectives. • Financial performance, cash liquidity or the ability to fund operations may be impacted if the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business performance does not deliver the levels of expected cash generation or if there are any other failures in operational liquidity and currency risk management which could have a material and adverse effect on their business, results of operations, financial condition and prospects • As a result of operating in a highly competitive environment, if the Tesco Group, the Booker Group

		and, if the Merger becomes Effective, the Combined Group fail to deliver an effective, coherent and consistent strategy to respond to competitors and changes in market conditions they may lose market share and fail to improve and/or experience declining profitability ● A failure by the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group to create brand reappraisal opportunities to improve customer perceptions of quality, value and service may affect their ability to build or maintain trust in their brands, creating a perception among customers, colleagues, communities and suppliers that result in a loss of market share ● The Tesco Group and the Booker Group rely on and, if the Merger becomes Effective, the Combined Group will rely on their own and third party IT infrastructure and IT systems for their day-to-day business operations. A significant failure of information technology ("IT") infrastructure or key IT systems may adversely impact operations, result in financial or regulatory penalties and negatively impact business reputation ● The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's technology systems involve the storage and transmission of sensitive data, including customer data (including through Tesco Clubcard), colleague data and supplier data in a number of locations, some of which may be private. Failure to comply with legal or regulatory requirements relating to data security or data privacy may result in the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group suffering reputational damage, fines or other adverse consequences ● As the regulatory environment becomes more restrictive due to changes in the global political landscape, the costs of doing business are increasing for the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group as a result of having to comply with more onerous and/or a greater number of rules and regulations and any failure to comply with legal or regulatory requirements may result in fines, criminal penalties and/or consequential litigation ● A failure to ensure that products are obtained through responsible and sustainable methods across the supply chain and that product safety, packaging, labelling or other legal standards are complied with may lead to death, injury or illness to

		customers, colleagues, contractors or third parties, reputational harm and significant costs in relation to product recall, litigation and/or financial or other regulatory penalties being imposed ● A failure to adequately prepare for the United Kingdom's withdrawal from the European Union will lead to increased costs and may lead to potential staff shortages, adverse currency impacts and increased regulatory burden and could adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects ● A failure by the Combined Group to integrate the Booker Group effectively and realise the synergy benefits estimated to result from the Merger could result in a loss of business reputation. ● Tesco Bank is exposed to certain financial risks that are inherent to financial institutions, including liquidity and funding risks, credit risk and regulatory capital risk, that may adversely impact operations, result in financial or regulatory penalties and negatively impact business reputation. Tesco Bank may be required to raise further capital in order to ensure compliance with applicable regulatory capital requirements and any failure to do so may lead to Tesco Bank being subject to regulatory sanctions or other restrictive measures, including the revocation of operating licences. ● The legal and regulatory environment in which Tesco Bank operates is subject to significant change and regulators can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of relevant regulations.
D.3	***Key information on the key risks that are specific to the Tesco Shares***	● The Tesco Shares and Tesco ADRs may be subject to market price volatility and the market price of the Tesco Shares and Tesco ADRs may decline disproportionately in response to developments that are unrelated to Tesco's operating performance. ● The Tesco Directors may choose not to pay any dividends on the Tesco Shares. Future dividend payments will be dependent on, amongst other things, the Combined Group's future profits, financial condition, capital requirements, pension commitments, distributable reserves, credit terms, general economic conditions and other factors that the Tesco Directors deem relevant from time to time.

SECTION E—MERGER		
E.1	***Total net proceeds and estimated total expenses***	No net proceeds will be received by Tesco in respect of the Merger. The total costs and expenses of preparing, publishing, and distributing this Prospectus and of negotiating and implementing the Merger are estimated to be approximately £65 million, (including regulatory fees, the listing fees, professional fees and expenses, the costs of printing and distribution of documents and UK stamp duty but excluding VAT). No expenses will be charged to the investors by Tesco.
E.2a	***Reasons for the Merger and use of proceeds***	Not applicable. There is no offer of Tesco's securities. There are no proceeds (and therefore no estimated net amount of the proceeds) receivable by Tesco as a result of the Merger. The proposed issue of New Tesco Shares by Tesco to which this Prospectus relates is being made in connection with the proposed recommended share and cash merger of Tesco and Booker. The Tesco Board recognises the attractive opportunity which exists for the Merger to bring together retail and wholesale expertise to create a market leader in products and procurement, with extensive reach, distribution and supply chain capabilities to create the UK's leading food business. The food market is constantly evolving. 'In home' consumption is significant and stable, but the eating out market continues to grow and evolve, with delivery and convenience becoming increasingly important to business customers and consumers. The Tesco Directors expect that the Combined Group will be well-positioned to offer a more innovative offer for customers and consumers in a larger and faster growing market. Booker operates a cash and carry network and, through its 198 UK branches, has a delivery capability with national coverage. Through its branches, Booker has the ability to serve independent retailers, catering and small business customers, and also serves national chains of retailers (including symbols groups and franchise networks), cinemas and other organisations. Tesco operates as a leading food retailer in the UK via its own distribution channels, with a network of 3,500 directly owned and operated stores, and proven leadership in grocery home shopping with 98 per cent. reach of the population through this on-line service. 330,000 skilled colleagues serve approximately 52 million customer transactions a week in the UK and ROI and 16 million Tesco customers are active Clubcard members. Based on strong

		supplier partnerships, Tesco offers leading fresh, own-brand and branded ranges of products. The Merger will create the UK's leading food group offering benefits to consumers, customers, suppliers, colleagues and shareholders.
E.3	***Terms and conditions of the Merger***	It is intended that the Merger will be implemented by way of a Court-sanctioned scheme of arrangement between Booker and the Booker Scheme Shareholders made under Part 26 of the Act. The procedure involves, among other things, an application by Booker to the Court to sanction the Scheme, in consideration for which Booker Scheme Shareholders will receive 0.861 New Tesco Shares and 42.6 pence in cash from Tesco for each Booker Scheme Share they hold. Pursuant to the Scheme, Tesco will acquire the entire issued and to be issued ordinary share capital of Booker. Tesco will also provide a Mix and Match Facility, which will allow Booker Shareholders to elect, subject to off-setting elections, to vary the proportions in which they receive New Tesco Shares and cash. The Mix and Match Facility will not change the total number of New Tesco Shares to be issued or the maximum amount of cash that will be paid under the terms of the Merger. The Scheme will only become effective if, among other things, the following events occur on or before the Longstop Date: ● a resolution to approve the Scheme is passed by a majority in number representing not less than 75 per cent. in value of Booker Shareholders who are on the register of members of Booker at the Scheme Voting Record Time, present and voting, whether in person or by proxy, at the Scheme Court Meeting; ● all resolutions required to approve and implement the Scheme and to approve certain related matters are passed by the requisite majority of Booker Shareholders at the Booker General Meeting; ● such shareholder resolutions of Tesco as are required to approve, implement, and effect the Merger, including, a resolution or resolutions to authorise the creation and allotment of New Tesco Shares pursuant to the Merger, are duly passed by the requisite majority of Tesco Shareholders; ● the Scheme is sanctioned (with or without modification, on terms agreed by Tesco and Booker) by the Court; ● an office copy of the Scheme Court Order is delivered to the Registrar of Companies; and

- there having been no material adverse change or deterioration in the business, assets, financial or trading position or profit or prospects of the Booker Group.

Upon the Scheme becoming effective (a) it will be binding on all Booker Scheme Shareholders, irrespective of whether or not they attended or voted at the Scheme Court Meeting or the Booker General Meeting (and if they attended and voted, whether or not they voted in favour), and (b) share certificates in respect of Booker Shares will cease to be valid and entitlements to Booker Shares held within the CREST will be cancelled. The Consideration will be despatched by Tesco to Booker Scheme Shareholders no later than 14 days after the Effective Date.

If the Scheme does not become effective on or before the Longstop Date, it will lapse and the Merger will not proceed (unless the Takeover Panel otherwise consents).

The Scheme will be governed by English law and will be subject to the jurisdiction of the courts of England and Wales. The Scheme will be subject to the applicable requirements of the City Code, the Takeover Panel, the London Stock Exchange and the FCA.

E.4 ***Material interests***

Immediately following Admission, the following persons will be interested directly or indirectly in 3 per cent. or more of the issued ordinary share capital of Tesco, based on the assumptions that the holdings of such persons in Tesco or Booker (as relevant) as at 1 February 2018 (being the Latest Practicable Date) do not change and that 1,543,080,084 New Tesco Shares are issued in connection with the Merger (these figures do not take into account further issuances of Tesco Shares or Booker Shares which may occur between 1 February 2018 and Admission):

Shareholder	Number of Tesco shares as at the Latest Practicable Date	Percentage holding as at the Latest Practicable Date	Anticipated number of Tesco shares immediately following Admission	Anticipated percentage holding immediately following Admission
BlackRock, Inc	543,470,778	6.63	621,768,127	6.39
Norges Bank	484,744,143	5.92	547,427,596	5.62
Schroders plc	406,295,163	4.96	407,626,351	4.19

There are no conflicting interests material to the Merger.

E.5 ***Selling Shareholders and lock-up agreements***

Not applicable. There are no selling shareholders in relation to the Merger or the issue of the New Tesco Shares.

Charles Wilson (being Booker's Chief Executive) and Tesco are party to a Lock-up Agreement dated 27 January 2017, pursuant to which Charles Wilson agreed (subject to certain customary exceptions) not to dispose of his current holding of 24,533 Tesco Shares or the New Tesco

		Shares he will receive pursuant to the Merger without Tesco's consent for a period of five years from the date upon which the Merger takes effect.
E.6	***Dilution resulting from the Merger***	Assuming the issue of up to 1,590,000,000 New Tesco Shares pursuant to the Merger, immediately following Admission, the existing Tesco Shareholders are expected to hold 8,191,798,719 Tesco Shares, representing approximately 84 per cent. of the total number of Tesco Shares in issue at that time.
E.7	***Expenses charged to the investor***	Not applicable. There are no commissions, fees or expenses to be charged to investors by Tesco because the New Tesco Shares are being offered in exchange for the entire issued and to be issued ordinary share capital of Booker.

RISK FACTORS

Any investment in Tesco and the New Tesco Shares is subject to a number of financial and other risks. Accordingly, investors and prospective investors should carefully consider the risks and uncertainties described below and all of the other information set out in this Prospectus and incorporated by reference herein, the Circular and/or the Scheme Document before making an investment decision. The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects could be materially and adversely affected by any of these risks. The market price of Tesco Shares may decline due to any of these risks or other factors and Tesco Shareholders may lose all or part of their investment.

The risks described below are not the only ones which the Tesco Group and the Booker Group face and, following the Merger becoming Effective, the Combined Group will face. The risks described below are those that Tesco currently believes may materially affect the Tesco Group, the Booker Group and, following the Merger becoming Effective, the Combined Group and/or the value of Tesco Shares. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties. Additional risks and uncertainties that are not currently known to Tesco, or those that it currently deems not to be material, may become material and adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects and/or the value of Tesco Shares. This Prospectus also contains estimates and projections that involve risks and uncertainties. The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's results may differ significantly from those previously projected as a result of certain factors, including the risks which they face, as described below and in other sections of this document and in the Circular and/or the Scheme Document.

The information given in this section is as of the date of this document and, except as required by the FCA, the London Stock Exchange, the Irish Stock Exchange, the Takeover Panel, the Listing Rules, the Prospectus Rules, the DTR, the City Code or any other applicable law or regulation, will not be updated. Any forward-looking statements are made subject to the reservations specified in "Important Information – Forward-looking statements" on page 53 of this Prospectus.

RISKS RELATING TO THE TESCO GROUP AND/OR THE BOOKER GROUP AND, IF THE MERGER BECOMES EFFECTIVE, THE COMBINED GROUP

An adverse change in macroeconomic conditions, whether domestically or internationally, may adversely affect consumer confidence, consumer spending decisions, relative competitive position and the cost of doing business

As the great majority of the Tesco Group's and the Booker Group's revenues are generated, and, if the Merger becomes Effective, the Combined Group's revenues will be generated, from retailing and associated activities in the United Kingdom and the ROI, the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects are, and will continue to be, particularly affected by prevailing economic conditions (including higher inflation, higher interest rates, declining access to credit, lower or stagnating wages, increasing unemployment, weakness in housing and real estate markets, changes in government fiscal or tax policies, removal of subsidies, reduced public spending or credit crises affecting disposable incomes, increases in fuel prices, a loss of consumer confidence and a change in customer spending preferences) in the United Kingdom and the ROI but also (to a lesser extent given the relative sizes of the businesses in those jurisdictions) the other jurisdictions in which they carry on or will carry on their businesses. The cost of doing business could also be materially affected as a result of, amongst other things, the increasing costs of, or volatility in the cost of, raw materials or commodities, including foods, petroleum, electricity and other fuels, adverse exchange rate movements, cost increases being passed along supply chains by primary producers and suppliers and associated increases in administrative costs, each of which must be absorbed by the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group (with a resultant increase in their cost of sales) if not passed on, in whole or in part, to consumers, caterers and retailers in the form of price increases (which may influence customer spending decisions and priorities and adversely impact their relative competitive position). Any combination of these adverse changes to general economic conditions or the cost of doing business could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A failure to ensure that customers have a coherent, connected and engaging customer journey and in store experience differentiated from competitors may result in the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group losing market share

The Tesco Group and the Booker Group keeps, and, following the Merger becoming Effective, the Combined Group will continue to keep, the needs of customers central to decision making by monitoring customer behaviours, expectations and experience (through regular tracking of their business, and those of their competitors, against measures that customers consider to be important to their shopping experience). However, a failure to ensure that the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group is competitive on price, range and service (as well as developing their online and other formats to compete in different markets) and that customers have a coherent, connected and engaging customer journey and in store experience differentiated from competitors could lead to a loss of market share and a fall in revenues as customer purchases are made with competitors and/or the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group being unable to build and sustain customer loyalty. Any of these factors could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The Tesco Group may fail to achieve its Transformation Programmes and/or the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may fail to achieve other business strategy objectives

Whilst the Transformation Programmes are supported by experienced resources, the Tesco Group may fail to implement the Transformation Programmes and/or the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may fail to implement and achieve their other business strategy objectives (due to a failure to deliver on the important IT improvements required, poor prioritisation, poor cost management, loss of key resources and/or ineffective change management) resulting in a failure to maintain or increase operating margin and generate sufficient cash to meet business objectives. The Transformation Programmes and other business strategies are based on numerous assumptions and are subject to a number of variables such as the timescale and costs for implementing IT improvements and the costs that would result from failing to implement them properly, future economic conditions and customer preferences. Whilst the Tesco Group regularly reviews the Transformation Programmes, and the Tesco Group and the Booker Group review and, if the Merger becomes Effective, the Combined Group will regularly review other business strategies in order to assess their effectiveness, if any of the underlying assumptions prove to be inappropriate or incorrect or the Transformation Programmes and other business strategies are not effectively prioritised, managed, communicated or implemented, the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may not be able to realise the benefits they were expected to deliver either at all or within the expected timeframes and they may, as a result, underperform relative to their competitors which could have a material and adverse effect on their business, results of operations, financial condition and prospects.

Financial performance, cash liquidity or the ability to fund operations may be impacted if the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business performance does not deliver the levels of expected cash generation or if there are any other failures in operational liquidity and currency risk management

Weaker than anticipated business performance and cash generation could reduce the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's free cash flow generation below expectations over the longer term, that is, in the period beyond the date that is 12 months from the date of this Prospectus. If this occurs and access to sufficient financial resources is restricted or is only available on commercially unacceptable or disadvantageous terms (including as a result of events beyond their control such as interest rate movements, exchange rate volatility, restrictions on access to funding markets or facilities, defaults by counterparties to financial transactions and other events or market dislocations which may result from turbulence in the financial markets and the prevailing conditions of the global economic environment from time to time resulting in market liquidity no longer being available to the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group on terms equivalent to the investment grade terms which, in current market conditions, the Tesco Group currently is able to obtain notwithstanding that its credit rating has not yet been returned to investment grade rating), it could have a material and adverse effect on their business, results of operations, financial condition and prospects. In addition, if failures in operational liquidity or currency risk management occur, unforeseen liabilities arise (such as an adverse change in the pension deficit funding requirements (see "*Risk factors – Risks relating to the Tesco Group and/or the Booker Group and, if the Merger becomes Effective, the Combined Group – The Tesco Group has and, if the Merger becomes Effective, the Combined Group will have, significant funding obligations in relation to its defined benefit pension scheme. Low investment returns, high inflation, changes in bond yields, longer life expectancies and/or regulatory changes may result in the cost of funding this scheme increasing beyond what is currently expected which may materially and adversely impact the Tesco Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects*") or additional funding is required by Tesco Bank (see *Risk factors –* RISKS RELATING TO TESCO BANK)), it could have a material and adverse effect on their business, results of operations, financial condition and prospects. Although debt levels are being reduced (with the intention of returning the Tesco Group's and, if the Merger becomes Effective, the Combined Group's credit rating to investment grade ratings) and disciplined liquidity oversight and strategic planning across treasury activities is a key focus, any combination of the above factors could limit the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's ability in the longer term to access the funding needed to support their operations generally or on commercially unacceptable terms which could have a material and adverse effect on the Tesco Group's, the Booker Group's, and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

If the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group fail to deliver an effective, coherent and consistent strategy to respond to competitors and changes in market conditions they may lose market share and fail to improve and/or experience declining profitability

The Tesco Group and the Booker Group face and, if the Merger becomes Effective, the Combined Group will face, the ongoing challenge of a changing competitive landscape (including one which could intensify as a result of possible future market consolidation) and price pressure across their markets from a diverse range of retailers and wholesalers who operate different models and formats through a variety of physical, digital and integrated distribution channels and who offer a range of distinct product propositions from the premium to the value end of the market. The United Kingdom grocery industry, in particular, is highly competitive (including competition from United Kingdom retailers as well as from international operations in the United Kingdom and in the form of budget retailers who offer certain food and retailing products and services on a low cost model basis, premium retailers and online entrants) and, in respect of the Booker Group's business, barriers to entry are relatively low with a number of strong smaller specialist competitors and historically it has experienced periods of intense price competition (including in the form of price matching and price reduction initiatives) and grocery price deflation. Whilst the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group actively seek to be competitive on price, range and service, as well as developing formats to compete in different markets, and engage in market scanning and competitor analysis to refine their customer proposition, if the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group fail to deliver an effective, coherent and consistent strategy to respond to competitors and broader market changes (including in relation to the Booker Group's business as result of the recent decline in the number of small independent retailers and in the value of sales made through such retailers which has resulted from the growth of United Kingdom food multiples) or fail to adapt to technological developments to improve the customer experience as effectively as their competitors, they may lose market share and fail to improve and/or experience declining profitability which could have a material and adverse effect on the Tesco Group's, the Booker Group's, and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A failure by the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group to create brand reappraisal opportunities to improve customer perceptions of quality, value and service may affect their ability to build or maintain trust in their brands

Whilst maintaining a differentiated brand is a strategic priority and corporate responsibility goals have also been aligned with customer priorities and brands, if the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group fail to manage their brands or deliver products of sufficient value at the prices customers expect, this may affect their ability to consolidate loyalty and build trust, creating a perception among customers, colleagues, communities and suppliers that result in a loss of market share (including where the event which caused the brand damage was unfounded or was outside the knowledge or control of the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group). A failure to listen to the customers of the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group, and to update the customer proposition to react effectively to the changing marketplace could result in a loss of market share or unfavourable effects on their ability to do business. Any combination of these effects could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A significant failure of IT infrastructure or key IT systems may adversely impact operations, result in financial or regulatory penalties and negatively impact business reputation

The Tesco Group and the Booker Group rely on and, if the Merger becomes Effective, the Combined Group will rely on their own and third party IT infrastructure and IT systems for their day-to-day business operations, including for, amongst other things, processing in-store and online customer transactions, maintaining their websites and other information systems, storing and accessing commercial and operational data, utilising product ordering and other procurement systems, distributions and logistics and maintaining their administrative, and back-office functions. Any failure of, or disruption to, IT infrastructure and IT systems (including those of any third party payment processing service providers), whether caused by human error, ineffective or inadequately designed processes, failure of IT or other systems, improper conduct by employees, failures by outsourced providers or criminal activity (including fraud, theft and cybercrime), computer server or system failures, computer viruses, software performance problems or errors, power or network outages, computer or telecommunications failures, operational errors, failures to have built in sufficient resilience capabilities, security breaches, malicious attacks, natural disasters or otherwise, could:

- impair or prevent the processing (in-store and online) of customer transactions;
- impair the processing and storage of data and the day-to-day management of the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's store and online services;
- affect the Tesco Group's, the Booker Group's or, if the Merger becomes Effective, the Combined Group's ability to procure or distribute appropriate stock to its stores and warehouses or to customers directly through online channels;
- affect the security or availability of the Tesco Group's, the Booker Group's or, if the Merger becomes Effective, the Combined Group's store and online services which could, as a result, prevent or inhibit the ability of customers to access the Tesco Group's, the Booker Group's or, if the Merger becomes Effective, the Combined Group's store and online services;
- result in loss of information, unintended disclosure of sensitive information to third parties, litigation and/or financial or other regulatory penalties; and
- adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's income in the short term and may result in a loss of customers and a loss of market share which could result in a reduction in their revenues, margins or profitability.

The occurrence of any of the above events could adversely affect the Tesco Group's, the Booker Group's or, if the Merger becomes Effective, the Combined Group's ability to operate effectively, possibly for a prolonged period of time, and could also damage their brand and reputation, result in a loss of trust and goodwill amongst their customers and suppliers any of which could have a material adverse effect on their business, results of operations, financial condition and prospects.

Failure to comply with legal or regulatory requirements relating to data security or data privacy may result in the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group suffering reputational damage, fines or other adverse consequences

The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's technology systems involve the storage and transmission of sensitive data, including customer data (including through Tesco Clubcard), colleague data and supplier data in a number of locations, some of which may be private. Any security breaches resulting from a failure by the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group or their respective employees and/or agents or contractors to comply with legal or regulatory requirements relating to data security or data privacy, whether caused by human error, ineffective or inadequately designed processes, failure or interruption of IT or other systems, improper or negligent conduct by employees and/or agents or contractors, failures by outsourced providers, unauthorised access or criminal activity (including fraud, theft and cybercrime), may result in technology platforms and/or websites and mobile applications being shut down and/or negatively impacted. They could also result in significant disruption to the operations of the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group and, particularly in a climate where customers and colleagues are increasingly sensitive to matters of personal data usage, storage and security, data risk is increasing globally and regulatory expectations are expanding, reputational damage, leading to loss of customer trust, fines or other adverse consequences, including criminal penalties and consequential litigation, with a material adverse impact on their business, results of operations, financial condition and prospects.

As the regulatory environment becomes more restrictive due to changes in the global political landscape, the costs of doing business are increasing for the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group as a result of having to comply with more onerous and/or a greater number of rules and regulations and any failure to comply with legal or regulatory requirements may result in fines, criminal penalties and/or consequential litigation

Changes in the global political environment mean there is a trend towards increased regulatory requirements governing the business activities of the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group, including intervention in relation to regulation of foreign investors. The Tesco Group and the Booker Group are and, if the Merger becomes Effective, the Combined Group will be, subject to a wide variety of laws and regulations in key areas such as planning and environmental regulation, packaging regulation, regulation of the transportation, handling, storage and distribution of fuel, food hygiene standards, health and safety laws, tobacco regulation, alcohol regulation, regulation of e-commerce (including, for example, in relation to online payment systems), data protection law, employment law (including in relation to minimum wages and working hours), trade and immigration law, consumer law (including trading, pricing, and advertising laws), anti-corruption and bribery laws, financial services regulation, financial reporting and disclosure accounting laws, regulations and standards, regulation of foreign investors, the rules of the FCA, the London Stock Exchange and the Irish Stock Exchange, corporate and income and other tax rules and others, as well as by oversight and scrutiny by competition and other regulatory authorities. A consequence of the trend towards increased regulation is that the costs of doing business for the Tesco Group and the Booker Group are and, if the Merger becomes Effective, the Combined Group as a result of having to comply with more onerous and/or a greater number of rules and regulations are increasing, which may have a detrimental impact on financial performance if it is not possible to pass on any such additional costs of business to customers in the form of higher prices (which may influence customer spending decisions and priorities and adversely impact their relative competitive position). Although policies and procedures are in place to monitor and guide legal, regulatory and tax compliance, and to engage with government, regulatory and tax authorities, there is also a risk that the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may fail to comply with an applicable law or regulation and may consequently be subject to financial or regulatory fines and penalties, may be adversely impacted by a change in law or regulation or in the judicial interpretation of law or regulation, or may fail to adapt their business appropriately to such a change. The occurrence of any one or more of these factors could have a material adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

If there is a failure to meet workplace health and safety or other legal standards, death, injury or illness to customers, colleagues, contractors, suppliers or third parties may lead to a loss of customer trust and confidence as well as litigation and/or financial or other regulatory penalties being imposed

The Tesco Group and the Booker Group have, and, if the Merger becomes Effective, the Combined Group will have, policies and procedures in place designed to ensure that workplace health and safety and other standards in relation to its stores, distribution centres and delivery vehicles are met. However, deficiencies or failures in any of these policies or procedures (including as a result of an event outside the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's knowledge or control) could lead to injury, illness or death of one or more customers, employees or third parties and/or the risk of litigation and/or financial and/or other regulatory penalties being imposed and/or a loss of customers, distributors and suppliers and/or a loss of trust and confidence which could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A failure of the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group to attract, motivate and retain the most talented colleagues and develop desired culture, leadership and behaviours may materially and adversely impact the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects

Failure to attract, motivate and retain talented colleagues and develop the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's desired culture, leadership and behaviours may result in colleagues experiencing a decline in engagement or job satisfaction and may disrupt the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business operations (including leading to strikes or other industrial action) and damage its reputation, and could result in a material adverse change in the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A failure to ensure that products are obtained through responsible and sustainable methods across the supply chain and that product safety, packaging, labelling or other legal standards are complied with may lead to death, injury or illness to customers, colleagues, contractors or third parties, reputational harm and significant costs in relation to product recall, litigation and/or financial or other regulatory penalties being imposed

The Tesco Group and the Booker Group have, and, if the Merger becomes Effective, the Combined Group will have, policies and procedures in place in stores and distribution centres, with primary producers and suppliers designed to ensure that all products are safe, properly packaged and labelled, comply with applicable health and safety and other legal standards, and that the human rights of workers are respected and environmental impacts are managed responsibly. In particular, the Tesco Group and the Booker Group have, and, if the Merger becomes Effective, the Combined Group will have policies in place to communicate global product safety standards to suppliers and to test their compliance through audit programmes. However, deficiencies or failures in any of these policies or procedures (including as a result of an event outside the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's knowledge or control, for example, if errors are made in relation to packaging and labelling which result in information being provided to customers that is unsafe or misleading) could lead to injury, illness or death of one or more customers, employees or third parties, expensive product recalls or to the loss of future business from any customers, distributors and suppliers that have any concerns about the quality or safety of products. Changes to law and regulation aimed at implementing ethical environmental sustainability measures (including in relation to the packaging and labelling of products, the use of energy, emission charges and use of plastic bags in stores and for the delivery of groceries) could also materially increase the compliance and operational costs of the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group and its suppliers (for example by increasing the cost of energy, fuels, packaging and raw materials). Any one or more of these could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The business of the Tesco Group and the Booker Group is and, if the Merger becomes Effective, the Combined Group will be generally dependent on the supply of products by an extensive network of domestic and international suppliers

The business of the Tesco Group and the Booker Group is and, if the Merger becomes Effective, the Combined Group will be generally dependent on the supply of products supplied by an extensive network of primary producers, suppliers and distributors located in the United Kingdom, the ROI and internationally. The business of the Tesco Group and the Booker Group relies and, if the Merger becomes Effective, the Combined Group will rely on their network of domestic and international suppliers to supply products of sufficiently high-quality at the right prices to meet the high expectations of their customers and to ensure appropriate product availability and timelines for the delivery of products. The supply of products could be disrupted by a wide variety of factors and events impacting these key suppliers including a failure by the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group to develop and maintain effective supplier relationships of mutual trust, a disruption to supply chains such as may occur as a result of "Brexit" (see – *A failure to adequately prepare for the United Kingdom's withdrawal from the European Union will lead to increased costs and may lead to potential staff shortages, adverse currency impacts and increased regulatory burden*) because of the reliance by the Tesco Group and, if the Merger becomes Effective, the Combined Group on some ROI and, in respect of the Booker Group also, other international primary producers and suppliers and the in some cases comparatively limited capacity to source alternative suppliers in the United Kingdom, climate events or natural disasters affecting the geographies where they or their suppliers operate, adverse changes to general economic conditions, issues affecting shipping and other transport availability or cost, labour disruptions or disputes, the discovery of ethical concerns, such as human rights abuses, in a supply chain, unfavourable exchange rate fluctuations impacting upon procurement costs, increasing costs of raw materials being passed through the supply chain or a decline in supplier credit availability affecting product production or available payment terms. Additionally, the availability of credit insurance in relation to goods ordered by and supplied to the Booker Group is a significant factor in the willingness of some suppliers to extend credit to the Booker Group and if providers of credit insurance withdraw or materially reduce the levels of cover they are willing to provide, this might have a material and adverse effect upon the Booker Group's ability to obtain supplies from certain of its suppliers. Any one or more of these factors could result in the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group being unable to source sufficient volumes of products from key suppliers on acceptable terms (including as to price), in a timely way, or at all, which could result in a decline in customer loyalty and a loss of market share which could have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

A failure to adequately prepare for the United Kingdom's withdrawal from the European Union will lead to increased costs and may lead to potential staff shortages, adverse currency impacts and increased regulatory burden

On 23 June 2016, a majority of voters in the United Kingdom elected in a national referendum to withdraw from the European Union (commonly referred to as "Brexit"). The referendum was advisory and the terms of withdrawal are subject to a negotiation period that is expected to last at least two years from 29 March 2017 when the Government of the United Kingdom formally initiated the European Union withdrawal process. The referendum result has created significant political and economic uncertainty about the future relationship between the United Kingdom and the European Union generally, and the United Kingdom's future trading relationship with countries within and outside the European Union specifically, which could make adverse changes in general economic conditions or adverse exchange rate movements more likely to occur and which could, in turn, have a material and adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects. See further "*Risk factors – Risks relating to the Tesco Group and/or the Booker Group and, if the Merger becomes Effective, the Combined Group – An adverse change in macroeconomic conditions, whether domestically or internationally, may adversely affect consumer confidence, consumer spending decisions, their relative competitive position and the cost of doing business*".

Following withdrawal from the European Union, barrier-free trade access between the United Kingdom and other member states of the European Union (including the ROI) could be diminished or eliminated and the United Kingdom may no longer be covered by trade agreements entered into by the European Union which apply to all member states and so will either have to seek to negotiate new trade agreements or join existing trade agreements (such as the World Trade Organisation tariffs) which could result in the transfer of goods between the European Union and the United Kingdom, or between certain non-EU countries and the United Kingdom, becoming subject to import/export duties and/or non-tariff trade barriers (including health and safety, product labelling and other standards, many of which are currently standardised across the EU). Such duties or trade barriers (including duties or trade barriers impacting primary producers and other suppliers in the ROI that jointly supply businesses of the Tesco Group and, if the Merger becomes Effective, the Combined Group in the United Kingdom and ROI) could lead to delays to the Tesco Group's, the Booker Group's, and, if the Merger becomes Effective, the Combined Group's logistics distribution operations and result in the cost of doing business being materially affected if not passed on, in whole or in part, to consumers, caterers and retailers in the form of price increases (which may influence customer spending decisions and priorities and adversely impact their relative competitive position). In addition, it is possible that the economic uncertainty that results from Brexit may depress consumer confidence which may lead to a reduction in customer spending.

Another potential outcome of the United Kingdom's withdrawal from the European Union is that limitations may be placed on the principle of free movement of people which currently permits EU nationals to work in the United Kingdom. Primary producers and suppliers to the Tesco Group and the Booker Group currently employ a significant number of EU nationals and if the United Kingdom's withdrawal from the European Union does lead to restrictions being placed on European Union nationals working in the United Kingdom, the number of people employed by primary producers and suppliers to the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may decline which could have a material and adverse effect on their business, results of operations, financial condition and prospects.

A failure to adequately prepare for the United Kingdom's withdrawal from the European Union will lead to increased costs, potential staff shortages, adverse currency impacts and increased regulatory burden and could adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may be subject to litigation or other legal or investigatory proceedings from time to time

As with all businesses, there is a risk that the Tesco Group, the Booker Group, and if the Merger becomes Effective, the Combined Group could be subject to material civil or criminal litigation, regulatory or other investigations or other complaints that could result in the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group being required to pay material damages or fines or material amounts in order to settle or satisfy any such claims, require significant management time to be incurred and material damage being done to the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's reputation, brand or customer or supplier trust leading to a loss of market share (including if the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group is able to successfully defend or rebuff the litigation or investigation). Any such litigation or other legal or investigatory proceedings could be expensive and time-consuming and cause a significant diversion of management time. In addition, the outcome of litigation or an investigation can be difficult to predict with any certainty, and so there is a risk that the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may underestimate or overestimate the materiality of a particular claim which could result in selection of an inefficient or ineffective defence strategy. Any of these factors alone or in combination could result in a material adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The Tesco Group and the Booker Group have, and if the Merger becomes Effective, the Combined Group will have significant funding obligations in relation to their defined benefit pension schemes. Low investment returns, high inflation, changes in bond yields, longer life expectancies and/or regulatory changes may result in the cost of funding of these schemes increasing beyond what is currently expected which may materially and adversely impact the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects

If the Merger becomes Effective, the Combined Group will provide retirement benefits for its former and current employees through a number of pension schemes, including defined benefit pension schemes. As at 26 August 2017, the estimated Tesco Group net pension deficit was £2.4 billion (post-tax) on an IAS 19 accounting basis. Tesco's United Kingdom defined benefit pension scheme (the "TPPS") was closed to new entrants and future accruals from November 2015. Under the current agreement with the Trustees of the TPPS, the Tesco Group, and if the Merger becomes Effective the Combined Group will contribute, £285 million per annum into the TPPS commencing April 2018. The Tesco Group also operates defined benefit pension schemes in overseas jurisdictions, including two schemes operated in ROI. Significant assumptions have been made in valuing the Tesco's defined benefit schemes obligations, including in relation to investment returns, discount rates, inflation rates, bond yields and expected long-term interest rates, long-term bond yields and changes in life expectancy. Small changes in these assumptions could result in significant adverse changes to the valuation of the Tesco Group's and, if the Merger becomes Effective, the Combined Group's pension liabilities.

There is a risk, therefore, that further contributions over and above those currently agreed could be required from the Tesco Group and, if the Merger becomes Effective, the Combined Group in future. In addition, the Tesco Group and the Booker Group are, and if the Merger becomes Effective, the Combined Group will be subject to the risk that future legal and regulatory changes to the pension scheme could introduce more onerous requirements and increase their financial liabilities. Any such additional contributions could have a material and adverse effect on the Tesco Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The Tesco Group and the Booker Group are exposed and, if the Merger becomes Effective, the Combined Group will be exposed, to fluctuations in foreign currency exchange rates

The Tesco Group and the Booker Group prepare and, if the Merger becomes Effective, the Combined Group will prepare, their financial statements in pounds sterling. With business operations in 10 countries and products sourced in over 12 currencies the Tesco Group's results of operations and, if the Merger becomes Effective, the Combined Group's results of operations will be exposed to risks associated with foreign currency movements which may have an impact on their reported results. Translation exposure arises from changes in the value of assets and liabilities denominated in currencies other than the reporting currency of the Combined Group, which could have a negative effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's results of operations and financial condition. Transactional exposure 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. To the extent there is a mismatch between pound sterling denominated revenues and foreign currency denominated costs and any additional costs (including those that are incurred by suppliers and passed on to the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group) are not passed on, in whole or in part, to consumers, caterers and retailers in the form of price increases (which may influence customer spending decisions and priorities and adversely impact their relative competitive position) this could have a negative effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's results of operations and financial condition.

The value of Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's freehold property portfolio may decline or the cost of maintaining the leasehold property portfolio may increase

There is a risk that the value of the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's freehold property portfolio may decline or that the cost of maintaining their leasehold property portfolios may increase, in each case, materially over time. For example, a slowdown in the property market or in general economic conditions could require the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group to impair the value of their freehold property portfolios and/or lead to freehold properties being difficult to sell or only being sellable at a lower price than their book value or the price that was paid for them.

As a substantial leasehold property holder, the Tesco Group is exposed and, if the Merger becomes Effective, the Combined Group will be exposed, to index linked and variable uplift rent inflation, which could result in the cost to the Tesco Group and, if the Merger becomes Effective, the Combined Group of maintaining their leasehold property portfolio increasing materially over time and could as a result have a material adverse effect on the Tesco Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The businesses of the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group are exposed to the risk of fraud and other dishonest activity by suppliers, customers and employees

While there are checks and controls in place, as well as regular compliance training, at each of the Tesco Group, the Booker Group and, if the Merger becomes Effective, there will be such checks and controls in place at the Combined Group, there remains the potential for fraud and other dishonest activity at all levels of the business and the risk of fraud or dishonest activity affecting the Tesco Group, the Booker Group and, if the Merger is Effective, the Combined Group and/or their customers in the future cannot be excluded. It is possible that the internal controls and processes that the Tesco Group and the Booker Group have in place and, if the Merger becomes effective, the Combined Group will have in place, that are designed to prevent and detect fraud may be inadequate. Any fraud incident or dishonest activity affecting the Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may lead to financial losses, a loss of customer trust and confidence, as well as litigation and/or financial or other regulatory penalties being imposed, any of which may have a material adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The Tesco Group, the Booker Group and, if the Merger becomes Effective, the Combined Group may fail to mitigate adequately the environmental risks to which they are exposed

The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's environmental risks include matters relating to minimising greenhouse gas emissions from energy, refrigeration and fuels in stores and transportation, waste management, promoting marine sustainability, sustainable agriculture and addressing deforestation and climate change in their supply chains (especially agriculture, manufacturing and packaging), and their ability to respond to consumer concerns in this area. Whilst the Tesco Group and the Booker Group work, and, if the Merger becomes Effective, the Combined Group will work to address the risk of climate change, deforestation, marine ecosystem loss and freshwater depletion through efficiency improvements, innovation, renewables, waste minimisation, policy advocacy, the sustainable management of natural resources and ecosystems, a failure to adequately mitigate any of these risks alone or in combination could damage their brand and reputation, result in a loss of trust and goodwill amongst their customers and suppliers, any of which could result in a material adverse effect on the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

RISKS RELATED TO TESCO BANK

Tesco Bank primarily operates in the United Kingdom retail financial services market, offering a range of simple personal banking products, principally current accounts, travel money, credit cards, personal loans, mortgages and savings and a range of insurance products, many of which are underwritten by Tesco Underwriting Limited, a joint venture with Ageas Group Plc in which Tesco Bank holds a 49 per cent. share. Tesco Bank also manages a number of ATMs in Tesco and One Stop stores throughout the United Kingdom. In addition to the principal risks above that apply generally to the Tesco Group as a whole, and that will apply to the Combined Group if the Merger becomes Effective, the risks identified below set out the principal risks relating specifically to Tesco Bank. The risks described below are not the only ones which the Tesco Bank will face relating to Tesco Bank. The risks described below are those that Tesco currently believes may materially affect the Tesco Bank. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties relating to Tesco Bank. Additional risks and uncertainties that are not currently known to Tesco, or those that it currently deems not to be material, may become material and adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects and/or the value of Tesco Shares. The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects could be materially and adversely affected by any of these risks. The market price of Tesco Shares may decline due to any of these risks or other factors and Tesco Shareholders may lose all or part of their investment.

Tesco Bank operates in a highly regulated industry and is subject to significant legislative and regulatory oversight and scrutiny

Tesco Bank is authorised by the PRA and regulated and supervised by the PRA and the FCA (*see Part 4 (Regulatory Overview – Financial operations – United Kingdom regulatory environment) of this Prospectus*). In addition to obligations under a wide variety of laws and regulations, including the FSMA, the CCA and the Data Protection Act, the Tesco Bank is required to maintain its regulated status, including requirements to have adequate financial and other resources to operate its business. There is a risk that Tesco Bank may fail to comply with an applicable law or regulation which could expose Tesco Bank to substantial regulatory intervention, financial or other regulatory penalties and/or litigation, including, in extreme cases, the Tesco Bank losing its banking licence and ability to do business, each of which could have a material adverse effect on Tesco Bank's, the Tesco Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

The legal and regulatory environment in which Tesco Bank operates is subject to significant change and regulators can apply a wide range of sanctions to firms (and individuals working for firms) found to be operating in breach of relevant regulations

Significant new regulatory requirements have been, and continue to be, imposed on financial institutions which may impact Tesco Bank, as well as the third parties which are relevant for Tesco Bank's business (such as the underwriters for certain parts of Tesco Bank's insurance business). Tesco Bank is subject to various risks associated with the provision of financial services, including the risk of increasing regulation and proactive and intrusive supervision by the PRA and FCA. There remains significant regulatory focus in relation to conduct risk, with continued industry-wide focus on provision for customer redress. The FCA also took over regulation of consumer credit firms in April 2014 and, as a result, there have been relatively significant changes in the applicable regulatory regime and approach to enforcement, and this scrutiny is expected to continue. Legal and regulatory developments could adversely impact the businesses of Tesco Bank in various ways, including:

- limiting the ability of Tesco Bank to provide certain of its current or planned services;
- limiting the ability of Tesco Bank to retain and/or attract retail deposits;
- limiting the ability of Tesco Bank to outsource certain of its activities;
- placing further financial and corporate governance restrictions on Tesco Bank; and
- significantly increasing compliance and associated costs of Tesco Bank, for instance by requiring the business of Tesco Bank to devote substantial time and cost to the implementation of new rules and related changes in its operations.

Future changes in the legal and regulatory environment in which Tesco Bank operates may impose stricter requirements on Tesco Bank in areas that are currently subject to regulation. A failure by Tesco Bank to react to potential changes could result in financial penalties, reputational damage or regulatory investigations, any of which could have a material adverse effect on its business, results of operations, financial condition and prospects.

As noted above (see "*Risk factors – risks relating to the Tesco Group and/or the Booker Group and, if the Merger becomes Effective, the Combined Group – A failure to adequately prepare for the United Kingdom's withdrawal from the European Union will lead to increased costs and may lead to potential staff shortages, adverse currency impacts and increased regulatory burden*"), the United Kingdom has voted by referendum to withdraw from the European Union. A number of the laws and regulations which apply to Tesco Bank and its business derive from the implementation of European law into English law. Changes to existing law and regulation which arise as a result of the United Kingdom leaving the European Union could have a material and adverse effect on the business, results of operations, financial condition and prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group.

Under the Banking Act 2009 (as amended) (the "2009 Act"), actions may be taken by the Treasury, the Bank of England and the PRA pursuant to the special resolution regime in order to address a situation where all or part of the business of a United Kingdom institution with permission to accept deposits under the FSMA (such as Tesco Bank), and certain other United Kingdom regulated institutions (each a "United Kingdom Bank"), has encountered, or is likely to encounter, financial difficulties. The special resolution regime sets out five "stabilisation options" which are achieved through the exercise of one or more of the "stabilisation powers". The stabilisation powers are:

- the resolution instrument powers – broadly, that is, the power to make a resolution instrument which makes special bail-in provision with respect to a specified bank. This gives the Bank of England the power to cancel the issued share capital of a relevant entity and permits the Bank of England to impose losses on creditors;
- the share transfer powers – that is, the power providing for securities issued by a financial institution (including Tesco Bank) to be transferred;
- the property transfer powers – that is, the power providing for property, rights or liabilities of a financial institution (including Tesco Bank) to be transferred; and

- the third country instrument powers – these powers apply where the Bank of England has been notified of third-country resolution action in respect of a third-country institution or third-country parent undertaking.

The 2009 Act also vests power in the Bank of England to override, vary or impose contractual obligations between a United Kingdom Bank or its holding company and its former group undertakings (as defined in the 2009 Act), for reasonable consideration, in order to enable any transferee or successor bank of a United Kingdom Bank, or its holding company, to operate effectively. In the event that Tesco Bank entered into financial difficulty, exercise of the stabilisation powers under the 2009 Act could have a material adverse impact on the business, results of operations, financial condition and prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group. Even if Tesco Bank were not in financial difficulty, the 2009 Act provides for the Bank of England to require institutions (such as Tesco Bank) or certain members of an institution's group to take measures which, in the opinion of the Bank of England, are required to address impediments to the effective exercise of the stabilisation powers or the winding up of that person. The Bank of England may also give directions requiring an institution or certain members of its group to maintain a minimum requirement for own funds and eligible liabilities, to maintain particular kinds of eligible liabilities or to issue particular kinds of eligible liabilities or take other specified steps. Such requirements being imposed on Tesco Bank and Tesco Group could have a material adverse impact on the business, results of operations, financial condition and prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group.

As a United Kingdom bank, Tesco Bank is exposed to certain financial risks that are inherent to financial institutions, including liquidity and funding risks, credit risk and regulatory capital risk

- *Liquidity risk* – Liquidity risk is the risk that Tesco Bank, although solvent, either does not have sufficient financial resources available to enable it to meet its obligations as they fall due or can secure such resources only at excessive cost. This includes the risk that a given security cannot be traded quickly enough in the market to prevent a loss if a credit rating falls. Although as stated in Part 15 – ADDITIONAL INFORMATION, Tesco considers it has sufficient working capital to meet the Tesco Group's requirements (including those of Tesco Bank) for the next 12 months following the date of this Prospectus, there is a risk that in the longer term Tesco Bank will be unable to maintain sufficiently stable and diverse sources of funding (including through retail deposits and/or wholesale funding markets) or that it will be unable to attract sufficient financial resources to enable it to meet its obligations as they fall due (or be able to secure such resources only at excessive cost), which could have a material adverse effect on its ability to do business.

- *Credit risk* – Credit risk is the risk that a borrower or counterparty will default on a debt or obligation by failing to make contractually obligated payments or that Tesco Bank will incur losses due to any other counterparty failing to meet their financial obligations. Tesco Bank's credit risk principally arises from its lending to retail customers but also arises as a result of the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives and contractual arrangements with third parties where payments and commissions are due to Tesco Bank. Tesco Bank's current account, credit card, personal loan and mortgage loan portfolios may be subject to changes in credit quality, due to a general deterioration in economic conditions or by failures in its credit assessment process, which could adversely impact its ability to recover amounts due. Tesco Bank is also subject to wholesale credit risk in respect of its treasury counterparties as a result of cash management, liquidity, and market risk management, with the inherent risk that these counterparties could fail to meet their obligations. There is a risk that Tesco Bank's management and control of these activities could be ineffective, which could expose the

Tesco Bank to unforeseen levels of bad debt. This in turn could have a material negative impact on the business, results of operations, financial condition, or prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group.

- *Regulatory capital risk* – Regulatory capital risk is the risk that Tesco Bank fails to maintain the minimum level of capital which it is required by law and regulation to have or that there are adverse changes to the applicable capital requirements. Any changes to the regulatory capital requirements applicable to Tesco Bank, including for example, the recent Basel III reforms and the obligation to maintain a minimum requirement for own funds and eligible liabilities ("MREL"), may result in an increase in the levels of capital Tesco Bank must maintain. Tesco Bank may be required to raise further capital in order to ensure compliance with applicable regulatory capital requirements. Any failure to do so may lead to Tesco Bank being subject to regulatory sanctions or other restrictive measures, including the revocation of operating licences.

Any one or more of these factors could have a material adverse impact on the business, results of operations, financial condition and prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group.

Tesco Bank is exposed to general United Kingdom economic conditions and the risk that a general economic slowdown may have a negative effect on customers' ability to repay their debts

A worsening of general economic conditions and market trends could lead to a decline in customer demand for Tesco Bank's services as well as changing Tesco Bank's exposure to interest rate and other changes. For example, an economic slowdown affecting employment levels, wages, interest rates and other economic factors or interest rate changes could lead to an increase in bad debts and/or a decline in customer demand for debt which could adversely affect Tesco Bank's profitability. As with other financial institutions, Tesco Bank is also exposed to the risk of contagion in the event of a deterioration (or perceived deterioration) in the soundness of, or a failure of, another financial institution, whether in the United Kingdom or abroad. Any one or more of these factors could have a material adverse effect on the business, results of operations, financial condition, or prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group.

Tesco Bank may suffer loss as a result of operational risk, including human error, ineffective or inadequately designed processes, failure of IT or other systems, improper conduct by employees, failures by outsourced providers or criminal activity including fraud, theft and cybercrime

Tesco Bank is exposed to the risk of loss caused by human error, ineffective or inadequately designed processes, systems failures, failure to maintain an appropriate level of operational resilience, failure to effectively manage change, improper conduct and/or criminal activity including cyber-attacks, whether originating within or outside the Tesco Group or, if the Merger becomes Effective, the Combined Group. In addition, as a significant portion of Tesco Bank's services and processes are provided by third-party service providers, a key operational risk to the business is a failure by an outsourced provider. Any one or more of these factors could result in a material negative impact on the business, results of operations, financial condition and prospects of Tesco Bank, the Tesco Group and, if the Merger becomes Effective, the Combined Group. See further "*Risk factors – Failure to comply with legal or regulatory requirements relating to data security or data privacy may result in the Tesco Group, the Booker Group or, if the Merger becomes Effective, the Combined Group suffering reputational damage, fines or other adverse consequences*".

The market for retail banking in the United Kingdom is highly competitive. Failure to compete with competitors on areas including price, product range, quality service and reputation could have a material adverse effect on Tesco Bank's business, results of operations, financial condition and prospects

As is the case for all banks and financial institutions, Tesco Bank faces strong competitive pressures in the markets in which it operates, including from the traditional "Big Four" retail banks, building societies, banks associated with competing retailers and a very broad range of "challenger banks" and other potential new entrants. If Tesco Bank is unable to compete successfully against existing and new competitors, or if it fails to effectively anticipate and respond to customer trends in a timely way, it could lose market share to competitors or fail to grow its profitability in line with its business strategies, which could have a material and adverse effect on Tesco Bank's, the Tesco Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects.

RISKS AND OTHER CONSIDERATIONS RELATING TO THE MERGER

In addition to the principal risks above that apply generally to the Tesco Group as a whole, and that will apply to the Combined Group if the Merger becomes Effective, the risks identified below set out the principal risks relating specifically to the Merger. The Merger-related risks described below are those that Tesco currently believes may materially affect the value of Tesco Shares. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties relating to the Merger. Additional risks and uncertainties relating to the Merger that are not currently known to Tesco, or those that it currently deems not to be material, may become material and adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects and/or the value of Tesco Shares. The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects could be materially and adversely affected by any of these risks. The market price of Tesco Shares may decline due to any of these risks or other factors and Tesco Shareholders may lose all or part of their investment.

The Combined Group's future prospects will, in part, be dependent on the Combined Group's ability to integrate the Booker Group effectively and realise the synergy benefits estimated to result from the Merger

Tesco believes that the Merger will enable significant opportunity for revenue and cost synergies. The Tesco Directors expect pre-tax synergies for the Combined Group to reach a recurring run-rate of at least £200 million per annum by the end of the third year following the Merger becoming Effective. However, whilst initial work on integration has begun, more detailed analysis will need to be undertaken, before a detailed integration plan is finalised and can be implemented. Accordingly, the ability to integrate Booker and achieve the projected synergies is dependent upon a significant number of factors, some of which may be beyond the control of the Combined Group. For example, there is a risk that the projected synergy benefits will fail to materialise (for example, if the Merger is not completed as contemplated), will take longer to materialise, that such synergy benefits may be materially lower than have been estimated (including if suppliers wish to renegotiate any arrangements with the Combined Group as a result of the Merger,) or that costs or dis-synergies expected to arise in respect of implementation of the Merger may be greater than expected. Any one or more of these factors could result in a loss of reputation, trust and goodwill with investors and/or have a material adverse effect on the Combined Group's business, results of operations, financial condition and prospects. See further Part 11 ("Tesco Quantified Financial Benefits Statement") of this Prospectus.

The implementation of the Merger is subject to the satisfaction or waiver, where applicable, of a number of conditions

Implementation of the Merger is subject to, among other things, the approval of the Scheme by the requisite majority in number and value of Booker Scheme Shareholders, the sanction of the Scheme by the Court, without modification, or with modification on terms acceptable to Tesco and Booker, all resolutions of Booker Shareholders and Tesco Shareholders required to approve and implement the Scheme and the Merger respectively being duly passed, approvals being obtained from the FCA and the London Stock Exchange in relation to Admission and there having been no material adverse change or deterioration in the business, assets, financial or trading position or profit or prospects of the Booker Group.

Whilst the Tesco Group and the Booker Group are confident that all conditions to the Merger can be satisfied or waived, as applicable, there can be no guarantee that the conditions will be met in a timely way or waived, as applicable, on terms acceptable to both the Tesco Group and the Booker Group, or at all or can be met only after undue diversion of financial resources or management time and attention. If this were the case, the Merger may be delayed (which would prolong the period of uncertainty for both the Tesco Group and the Booker Group and may result in additional costs to their businesses), or may not become effective, each of which could have a material adverse effect on the business, results of operations, financial condition, or prospects of the Tesco Group and the Booker Group and, if the Merger becomes Effective, the Combined Group.

Even if a material adverse change to the Booker Group's business or prospects was to occur, in certain circumstances, Tesco may not be able to invoke the conditions and terminate the Merger

Tesco will only be permitted by the Takeover Panel to invoke a condition to terminate the Merger if the Takeover Panel is satisfied that the underlying circumstances which Tesco is relying on to terminate the Merger are considered to be of material significance to Tesco in the context of the Merger, and this is a high threshold to satisfy. In some cases, invoking a condition will require the relevant circumstances to be of very considerable significance and strike at the heart and purpose of the Merger. This test may not align with Tesco's commercial interests. There is, therefore, a risk that Tesco will be required to proceed with the Merger at a time when circumstances have arisen which make, or may make, completion of the Merger commercially undesirable for Tesco. This could have a material adverse effect on the Tesco Group's business, results of operations, financial condition and prospects.

RISKS AND OTHER CONSIDERATIONS RELATING TO TESCO ORDINARY SHARES

In addition to the principal risks above that apply generally to the Tesco Group as a whole, and that will apply to the Combined Group if the Merger becomes Effective, the risks identified below set out the principal risks relating specifically to the Tesco Ordinary Shares. The risks relating to the Tesco Ordinary Shares described below are those that Tesco currently believes may materially affect the value of Tesco Shares. These risks should not be regarded as a complete and comprehensive statement of all potential risks and uncertainties relating to the Tesco Ordinary Shares. Additional risks and uncertainties relating to the Tesco Ordinary Shares that are not currently known to Tesco, or those that it currently deems not to be material, may become material and adversely affect the Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects and/or the value of Tesco Shares. The Tesco Group's, the Booker Group's and, if the Merger becomes Effective, the Combined Group's business, results of operations, financial condition and prospects could be materially and adversely affected by any of these risks. The market price of Tesco Shares may decline due to any of these risks or other factors and Tesco Shareholders may lose all or part of their investment.

The Tesco Shares and Tesco ADRs may be subject to market price volatility and the market price of the Tesco Shares and Tesco ADRs may fluctuate significantly

The market price of Tesco Shares and Tesco ADRs may be volatile and subject to wide fluctuations. Fluctuations may occur as a result of a variety of factors, including, but not limited to, those factors referred to in these Risk Factors, as well as period to period variations in operating results or changes in revenue or profit estimates by the Tesco Group, industry participants or financial analysts. The market price could also be adversely affected by developments unrelated to the Tesco Group's operating performance, such as the operating and share price performance of other companies that investors may consider comparable to the Tesco Group, speculation about the Tesco Group in the press or the investment community, unfavourable press (including in relation to the Merger), an unfavourable view of the stock market in respect of the Merger, strategic actions by competitors (including acquisitions and restructurings), changes in market conditions, regulatory changes and broader market volatility and movements.

The Tesco Directors may choose not to pay any dividends on the Tesco Shares. Future dividend payments will be dependent on, amongst other things, the Combined Group's future profits, financial condition, capital requirements, pension commitments, distributable reserves, credit terms, general economic conditions and other factors that the Tesco Directors deem relevant from time to time

Although Tesco recommenced paying dividends in 2017 (and expects dividends to grow progressively with the goal of achieving a target cover of approximately two times earnings per share over the medium term), there can be no guarantee that the Tesco Group will continue paying dividends, particularly given the competitive nature of the industry in which it operates. If the Tesco Group's and, if the Merger becomes Effective, the Combined Group's cash flow sales, profit and cash flow were to underperform current expectations, Tesco's capacity to pay a dividend could be materially adversely affected. Any decision to declare and pay dividends will be made at the discretion of the Tesco Directors and will depend on, among other things, applicable law and regulation, including regulatory capital requirements, restrictions on the payment of dividends in the Tesco Group's and, if the Merger becomes Effective, the Combined Group's financing arrangements, the Tesco Group's and, if the Merger becomes Effective, the Combined Group's financial position, including the level of its distributable reserves, working capital requirements, finance costs, pensions funding commitments, general economic conditions and other factors the Tesco Directors deem significant from time to time.

The Tesco Shares are, and any dividends to be paid in respect of them will be, denominated in pounds sterling. An investment in Tesco Shares by an investor whose principal currency is not sterling exposes the investor to foreign currency rate risk

The Tesco Shares are, and any future dividends to be paid in respect of them are expected to be, denominated in pounds sterling. Any holding in Tesco Shares by an investor whose principal currency is not pounds sterling exposes the investor to foreign currency exchange rate risk. Any depreciation of pounds sterling in relation to such foreign currency will reduce the value of the investment in the Tesco Shares or any dividends in foreign currency terms.

Tesco Shareholders in the United States may not be able to participate in future equity offerings

Tesco Shareholders are generally entitled to rights of pre-emption rights over certain increases in the issued share capital of Tesco. The securities laws of certain jurisdictions may, however, restrict Tesco's ability to allow certain Tesco Shareholders to participate in or exercise these rights of pre-emption. In particular, Tesco Shareholders in the United States may not be entitled to exercise these rights unless either the Tesco Shares and any other securities that are offered and sold are registered under the US Securities Act, or the Tesco Shares and such other securities are offered pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the US Securities Act. Tesco cannot give any assurance that any exemption from such overseas securities law requirements would be available to enable US or other Tesco Shareholders to exercise their pre-emption rights or, if available, that Tesco will utilise any such exemption.

Substantial future sales by significant Tesco Shareholders or issues of Tesco Shares could impact their market price

Tesco cannot predict what effect, if any, future sales of Tesco Shares by significant Tesco Shareholders or issues of Tesco Shares, or the availability or perception of such future sales or issues, will have on the market price of Tesco Shares. Sales of substantial amounts of Tesco Shares by significant Tesco Shareholders in the public market following the Merger, or the issuance of a substantial number of Tesco Shares, or the perception or any announcement that such sales or issuances could occur, could adversely affect the market price of Tesco Shares and may make it more difficult for investors to sell their Tesco Shares at a time and price which they deem appropriate, or at all.

The issue of additional Tesco Shares in connection with future acquisitions, any share incentive or share option plan or otherwise may dilute all other shareholdings

The Tesco Group, and if the Merger is Effective, the Combined Group may seek to raise financing to fund future acquisitions and other growth opportunities and may, for these and other purposes, such as in connection with share incentive and share option plans, issue additional equity or convertible equity securities. As a result, the existing Tesco Shareholders may suffer dilution in their percentage ownership or the price of the Tesco Shares may be adversely affected.

EXPECTED TIMETABLE OF PRINCIPAL EVENTS

Expected timetable of principal events

Event	**Time and Date**[1]
Prospectus and Circular published	5 February 2018
Scheme Document published	5 February 2018
Latest time and date for receipt of proxy forms and voting instructions for Tesco General Meeting	10.00 a.m. on 26 February 2018[2]
Latest time and date for receipt of proxy forms and voting instructions for Booker Court Meeting	12.00 p.m. 26 February 2018
Latest time and date for receipt of proxy forms and voting instructions for Booker General Meeting	12.10 p.m. on 26 February 2018
Tesco General Meeting held	10.00 a.m. on 28 February 2018
Booker Court Meeting held	12.00 p.m. on 28 February 2018
Booker General Meeting held	12.10 p.m. on 28 February 2018[3]
High court hearing to sanction Scheme	2 March 2018[4]
Last day for dealings in, and for registration of transfers of, and disablement in CREST, of Booker Shares	2 March 2018[4]
Scheme Record Time and record time with respect to the Closing Dividend	6.00 p.m. on 2 March 2018[4]
Effective Date of the Scheme	by no later than 8.00 a.m. on 5 March 2018[4]
Announcement concerning the extent to which elections under the Mix and Match Facility will be satisfied	5 March 2018[4]
Issue, admission and commencement of dealings of New Tesco Shares on the London Stock Exchange and the Irish Stock Exchange	by 8.00 a.m. on 5 March 2018[4]
Delisting of Booker Shares	5 March 2018[4]
Crediting of New Tesco Shares to CREST accounts	within 14 days of the Effective Date[4]
Despatch of share certificates for New Tesco Shares	within 14 days of the Effective Date[4]
Despatch of cash consideration to Booker Scheme Shareholders	within 14 days of the Effective Date[5]
Longstop Date	30 November 2018

All times are London times. Each of the times and dates in the above timetable is subject to change without further notice.

Notes:

(1) The dates and times given are indicative only and are based on current expectations and may be subject to change.

(2) Only persons entered in the register of members of Tesco at 6.30 p.m. on 26 February 2018 or, in the event that the meeting is adjourned, 6.30 p.m. on the date which is two working days prior to the reconvened meeting, shall be entitled to attend, speak and vote at the meeting. Changes to entries on the register after this time shall be disregarded in determining the rights of any person to attend, speak and vote at the meeting or adjourned meeting.

(3) To commence at the time fixed or, if later, immediately after the conclusion of the Booker Court Meeting.

(4) The expected date of the Court hearing to sanction the Scheme and each of the subsequent dates set out in the timetable could be subject to change to earlier or later dates. These dates will depend, among other things, on the date on which: (i) the Conditions to the Scheme are satisfied or, if capable of waiver, waived; (ii) the Court sanctions the Scheme; and (iii) a copy of the court order is delivered to the Registrar of Companies.

(5) This is the latest date by which the Scheme may become effective unless Tesco and Booker agree, and (if required) the Court and the Takeover Panel allow, a later date.

INDICATIVE MERGER STATISTICS

Indicative Merger statistics	
Consideration to be paid for each Booker Scheme Share	0.861 New Tesco Shares and 42.6 pence
Number of Tesco Shares in issue as at 1 February 2018 (being the Latest Practicable Date)	8,191,798,719
Number of Tesco Shares to be issued pursuant to the Merger	1,543,080,084
New Tesco Shares as a percentage of the Tesco ordinary share capital in issue immediately following Admission	approximately 16 per cent.[1]
Number of Tesco Shares in issue immediately following issue of Merger consideration	9,743,878,803[2]

Notes:

(1) Based on the Company's issued share capital at the Latest Practicable Date.

(2) On the assumption that no new Tesco Shares are issued between 1 February 2018 (being the Latest Practicable Date) and Admission.

IMPORTANT INFORMATION

General

Investors should only rely on the information in this Prospectus. No person has been authorised to give any information or to make any representations in connection with the Merger or the issue of the New Tesco Shares other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorised by or on behalf of Tesco, the Tesco Directors, the Proposed Directors or the Sponsor, Greenhill, Citi or Davy. No representation or warranty, express or implied, is made by the Sponsor, Greenhill, Citi or Davy or any of their affiliates as to the accuracy or completeness of such information, and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Sponsor, Greenhill, Citi or Davy or any of their affiliates as to the past, present or future. Without prejudice to any obligation of Tesco to publish a supplementary prospectus pursuant to the FSMA, neither the delivery of this Prospectus nor any issue of New Tesco Shares pursuant to the Merger shall, under any circumstances, create any implication that there has been no change in the business or affairs of the Tesco Group since the date of this Prospectus or that the information contained herein is correct as of any time subsequent to its date.

Tesco will update the information provided in this Prospectus by means of a supplement if a significant new factor that may affect the evaluation by prospective investors of the Merger occurs after the publication of this Prospectus or if this Prospectus contains any material mistake or substantial inaccuracy. This Prospectus and any supplement will be subject to approval by the FCA and will be made public in accordance with the Prospectus Rules.

The contents of this Prospectus are not to be construed as legal, business or tax advice. Each prospective investor should consult his, her or its own lawyer, financial adviser or tax adviser for legal, financial or tax advice and related aspects of the Merger. In making an investment decision, each investor must rely on their own examination, analysis and enquiry of Tesco and the terms of the Merger, including the merits and risks involved.

This Prospectus is not intended to provide the basis of any credit or other evaluation and should not be considered as a recommendation by any of Tesco, the Tesco Directors, the Proposed Directors, the Sponsor, Greenhill, Citi or Davy or any of their affiliates or representatives that any recipient of this Prospectus should vote in favour of the Scheme. Prior to making any decision as to whether to vote in favour of the Scheme, prospective investors should read this Prospectus. Investors should ensure that they read the whole of this Prospectus carefully and not just rely on key information or information summarised within it. In making an investment decision, prospective investors must rely upon their own examination, analysis and enquiry of Tesco and the terms of the Scheme and this Prospectus, including the merits and risks involved.

None of Tesco, the Tesco Directors, the Proposed Directors or the Sponsor, Greenhill, Citi or Davy or any of their affiliates or representatives is making any representation to any investor regarding the legality of an investment by such investor under the laws applicable to them. Each investor should consult with his, her or its own advisers as to the legal, tax, business, financial and related aspects of an investment in the Shares.

Presentation of financial and other information

The historical financial information in this Prospectus relating to (a) the Tesco Group referred to in Part 8 ("Tesco Historical Financial Information") and elsewhere in the Prospectus which is incorporated by reference into this Prospectus as set out therein, and (b) the Booker Group referred to in Part 9 – BOOKER HISTORICAL FINANCIAL INFORMATION and elsewhere in the Prospectus, have each been prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRS").

The significant accounting policies (a) for the Tesco Group are set out within the Tesco Group's historical consolidated financial information for the 52 weeks ended 25 February 2017 which is incorporated by reference into this document as set out in Part 8 ("Tesco Historical Financial Information") of this Prospectus, and (b) for the Booker Group are set out within the Booker Group's historical consolidated financial information for the 52 weeks ended 24 March 2017 which is set out in Part 9 ("Booker Historical Financial Information") of this Prospectus.

Pro forma financial information

In this Prospectus, any reference to "pro forma" financial information is to information which has been extracted without material adjustment from the unaudited pro forma financial information contained in Part 11 ("*Unaudited pro forma financial information of the Combined Group*"). The unaudited pro forma financial information for the Combined Group has been prepared to illustrate the effect of the Merger on the income statement of the Tesco Group as if the Merger had taken effect on 28 February 2016 and the statement of net assets of the Tesco Group as if the Merger had taken effect on 26 August 2017.

The Unaudited Pro Forma Financial Information has been prepared in accordance with Annex II of the Prospectus Directive Regulation and in a manner consistent with the accounting policies to be adopted by the Tesco Group in preparing its audited financial statements for the year ended 24 February 2018.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and because of its nature, addresses a hypothetical situation. It does not purport to represent what the Combined Group's financial position or results of operations actually would have been if the Merger had been completed on the date indicated, nor does it purport to represent the results of operations for any future period or financial position at any future date.

Non-IFRS financial information

This Prospectus contains certain financial measures that are not defined or recognised under IFRS. Information regarding these measures is sometimes used by investors and management to evaluate the efficiency of a company's operations and its ability to employ its earnings toward repayment of debt, capital expenditures, and working capital requirements. There are no generally accepted principles governing the calculation of these measures and the criteria upon which these measures are based can vary from company to company. These measures, by themselves, do not provide a sufficient basis to compare the Tesco Group's performance with each other or with that of other companies and should not be considered in isolation or as a substitute for operating profit or any other measure of operating performance, or as an alternative to cash generated from operations as a measure of liquidity.

Tesco Group's Alternative Performance Measures (non-IFRS metrics)

The key non-IFRS financial measures referred to in this Prospectus include group sales, operating profit before exceptional items, retail operating cash flow, retail free cash flow, like-for-like sales, operating margin, profits/(losses) arising on property-related items, effective tax rate before exceptional items and net debt. Definitions of these terms and details of the adjustments required to reconcile these non-IFRS financial measures to their closest equivalent IFRS financial measures can be found in the 'Glossary – Alternative Performance Measures' section on pages 50-52 of Tesco's 2017/2018 Interim Results Statement, which is incorporated by reference into this Prospectus.

Booker Group's Alternative Performance Measure (non-IFRS metrics)

The Booker Group has adopted the following metric, which is considered to give an understanding of the Booker Group's underlying performance drivers. This measure is referred to as alternative performance measure (as defined in the ESMA Guidelines on Alternative Performance Measures) ("APMs"). The APM described below is not a measures of financial performance under generally accepted accounting principles, including IFRS, and should not be considered in isolation or as an alternative to the primary financial information relating to the Booker Group referred to in Part 9 – BOOKER HISTORICAL FINANCIAL INFORMATION "*Booker Historical Financial Information*" of this Prospectus. Because this measure is not determined in accordance with generally accepted accounting principles and is thus susceptible to varying calculations, it may not be comparable with other similarly titled measures of performance of other companies.

Like-for-like sales

Like-for-Like sales is a measure of change in sales from UK operations from prior year to current year. No adjustments to sales are made when individual customers are gained or lost. If a Booker Group business centre is closed, for the twelve months following the closure date the sales of the business centre are removed from the prior comparative. If sales are transferred to a replacement business centre in the same vicinity no such adjustment is made. If a business centre is opened where none previously existed, all sales for the first twelve months will be excluded. Where a business is acquired, sales are excluded until the anniversary of the acquisition.

The reconciliation of Booker's results from revenue to like-for-like sales in respect of the 52 weeks ended 25 March 2016 and the 52 weeks ended 24 March 2017 is as follows:

	52 weeks ended 25 March 2016	**52 weeks ended 24 March 2017**
	£m	***£m***
Revenue	4,991.5	5,327.9
Less:		
India[(1)]	26.2	29.8
BRP acquisition[(2)]	0.0	328.7
Closed branches[(3)]	18.7	0.0
Like-for-like sales	**4,946.6**	**4,969.4**

The reconciliation of Booker's results from revenue to like-for-like sales in respect of the 24 weeks ended 9 September 2016 and the 24 weeks ended 8 September 2017 is as follows:

	24 weeks ended 9 September 2016	**24 weeks ended 8 September 2017**
	£m	***£m***
Revenue	2,524.4	2,587.3
Less:		
India[(1)]	12.9	13.7
BRP acquisition[(2)]	0.0	0.0
Closed branches[(3)]	5.8	0.0
Like-for-like sales	**2,505.6**	**2,573.5**

Notes:

(1) India sales are deducted for all periods to exclude the impact of sales from non-UK operations.

(2) On 14 September 2015, the Booker Group acquired the entire issued share capital of Musgrave Retail Partners GB Limited (together with its subsidiaries, including Budgens and Londis), which subsequently changed its name to Booker Retail Partners (GB) Limited. Sales attributable to the BRP acquisition are excluded until the anniversary of the acquisition.

(3) Sales for closed branches are excluded from the 52 weeks ended 25 March 2016, the 24 weeks ended 9 September 2016 and the 52 weeks ended 24 March 2017.

Rounding

Certain data in this Prospectus, including financial, statistical, and operating information has been rounded. As a result of the rounding, the totals of data presented in this Prospectus may vary slightly from the actual arithmetic totals of such data. Percentages in tables have been rounded and accordingly may not add to 100 per cent.

Market, economic and industry data

Unless the source is otherwise stated, the market, economic and industry data in this Prospectus constitute the Tesco Directors' and the Proposed Directors' estimates, using underlying data from independent third parties. Tesco obtained market data and certain industry forecasts used in this Prospectus from internal surveys, reports and studies, where appropriate, as well as market research, publicly available information and industry publications.

While the Tesco Directors and the Proposed Directors believe the third-party information included in this Prospectus to be reliable, the Company has not independently verified such third-party information, and none of the Sponsor, Greenhill, Citi nor Davy makes any representation or warranty as to the accuracy or completeness of such information as set forth in this Prospectus. Tesco confirms that all third-party data contained in this Prospectus has been accurately reproduced and, so far as Tesco is aware and able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading.

Where third-party information has been used in this Prospectus, the source of such information has been identified.

No incorporation of website information

The contents of the Tesco websites, the Booker websites, any website mentioned in this Prospectus or any website directly or indirectly linked to those websites have not been verified and do not form part of this Prospectus and investors should not rely on such information.

Definitions and glossary

Certain terms used in this Prospectus, including all capitalised terms and certain technical and other items, are defined and explained in Definitions and Glossary.

All times referred to in this Prospectus are, unless otherwise stated, references to London time.

All references to legislation in this document are to the legislation of England and Wales unless the contrary is indicated. Any reference to any provision of any legislation or regulation shall include any amendment, modification, re-enactment or extension thereof.

Words importing the singular shall include the plural and *vice versa*, and words importing the masculine gender shall include the feminine or neutral gender.

Currencies/exchange rate information

Unless otherwise indicated, all references in this Prospectus to "sterling", "pounds sterling", "GBP", "£", or "pence" are to the lawful currency of the United Kingdom. All references to the "euro" or "€" are to the currency introduced at the start of the third stage of European Economic and Monetary Union pursuant to the Treaty establishing the European Community, as amended. All references to "US dollars" or "$" are to the lawful currency of the United States.

The average exchange rates of US dollars and euros are shown relative to pounds sterling below. The rates below may differ from the actual rates used in the preparation of the financial statements and other financial information that appears elsewhere in this Prospectus. The inclusion of these exchange rates is for illustrative purposes only and does not mean that the sterling amounts actually represent such US dollar or euro amounts or that such sterling amounts could have been converted into US dollars or euro at any particular rate, if at all.

Average rate against pounds sterling

	US dollar			
Year	**Period End Ending**	**Average**	**High**	**Low**
2011	1.5543	1.6	1.6707	1.5371
2012	1.6242	1.5852	1.6275	1.5318
2013	1.6566	1.5648	1.6566	1.4858
2014	1.5581	1.6474	1.7165	1.5515
2015	1.4734	1.5283	1.5883	1.4632
2016	1.234	1.3553	1.4810	1.2158
2017	1.3513	1.2886	1.3594	1.2068
2018 (through 31 January 2018)	1.4184	1.3814	1.4256	1.3513

	Euro			
Year	**Period End Ending**	**Average**	**High**	**Low**
2011	1.1987	1.1499	1.2007	1.1066
2012	1.2308	1.2332	1.2863	1.1793
2013	1.2014	1.1779	1.2325	1.1432
2014	1.2797	1.2409	1.2877	1.1911
2015	1.356	1.3776	1.4416	1.2726
2016	1.1731	1.2242	1.3644	1.0983
2017	1.126	1.1416	1.1942	1.0758
2018 (through 31 January 2018)	1.1425	1.1326	1.1456	1.1219

Source: Bloomberg

Constant currency

This Prospectus contains certain financial measures presented on a constant currency basis. Constant exchange rates are the average actual periodic exchange rates for the previous financial period and are used to eliminate the effects of exchange rate fluctuations in assessing performance. The Tesco Group uses constant currency information because the Tesco Directors believe it allows the Tesco Group to assess income statement performance on a like-for-like basis to better understand the underlying trends in the business.

The Tesco Directors do not evaluate the Tesco Group's results and performance on a constant currency basis without also evaluating the Tesco Group's financial information prepared at actual foreign exchange rates in accordance with IFRS. The measures presented on a constant currency basis should not be considered in isolation or as an alternative to the measures reported on the Tesco Group's income statement or the notes thereto, and should not be construed as a representation that the relevant currency could be or was converted into pounds sterling at that rate or at any other rate. Financial measures in this Prospectus are presented on an actual basis except where noted as being presented on a constant currency basis.

Forward-looking statements

This Prospectus includes forward-looking statements. These forward-looking statements involve known and unknown risks and uncertainties, many of which are beyond the Tesco Group's or the Combined Group's control and all of which are based on the Tesco Directors' current beliefs and expectations about future events. Forward-looking statements are sometimes identified by the use of forward-looking terminology such as "believe", "expects", "may", "will", "could", "should", "shall", "risk", "intends", "estimates", "aims", "plans", "predicts", "continues", "assumes", "positioned", "anticipates", "confident", "realisation", "consider" or "targets" or the negative thereof, other variations thereon or comparable terminology. These forward-looking statements include all matters that are not historical facts. They appear in a number of places throughout this Prospectus and include statements regarding the intentions, beliefs or current expectations of the Tesco Directors concerning, among other things, the future results of operations, financial condition, prospects, growth, strategies, and dividend policy of the Tesco Group or the Combined Group and the industry in which they operate or will operate. In particular, the statements under the headings "*Summary*" and "*Risk Factors*", the statements in Part 2 ("*Information on the Tesco Group*"), Part 3 ("*Information on the Booker Group*"), Part 7 ("*Tesco Operating and Financial Review*") and Part 9 ("*Booker Operating and Financial Review*") regarding Tesco's or the Combined Group's strategy, targets and other future events or prospects are forward-looking statements.

These forward-looking statements and other statements contained in this Prospectus regarding matters that are not historical facts involve predictions. No assurance can be given that such future results will be achieved; actual events or results may differ materially as a result of risks and uncertainties facing the Tesco Group or the Combined Group. Such risks and uncertainties could cause actual results to vary materially from the future results indicated, expressed, or implied in such forward-looking statements.

Such forward-looking statements contained in this Prospectus speak only as of the date of this Prospectus. Tesco, the Tesco Directors, the Proposed Directors and the Sponsor, Greenhill, Citi and Davy expressly disclaim any obligation or undertaking to update these forward-looking statements contained in this Prospectus to reflect any change in their expectations or any change in events, conditions, or circumstances on which such statements are based unless required to do so by applicable law, the Prospectus Rules, the Listing Rules, or the DTR of the FCA.

INFORMATION INCORPORATED BY REFERENCE

The following documents, which have previously been published or are published simultaneously with this Prospectus and have been filed with the FCA, shall be deemed to be incorporated in, and to form part of, this Prospectus:

(a) the independent auditors' report and audited consolidated financial statements of Tesco for the 52 weeks ended 25 February 2017 (which appear on pages 79 to 165 of Tesco's 2017 Annual Report and Financial Statements);

(b) the independent auditors' report and audited consolidated financial statements of Tesco for the 52 weeks ended 27 February 2016 (which appear on pages 77 to 141 of Tesco's 2016 Annual Report and Financial Statements);

(c) the independent auditors' report and audited consolidated financial statements of Tesco for the 53 weeks ended 28 February, 2015 (which appear on pages 75 to 138 of Tesco's 2015 Annual Report and Financial Statements);

(d) the unaudited interim consolidated financial information for Tesco as of and for the 26 weeks ended 27 August 2016;

(e) the unaudited interim consolidated financial information for Tesco as of and for the 26 weeks ended 26 August 2017; and

(f) Tesco's Articles of Association adopted on 23 June 2016,

save that any statement contained in this Prospectus, or in a document which is deemed to be incorporated in, and to form part of, this Prospectus, shall be deemed to be modified or superseded for the purpose of this Prospectus to the extent that any statement contained in any document which is subsequently incorporated by reference herein by way of a supplement prepared in accordance with Article 16 of the Prospectus Directive Regulation modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not, except as so modified or superseded, constitute part of this Prospectus.

Copies of documents incorporated by reference in this Prospectus will be available for inspection at www.tescoplc.com, and have also been made available at www.londonstockexchange.com/exchange/news/market-news/marketnews-home.html

Any documents themselves incorporated by reference in a document incorporated by reference in this Prospectus shall not form part of this Prospectus.

Any non-incorporated parts of a document referred to herein are either deemed not relevant for an investor or are otherwise covered elsewhere in this Prospectus.

TESCO DIRECTORS, PROPOSED DIRECTORS, COMPANY SECRETARY, REGISTERED OFFICE AND ADVISERS

Tesco Directors	John Allan CBE *(Non-Executive Chairman)* Dave Lewis *(Group Chief Executive)* Alan Stewart *(Chief Financial Officer)* Deanna Oppenheimer *(Senior Independent Director)* Mark Armour *(Independent Non-Executive Director)* Steve Golsby *(Independent Non-Executive Director)* Byron Grote *(Independent Non-Executive Director)* Mikael Olsson *(Independent Non-Executive Director)* Simon Patterson *(Independent Non-Executive Director)* Alison Platt *(Independent Non-Executive Director)* Lindsey Pownall OBE *(Independent Non-Executive Director)*
Proposed Directors	Stewart Gilliland *(Independent Non-Executive Director)* Charles Wilson *(Executive Director)*
Company Secretary	Robert Welch
Registered and head office of Tesco	Tesco House Shire Park Kestrel Way Welwyn Garden City AL7 1GA United Kingdom
Lead Financial Adviser	Greenhill & Co. International LLP Lansdowne House 57 Berkeley Square London W1J 6ER
Financial Adviser, Corporate Broker and Sponsor	Barclays Bank PLC, acting through its Investment Bank 5 The North Colonnade Canary Wharf London E14 4BB United Kingdom
Financial Adviser, Corporate Broker	Citigroup Global Markets Limited Citigroup Centre Canada Square Canary Wharf London E14 5LB
Irish Sponsor	J&E Davy Davy House 49 Dawson Street Dublin 2 Ireland
English legal advisers to Tesco	Freshfields Bruckhaus Deringer LLP 65 Fleet Street London EC4Y 1HS United Kingdom

English legal advisers to the Sponsor	Herbert Smith Freehills LLP Exchange House Primrose Street London EC2A 2EG
Reporting Accountants and Auditors	Deloitte LLP 2 New Street Square London EC4A 3BZ United Kingdom
Registrars	Equiniti Limited Aspect House Spencer Road Lancing West Sussex BN99 6DA United Kingdom

PART 1

INFORMATION ON THE MERGER

Introduction

On 27 January 2017, the boards of Tesco and Booker announced that they had reached agreement on the terms of a recommended share and cash merger of Tesco and Booker (the "Merger").

The Merger is intended to be implemented by way of a Court-sanctioned scheme of arrangement under Part 26 of the Act. Further details of the Merger are set out below.

The CMA announced its unconditional clearance of the Merger on 20 December 2017 thereby satisfying the CMA Pre-Condition.

Summary of the terms of the Merger

Under the terms of the Merger, which is conditional on the Conditions (as described below) and subject to the further terms and conditions set out below and in the Scheme Document, Booker Scheme Shareholders at the Scheme Record Time will be entitled to receive:

For each Booker Scheme Share:	0.861 New Tesco Shares; and 42.6 pence in cash.

Based on the Closing Price of 206.3 pence per Tesco Share on the Latest Practicable Date, the terms of the Merger values each Booker Share at 220.2 pence and Booker's existing issued ordinary share capital at approximately £3.9 billion.

The Merger will result in Booker Shareholders owning approximately 16 per cent. of the Combined Group (based on the existing issued ordinary share capital of Tesco and Booker) and sharing in the benefits accruing to the Combined Group via its attractive growth prospects and the realisation of significant revenue and cost synergies. As a result, the voting rights of Existing Tesco Shareholders will be diluted, such that the Existing Tesco Shareholders would, immediately after the Effective Date, hold voting rights of approximately 84 per cent. of the total voting rights that they had held immediately prior to completion.

On completion of the Merger, the Booker non-executive directors will resign as directors of Booker and Charles Wilson, Booker's Chief Executive, and Stewart Gilliland, Chairman of Booker, will join the Combined Group's Board. Charles Wilson will also join the Combined Group's Executive Committee and will be appointed as CEO of Tesco's retail and wholesale operations in the UK & ROI. Matt Davies will continue as CEO of UK & ROI until completion of the Merger, when he will step down and after supporting a handover, will leave the Tesco Group at the end of April 2018. A summary of the terms of employment of Charles Wilson and Stewart Gilliland is included in Part 15 – ADDITIONAL INFORMATION of this Prospectus.

Tesco will also provide a Mix and Match Facility (as further described below), which will allow Booker Shareholders to elect, subject to off-setting elections, to vary the proportions in which they receive New Tesco Shares and cash. The Mix and Match Facility will not change the total number of New Tesco Shares to be issued or the maximum amount of cash that will be paid under the terms of the Merger.

The New Tesco Shares will be issued credited as fully paid and will rank *pari passu* in all respects with Tesco ordinary shares in issue at the time the New Tesco Shares are issued pursuant to the Merger, including the right to receive and retain dividends and other distributions declared, made or paid by reference to a record date falling on or after the Effective Date. Applications have been made to the FCA for the New Tesco Shares to be admitted to the premium listing segment of the UK Official List; to the London Stock Exchange for the New Tesco Shares to be admitted to trading on its main market for listed securities; and to the Irish Stock Exchange for the New Tesco Shares to be admitted to listing on the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities.

The Booker Shares will be acquired pursuant to the Merger fully paid and free from all liens, equitable interests, charges, encumbrances, rights of pre-emption and other third party rights of any nature whatsoever and together with all rights attaching to them as at the date of the Merger Announcement or subsequently attaching or accruing to them, save for any Permitted Booker Dividends.

Mix and Match Facility

Booker Shareholders (other than certain Booker Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside of the United Kingdom or the United States) will be entitled to elect to vary the proportions in which they receive New Tesco Shares and cash in respect of their holdings of Booker Shares. However, the total number of New Tesco Shares that will be issued and the maximum amount of cash that will be paid under the terms of the Merger will not be varied as a result of elections made under the Mix and Match Facility. In connection with the Mix and Match Facility, Charles Wilson, the Chief Executive of Booker, has irrevocably undertaken to elect to receive 100 per cent. New Tesco Shares in respect of his entire holding of Booker Shares, subject to the elections of other Booker Shareholders.

Elections made by Booker Shareholders under the Mix and Match Facility will be satisfied only to the extent that other Booker Shareholders make off-setting elections. To the extent that elections cannot be satisfied in full, they will be scaled down on a pro rata basis. As a result, Booker Shareholders who make an election under the Mix and Match Facility will not know the exact number of New Tesco Shares or the amount of cash they will receive until settlement of the Merger Consideration due to them, although an announcement will be made at the Effective Date of the approximate extent to which elections under the Mix and Match Facility will be satisfied.

The Mix and Match Facility will not affect the entitlement of any Booker Shareholder who does not make an election under the Mix and Match Facility. Any such Booker Shareholder will receive 0.861 New Tesco Shares and 42.6 pence in cash for each Booker Share it held.

Further details of the Mix and Match Facility (including the action to take in order to make a valid election, the deadline for making elections, and the basis on which entitlement to receive cash may be exchanged for an entitlement to additional New Tesco Shares (or vice versa)) for Booker Shareholders are included in the Scheme Document.

The Mix and Match Facility is conditional upon the Merger becoming effective.

Conditions

At the time of the Merger Announcement, the Merger was, amongst other things, subject to satisfaction of the CMA Pre-Condition. On 20 December 2017, the CMA unconditionally cleared the Merger, confirming that Tesco and Booker do not directly compete in most areas in which they operate and that the Merger does not raise competition concerns. In particular, the CMA's inquiry found that existing competition is sufficiently strong in both the wholesale and retail grocery sectors to ensure that the Merger will not lead to higher prices or a reduced service for business customers or consumers. The CMA Pre-Condition has therefore now been satisfied.

The Merger remains subject to the full terms and conditions set out in the Scheme Document, including, amongst other things (a) approval by a majority in number representing not less than 75 per cent. in value of Booker Shareholders who are on the register of members of Booker at the Scheme Voting Record Time, present and voting, whether in person or by proxy, at the Scheme Court Meeting, (b) the passing of all resolutions required to approve and implement the Scheme and to approve certain related matters by the requisite majority of Booker Shareholders at the Booker General Meeting, (c) the Scheme becoming effective no later than the Longstop Date, (d) the passing of all resolutions required to approve and implement the Scheme and acquisition of the Booker Shares and to approve certain related matters by the requisite majority of Tesco Shareholders at the Tesco General Meeting, (e) the FCA and the London Stock Exchange having acknowledged that UK Admission will become effective and (f) there having been no material adverse change or deterioration in the business, assets, financial or trading position or profit or prospects of the Booker Group.

Tesco dividend policy and Booker dividends

Tesco dividend policy

Reflecting Tesco's improved performance and the Tesco Board's confidence in its future prospects, on 4 October 2017 the Tesco Board announced a return to dividends and on 24 November 2017 paid an interim dividend of 1.0 pence per ordinary share (this follows payment of no dividend in the 52 weeks ended 27 February 2016 and 25 February 2017, and payment of a dividend of 1.16 pence per share in the 53 weeks ended 28 February 2015). The Tesco Board expects a broadly one-third, two-thirds split between the interim and final dividend (and is intending to pay a final dividend for the 52 weeks ending 24 February 2018 of 2.0 pence per ordinary share (subject to shareholder approval)), with dividends expected to grow progressively from 2017, with the aim of achieving a target cover of approximately 2x earnings per share over the medium term.

Summary of proposed Closing Dividend

Tesco and Booker agreed on announcement of the Merger in January 2017 that Booker Shareholders would be entitled to receive any ordinary interim and final dividends announced, declared or paid by Booker in the ordinary course, in a manner consistent with past practice, and with a record date falling prior to the Effective Date. Tesco and Booker have now agreed that the closing dividend (the "Closing Dividend") that Booker Shareholders are entitled to receive will be 3.7 pence per Booker Share if the Effective Date is on or prior to 31 March 2018, which will be paid by Booker soon after the Effective Date and in any event no later than the date falling 14 days after the Effective Date. This dividend reflects the principle agreed between Tesco and Booker in the Merger Announcement that Booker Shareholders should receive a final dividend payment equal to the accrued but unpaid ordinary dividends that they would otherwise have expected to receive as a Booker Shareholder in respect of the period from the end of the last financial period for which a Booker dividend was announced, made, declared or paid until the Effective Date, such payment to be reduced by any dividends that a Booker Shareholder would be expected to become entitled to receive as a holder of New Tesco Shares after the Effective Date in relation to the same period.

If the Effective Date occurs after 31 March 2018 then the Closing Dividend will be re-calculated in accordance with the formula set in Part 13 – CLOSING DIVIDEND of this Prospectus or as otherwise agreed between Tesco and Booker and the amount of the Closing Dividend will be announced to Booker Shareholders via a Regulatory Information Service on or prior to the Effective Date.

If you are in any doubt as to how the above will apply, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under FSMA if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

Background to and reasons for the Merger

The food market is constantly evolving. 'In home' consumption is significant and stable, but the eating out market continues to grow and evolve with delivery and convenience becoming increasingly important to business customers and consumers.

The Tesco Board recognises the attractive opportunity which exists for the Merger to bring together retail and wholesale expertise to create a market leader in products and procurement, with extensive reach, distribution and supply chain capabilities to create the UK's leading food business. The Tesco Directors expect that the Combined Group will be well-positioned to offer a more innovative offer for customers and consumers in a larger and faster growing market.

Booker is the UK's leading food wholesaler

Booker operates a cash and carry network and, through its 198 branches[1], has a delivery capability with national coverage. Through its branches, Booker has the ability to serve independent retailers, catering and small business customers, and also serves national chains of retailers (including symbols groups and franchise networks), cinemas and other organisations.

The Booker Group has grown with its customers. By improving choice, prices and service to its customers, Booker has grown its sales from approximately £3 billion in the 52 weeks ended 30 March 2007, to approximately £5.36 billion in the 52 weeks ended 24 March 2017, which has driven its operating profit from approximately £46.1 million in the 52 weeks ended 28 March 2008 to approximately £176 million in 2017 the 52 weeks ended 24 March 2017.

Booker is predominantly engaged in the wholesale supply of food and non-food products to a range of catering, retailer and other small businesses, with a large majority of its profits generated from business customers in the catering sector.

Booker was also voted the UK's best wholesaler by The Grocer in 2017. This is the seventh time this has been achieved in the past eight years.

Tesco is the UK's leading food retailer

Tesco operates as a leading food retailer in the UK via its own distribution channels, with a network of 3,500 directly owned and operated stores. 330,000 skilled colleagues help serve 52 million customer transactions a week in the UK and ROI. It has 16 million active Clubcard customers. Based on strong supplier partnerships Tesco offers leading fresh, own-brand and branded ranges of products. It already has proven leadership in grocery home shopping with 98 per cent. reach of the population through this on-line service.

Together, they will create the UK's leading food group offering benefits to consumers, customers, suppliers, colleagues and shareholders:

Consumers

The consumers being served by the Combined Group are expected to benefit from:

- improved choice in the range of fresh food available at more, convenient outlets;
- the widest range of food and ingredients in professional catering outlets;
- quality fresh foods at attractive prices at more retail and eating out establishments; and
- an expanded network of up to 8,000 convenient neighbourhood locations to pick up click and collect orders.

1 The branch known as Makro Park Royal, London is the subject of a compulsory purchase order and discussions remain ongoing in relation to the compensation payable to Booker.

Customers – Independent retailers, caterers and small businesses

The Combined Group will be able to improve choice, prices and service for the retail, catering and small business customers that Booker is proud to serve. It is expected that, as a result of the Merger, Booker's customers will benefit from the Combined Group's ability to:

- offer a significant enhancement to the range of food available for independent retailers, caterers and small businesses, including fresh food and the availability of new, own brand ranges;
- improve the value equation through better sourcing, allowing access to competitive prices from larger brands;
- significantly enhance the delivery service by utilising the Combined Group's range and fleet;
- provide access to Tesco banking, mobile and Pay+ services to support the management of businesses, and the core consumer offering;
- transfer knowledge, skills and innovation ideas across the retail and wholesale markets more readily to develop an enhanced proposition for businesses and consumers; and
- make a positive contribution to local communities through supporting small businesses.

Suppliers

The Combined Group will benefit from a multi-channel supply chain covering the whole spectrum of food, grocery and catering supplies, which will provide opportunities for suppliers. It is expected that, as a result of the Merger, the Combined Group will:

- provide access to a wider range of channels and outlets, opening up broader market opportunities for suppliers. This includes the opportunity to create own label brands as well as supplying existing products to a wider footprint;
- create the opportunity for fresh suppliers to use and sell their full crop. By opening up a broader range of routes to markets the Combined Group anticipates fuller crop procurement and utilisation which will help reduce food waste, lower costs of production and increase efficiencies. The Combined Group anticipates greater opportunities for innovation in food production as a result; and
- help reduce carbon emissions through improved production measures and the utilisation of the most efficient storage and transportation network.

Colleagues

The Combined Group will open up opportunities for colleagues of both Tesco and Booker by broadening the range of experiences, skills and roles in a multi-channel business. It is expected that, as a result of the Merger, the Combined Group will:

- provide stretching growth opportunities by becoming part of a larger business;
- offer broader experiences and skills in a new, multi-channel environment;
- enhance the security of roles by delivering growth; and
- open up further opportunities for colleagues to be involved in and contribute to local community projects.

Shareholders

The Merger is anticipated to create shareholder value by generating new growth, whilst retaining market-leading retail and wholesale expertise. It is expected to:

- provide investors with access to a larger, faster-growing market opportunity for the Combined Group;
- bring together the capacity and capability to accelerate revenue growth;
- improve efficiency and asset utilisation of the Combined Group; and
- realise significant efficiencies with quantified synergies of at least £200 million per annum. by the end of the third year following completion of the Merger (as described in further detail in the section titled "*Financial benefits and effects of the Merger*" below).

As a result, the Tesco Board expects the Merger to:

- generate a Return on Invested Capital in excess of Tesco's cost of capital in the second full financial year following the Effective Date, and significantly in excess of Tesco's cost of capital in the third full financial year as the synergy benefits are delivered;
- be accretive to Tesco's earnings per share (excluding the effects of implementation costs) in the second full financial year following the Effective Date; and
- be beneficial to Tesco's leverage metrics as the benefits of the Merger are delivered.

Financial benefits and effects of the Merger

The Tesco Board believes that the Combined Group will bring together the capacity and capability to accelerate revenue growth, from opportunities which:

- help independent retailers grow their business by enabling them to offer an enhanced customer proposition, better value and quality, with strong fresh and own brand ranges;
- help independent caterers by improving the value equation through better sourcing and enhancing the range of food available, including fresh food and own brand ranges;
- better utilise the combined asset base, leading to enhanced delivery service propositions and digital offerings for all customers and improving accessibility to the full offering of the Combined Group;
- accelerate growth in the food service sector, by utilising the Combined Group's combined skills and network;
- attract more catering and symbol group customers due to the enhanced product range and service proposition; and
- bring together complementary capabilities and a new source of consumer and customer insight to drive new innovative offerings.

As the two businesses have begun their preparation and planning to join forces once the Merger completes, a number of detailed growth initiatives are already under evaluation by joint Tesco and Booker working teams (using clean team arrangements where appropriate). In order to ensure that this work focuses on business areas that can deliver maximum returns in the most cost effective way, each initiative has been categorised as being "customer" or "future concept" focused. These growth initiatives will be further developed and could potentially be rolled out by the Combined Group following completion of the Merger. Examples of these growth opportunities include:

- *Range optimisation. (Categorised – Customer Focused)*
  - The two businesses see an opportunity to offer customers new products that are not currently in the other business' product range.
  - As a result of this initiative the Combined Group plans to trial, and then introduce, a number of products following completion of the Merger to improve the range and offer for both Tesco's and Booker's existing customers.
  - Through its broad-based supplier relationships and reach, the Combined Group will be able to bring a wider range of products to Booker's food service and catering customers at competitive prices, with examples under review including key areas such as food ingredients, fresh foods, baked goods and chilled categories.
  - As well as a wide product range to support its network of independent retail partners, Booker has developed a number of innovative products for its food service and catering customers, which the Combined Group believes will also be attractive to Tesco's retail customers.
- *Chef Central implants within larger Tesco stores. (Categorised – Customer Focused)*
  - Booker currently offers a tailored range of products and services for professional chefs and cooks centred on its growing Chef Central business and successful Chef's Larder and Chef's Essentials branded ranges. The Combined Group has identified a number of larger Tesco stores where new Chef Central implant stores could be developed. The Combined Group believes:
    - developing these implant stores will bring this successful offer to more professional chefs and food customers across the country;
    - this will improve space utilisation within Tesco's larger stores, building on other space led initiatives like the Next 'store in store' project;
    - this will potentially increase footfall and sales within these Tesco stores as Chef Central customers will have access to the wider range of Tesco products conveniently co-located, especially fresh; and
    - it will allow the Combined Group to develop a more compelling online and delivered offer for the food service and catering industry, allowing chefs and cooks to source products from both the Booker and the Tesco ranges.
  - An initial Chef Central trial implant store (being operated by Booker under an arms-length commercial relationship with Tesco pending completion of the Merger) is planned to open in late February 2018 at the Tesco Extra in Bar Hill, Cambridge and will provide early learnings to determine future roll out plans.
- *Offering an enhanced Click and Collect, Mobile and Banking service. (Categorised – Future Concept)*
  - In addition to its network of relationships with independent retail partners that operate over 5,000 convenience stores through its banner and wholesale supply arrangements, Booker also supplies over 440,000 catering outlets, including many pubs and restaurants, across the country.
  - A large number of these independent convenience stores and food service outlets have the potential to become click and collect pick up locations for Tesco, increasing the density and availability of Tesco's click and collect network and creating additional footfall and revenue opportunities for Booker's current customers.

  - The Combined Group plans to develop a range of mobile and banking and insurance products and services, leveraging the Tesco Group's skills and capabilities, targeted at servicing the needs of Booker's independent retailers, food service and catering customers in order to add value and service to this key customer segment.

- *An expanded delivered offer for food service and catering customers. (Categorised – Future Concept)*
  - Booker's current delivered offer for food service and catering customers is principally for products that can be delivered at ambient temperatures.
  - Tesco has the UK's largest nationwide fleet of home delivery vans with ambient, chilled and frozen storage compartments.
  - The Combined Group plans to create an enhanced delivery offer targeting food service and catering customers delivering ambient, chilled and frozen products at times that work best for such businesses both increasing sales and also increasing delivery van fleet utilisation and asset returns.

- *New innovative formats. (Categorised – Future Concept)*
  - Tesco and Booker both have a strong heritage and history of customer focused innovation. By joining forces, the Combined Group will have enhanced capabilities and will benefit from the learnings and experience of both businesses as it seeks to develop new formats to better serve customers.

Tesco quantified financial benefits statement

The Merger is expected to enable significant opportunity for revenue synergies. The Merger is also expected to enable significant opportunity for cost synergies across areas including procurement, distribution, central functions and other costs.

The Tesco Directors expect pre-tax synergies for the Combined Group to reach a recurring run-rate of at least £200 million per annum by the end of the third year following completion of the Merger. These anticipated synergies will accrue as a direct result of the Merger and would not be achieved on a standalone basis.

Significant revenue growth potential

The Tesco Board anticipates significant revenue growth opportunities, many of which have not been fully quantified at this stage.

The Tesco Board is able to anticipate recurring incremental operating profit of at least £25 million per annum by the end of the third year following completion of the Merger, primarily through additional revenue generated from an extended catering offering within Tesco's stores, as well as Booker's symbol stores being able to offer an enhanced product range and customer proposition.

Significant cost synergy potential

One of the key drivers of the identified synergies is the efficiencies that the Merger enables given the complementary nature of the businesses. The Tesco Directors expect pre-tax cost synergies for the Combined Group to reach a recurring run-rate of at least £175 million per annum by the end of the third year following completion of the Merger.

The constituent elements of quantified cost synergies are in addition to savings initiatives already underway at Tesco and comprise:

- *Procurement:* approximately 55 per cent. of the identified cost synergies are expected to be generated from improved purchasing cost efficiencies and sharing best practice across each of the three main types of supplier: fresh, own label and branded. These opportunities comprise end-to-end cost reduction, lower waste, new opportunities for shared innovation and better optimisation of supply terms for the Combined Group.

- *Distribution and fulfilment:* approximately 35 per cent. of the identified cost synergies are expected to be generated from opportunities in logistics and delivery, and improved efficiency and service standards. Optimising a joint national distribution system of Tesco and Booker is expected to lead to material benefits, including sharing parts of the delivery fleet. The recent failure of Palmer & Harvey, a national distributor that worked with Tesco, has caused a reassessment of plans for the distribution networks of both businesses and how they will be best brought together. This assessment is underway and will be completed after the Merger.
- *Central functions and other:* less than 10 per cent. of the identified cost synergies are expected to be generated from the reduction of duplicate costs and improved purchase of goods not for resale.

Realisation costs and dis-synergies

The Tesco Directors expect the realisation of the quantified synergies will require estimated one-off cash costs of approximately £145 million incurred in the first three years after the Effective Date.

Aside from the one-off costs referred to above, the Tesco Directors do not expect any material dis-synergies to arise in connection with the Merger.

These statements of identified synergies and estimated savings relate to future actions and circumstances which by their nature involve risks, uncertainties and contingencies. As a consequence, the identified synergies and estimated savings referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.

These anticipated synergies identified reflect both the beneficial elements and relevant costs.

Further information on the bases of belief supporting the Tesco Quantified Financial Benefits Statement including the principal assumptions and sources of information, is set out in Part 11 (“Tesco Quantified Financial Benefits Statement”).

Bases of Belief for the Tesco Quantified Financial Benefits Statement

- Following initial discussions regarding the Merger, a synergy development team was established to evaluate and assess the potential synergies available for the integration and undertake an initial planning exercise (the “Synergy Team”). The Synergy Team comprises senior personnel representing both Tesco and Booker. Collectively, the Synergy Team brings significant experience of operations, distribution, commercial, procurement and central/other activities across both organisations. The Synergy Team has worked collaboratively to identify and quantify potential synergies as well as estimate any associated costs on behalf of the Tesco Directors.
- In preparing a detailed synergy plan, the Synergy Team has worked alongside and with the support of external consultants engaged by Tesco.
- In supporting this exercise, Booker and Tesco have shared certain operating and financial information with each other, in order to facilitate a detailed analysis of the potential synergies available from the combination of the Tesco and Booker businesses. This has included the use of a clean team process, where each of Tesco and Booker has shared

detailed operating and financial metrics, visibility of which is limited to specific clean team personnel within the Synergy Team.

- As is typical of these exercises, confidentiality considerations and legal restrictions have limited the scale of the Synergy Team to being formed of a small number of specialists and experts from each of Tesco and Booker. Nevertheless, the Synergy Team has, to the extent allowed by such confidentiality considerations, engaged with relevant Tesco and Booker functional heads and other personnel to provide input into the development process and to agree on the nature and quantum of the identified synergy initiatives. Specifically this has included the input of the Chief Executive of Booker, as well as the Tesco executive leadership team.
- In circumstances where data has been limited due to lack of access to the relevant Tesco or Booker experts or data, the Synergy Team has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have in turn been informed by Tesco and Booker management's industry experience and knowledge of the existing businesses.
- The cost and revenue bases used as the basis for the quantified exercise (which was finalised in January 2017) are those contained in Tesco's 2016 Annual Report and Financial Statements and Booker's 2016 Annual Report and Financial Statements, supported where relevant by specific data points from Tesco's and Booker's financial year 2017 cost bases.
- The cost synergies are within the influence of Tesco's management, albeit the procurement synergies are dependent upon confirmation of agreements with suppliers. Delivery of the revenue synergies is complex and is dependent on a number of tests and trials.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

Notes

- The statements of estimated synergies referred to above relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies referred to may not be achieved, or may be achieved later or sooner than estimated or those achieved could be materially different from those estimated.
- In future, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.
- Save as expressly set out in this Prospectus, no statement should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full financial year following completion of the Merger, or in any subsequent period. would necessarily match or be greater than or less than those of Tesco and/or Booker for the relevant preceding financial period or any other period.
- In arriving at the estimate of synergies set out above, it has been assumed that:
  - there will be no significant impact on the underlying operations of either business;
  - there will be no material change to macroeconomic, political or legal conditions in the markets or regions in which in the Combined Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
  - there will be no material change in exchange rates.

Integration

Integration planning

The Tesco Board is confident that the benefits of the Merger can be achieved without significant disruption to the underlying operations of either business.

An integration team (the "Joining Forces Team") has been established by Tesco and Booker, bringing together the relevant capabilities of both businesses, to ensure that synergies referred to in paragraph 5of Part 1 – INFORMATION ON THE MERGER can be maximised and to seek to achieve further growth opportunities beyond those already identified and quantified. The Joining Forces Team consists of senior operational and commercial individuals from each organisation, and reports to Charles Wilson, Booker's Chief Executive and Dave Lewis, Tesco's Chief Executive Officer.

The initial integration plan, which has been drawn up by the Joining Forces Team in recent months and is being further refined following clearance of the Merger by the CMA, is focused on the areas of cash, costs, customer, concept and culture. Senior individuals in each organisation have been designated with responsibility for specific targeted benefits to be achieved as part of the integration and working to achieve these specific targets in each of these areas during the three years following completion of the Merger. As the two organisations come together, the Joining Forces team will continue to look for further benefits in the areas already examined and identified, including distribution and the central and convenience operations of the Combined Group, and will also look into other areas where benefits have not been identified and/or quantified. The recent failure of Palmer & Harvey, a national distributor that worked with Tesco, has caused a reassessment of plans for the distribution networks of both businesses and how they will be best brought together. This assessment is underway and will be completed after the Merger.

Please see paragraph 5 of Part 1 – INFORMATION ON THE MERGER and Part 11 – TESCO QUANTIFIED FINANCIAL BENEFITS STATEMENT for details of the expected financial benefits and effects of the Merger (including synergy opportunities).

Management and employees

Tesco attaches great importance to the skills and experience of the existing management and employees of the Booker Group and believes that they will be a key factor in maximising the opportunities that the Merger will present for the Combined Group. Tesco will aim to retain the best talent across the Combined Group and management and employees of the Booker Group will have the possibility of benefiting from potential new opportunities within the Combined Group following the Merger.

On Completion of the Merger, the Booker Non-Executive Directors will resign as Directors of Booker and Charles Wilson, Booker's Chief Executive, and Stewart Gilliland, Chairman of Booker, will join the Combined Group's Board. Charles Wilson will also join the Combined Group's Executive Committee and will be appointed as CEO of Tesco's retail and wholesale operations in the UK & ROI. Matt Davies will continue as CEO of UK & ROI until completion of the Merger, when he will step down and after supporting a handover, will leave the Tesco Group at the end of April 2018. A summary of the terms of employment of Charles Wilson and Stewart Gilliland is included in Part 15 – ADDITIONAL INFORMATION of this Prospectus.

Until combined business planning work has been completed, and specific targeted benefits in the areas of cash, costs, customer, concept and culture identified (and implementation plans to achieve them are finalised) any potential integration steps will not be certain and the impact they will have on employment, the balance of skills and functions of the employees and management and places of business of the Booker Group will not be known.

The Tesco Board recognises that, in order to achieve the expected benefits of the Merger, some operational and administrative restructuring will be required following completion of the Merger. However, the Tesco Board respects and recognises the experience and expertise that Booker's management has in the area of wholesale supply to franchise and food service customers. Accordingly, as areas of potential overlap of functions between the two groups are limited, any headcount reductions are also therefore anticipated to be limited to certain central functions across both the Tesco and Booker business headquarters. If implemented, these are expected to impact approximately 2.5 per cent. of the Combined Group's central functions workforce of approximately 10,000 people primarily through natural attrition over time. The Tesco Board does not expect any other material change to the continued employment of Booker employees or, as a result of the Merger, of Tesco employees. The Tesco Board does not expect any material change to the balance of skills and functions in the Combined Group.

Following completion of the Merger, the existing contractual and statutory employment rights of the Booker employees will be observed and pension obligations (including existing agreed contributions into the Booker pension plans) complied with, in accordance with applicable law. Tesco does not envisage any material changes to the conditions of employment of Booker employees or the existing agreed pension contributions and accrual of benefits for existing members of the Booker pension plans or admission of new members into the existing Booker defined contribution pension plans following completion of the Merger.

Locations

Tesco intends that Booker will continue to operate from its existing headquarters in Wellingborough and other places of business and, except as explained in this section (*Integration planning, management, employees and locations*), has no intentions to materially alter the overall size or nature of operations at the Wellingborough headquarters or elsewhere in the Booker operations or to redeploy the material fixed assets of the Booker Group. Tesco does not intend to materially alter the overall size or nature of operations at its Welwyn Garden City headquarters or elsewhere in the Tesco operations as a result of the Merger.

As leases come to an end across both the Tesco Group and the Booker Group opportunities for rationalisation of premises will be examined. No specific leased premises have been identified for rationalisation. As described further in the section on '*Financial Benefits and effects of the Merger*' above Tesco and Booker, through the Joining Forces Team, are also examining the opportunity to work together to create a "Chef Central" operation at selected Tesco sites, to create a catering offer of certain key products for Tesco and Booker customers at those locations.

Research and development

Owing to the nature of its business, Booker does not conduct significant research and development activities, but to the extent any such activities are currently undertaken, they are not expected to be impacted in any material way by the Merger.

Current trading and prospects

Tesco has made further progress towards meeting the medium-term ambitions outlined in October 2016. Since Tesco's 3Q and Christmas Trading Update was released on 11 January 2018, the Tesco Group's trading performance has been in line with management's expectations and the Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018. The Tesco Directors further intend to propose that shareholders approve the payment of a final dividend of 2.0 pence per Tesco Share in respect of the financial year ending 24 February 2018 at the Tesco 2018 annual general meeting.

Tesco Profit Forecast

For the purposes of Rule 28 of the City Code, the following statement constitutes a profit forecast for the 52 weeks ending 24 February 2018:

"*The Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018*."

For additional details relating to the basis of preparation for the Tesco Profit Forecast and the bases and assumptions on which it was prepared, please see Part 12 – TESCO PROFIT FORECAST of this Prospectus.

Structure of the Merger

It is intended that the Merger will be implemented by way of a Court-sanctioned scheme of arrangement between Booker and the Booker Scheme Shareholders, made under Part 26 of the Act. The procedure involves, among other things, an application by Booker to the Court to sanction the Scheme, in consideration for which the Booker Scheme Shareholders will receive the Consideration. The purpose of the Scheme is to provide for Tesco to become the owner of the entire issued, and to be issued, share capital of Booker and Booker becoming a wholly owned subsidiary of Tesco.

The Scheme will only become effective if, among other things, the following events occur on or before the Longstop Date:

- a resolution to approve the Scheme is passed by a majority in number representing not less than 75 per cent. in value of Booker Shareholders who are on the register of members of Booker at the Scheme Voting Record Time, present and voting, whether in person or by proxy, at the Scheme Court Meeting;
- all resolutions required to approve and implement the Scheme and to approve certain related matters are passed by the requisite majority of Booker Shareholders at the Booker General Meeting;
- the Scheme is sanctioned (with or without modification, on terms agreed by Tesco and Booker) by the Court;
- a copy of the Scheme Court Order is delivered to the Registrar of Companies; and
- all other Conditions having been fulfilled or (if capable of waiver) waived.

Upon the Scheme becoming effective it will be binding on all Booker Scheme Shareholders, irrespective of whether or not they attended or voted at the Scheme Court Meeting or the Booker General Meeting (and if they attended and voted, whether or not they voted in favour), and share certificates in respect of Booker Shares will cease to be valid and entitlements to Booker Shares held within the CREST system will be cancelled shortly thereafter. The Consideration will be despatched by Tesco to Booker Scheme Shareholders no later than 14 days after the Effective Date.

If the Scheme does not become effective on or before the Longstop Date, it will lapse and the Merger will not proceed (unless the Takeover Panel otherwise consents).

The Scheme Document will be posted to Booker Shareholders and, for information only, to persons with information rights and to holders of options granted under the Booker Share Schemes, on or about the date this Prospectus is issued. The Scheme Document includes full details of the Scheme, together with notices of the Scheme Court Meeting and the Booker General Meeting. The Scheme Document also contains the expected timetable for the Merger, and specifies the necessary actions to be taken by Booker Shareholders. Subject, amongst other things, to the satisfaction or waiver of the Conditions, it is currently expected that the Scheme will become effective on 5 March 2018.

Fractions of New Tesco Shares will not be allotted to Booker Shareholders but will be aggregated and sold as soon as practicable after the Scheme becomes effective. The net proceeds of such sale (after the deduction of all expenses and commissions reducing any VAT thereon, incurred in connection with such sale) will then be paid in cash to the relevant Booker Shareholders in accordance with their fractional entitlements (rounded down to the nearest penny).

The Scheme will be governed by English law and will be subject to the jurisdiction of the courts of England and Wales. The Scheme will be subject to the applicable requirements of the City Code, the Takeover Panel, the London Stock Exchange and the FCA.

Irrevocable undertakings and lock-up arrangements

Irrevocable undertakings from Booker Directors

Tesco has received irrevocable undertakings from the following Booker Directors to vote in favour of the Scheme at the Scheme Court Meeting and the resolutions to be proposed at the Booker General Meeting (and if the Merger is subsequently structured as a Takeover Offer, to accept any Offer made by Tesco) in respect of their entire holdings, amounting to 120,555,793 Booker Shares in aggregate, representing approximately 6.7 per cent. of Booker's existing issued ordinary share capital on 1 February 2018, being the Latest Practicable Date.

Name	Number of Booker Shares	Percentage of issued ordinary share capital of Booker (per cent.)
Charles Wilson[(a)]	108,241,986	6.0396
Jonathan Prentis[(b)]	10,413,807	0.5811
Guy Farrant[(c)]	1,500,000	0.0837
Andrew Cripps	200,000	0.0112
Karen Jones CBE	100,000	0.0056
Stewart Gilliland	50,000	0.0028
Gary Hughes	40,000	0.0022
Helena Andreas	10,000	0.0006
TOTAL	**120,555,793**	**6.7267**

(a) The irrevocable undertaking provided by Charles Wilson contains an undertaking in respect of the Mix and Match Facility pursuant to which he has irrevocably undertaken to elect to receive 100 per cent. New Tesco Shares in respect of his entire holding of Booker Shares, subject to the elections of other Booker Shareholders.

(b) Jonathan Prentis may dispose of any additional Booker Shares he acquires upon the exercise of his share options (including vested but unexercised share options).

(c) Guy Farrant may dispose of any additional Booker Shares he acquires upon the exercise of his share options (including vested but unexercised share options).

The obligations of the Booker Directors under the irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- Tesco announces that it does not intend to make or proceed with the Merger and no new, revised or replacement Scheme or Offer is announced in accordance with Rule 2.7 of the City Code at the same time;
- the Scheme or Offer lapses or is withdrawn and no new, revised or replacement Scheme or Offer has been announced, in accordance with Rule 2.7 of the City Code, in its place or is announced, in accordance with Rule 2.7 of the City Code, at the same time;

- the Circular and (if different) the document convening the Tesco General Meeting does not include the Tesco Board Recommendation, or Tesco makes an announcement prior to the publication of such document(s) that: (a) the Tesco Board no longer intends to make such recommendation or intends adversely to modify or qualify such recommendation; (b) it will not convene the Tesco General Meeting; the Tesco Board withdraws, adversely modifies or adversely qualifies the Tesco Board Recommendation or fails to publicly reaffirm or re-issue such unanimous and unqualified recommendation before the earlier of: (a) 5.30 p.m. on the fifth Business Day following Booker's reasonable request to do so; or (b) the time of the start of the Booker General Meeting (it being understood that the issue of any holding statement(s) issued to the Tesco Shareholders following a change of circumstances (so long as any such holding statement contains an express statement that such recommendation is not withdrawn or adversely modified and does not contain a statement that the Tesco Directors intend to withdraw or adversely modify such recommendation) shall not constitute a withdrawal or adverse modification of such recommendation for purposes of this paragraph); or
- the Scheme or Offer has not become effective by the Longstop Date.

Charles Wilson – Lock-up Agreement

In connection with the Mix and Match Facility, Charles Wilson, the Chief Executive of Booker, has irrevocably undertaken to elect to receive 100 per cent. New Tesco Shares in respect of his entire holding of Booker Shares, subject to the elections of other Booker Shareholders. In addition, Charles Wilson has entered into the Lockup Agreement pursuant to which he has agreed not to (subject to certain customary carve-outs) dispose of his current holding of 24,533 Tesco Shares and the New Tesco Shares he will receive pursuant to the Merger without Tesco's consent during the lock-up period of five years from the Effective Date.

Irrevocable undertakings from Tesco Directors

Irrevocable undertakings in respect of Tesco Shares

Booker has received irrevocable undertakings from the following Tesco Directors to vote (or procure the vote) in favour of the resolutions to be proposed at the Tesco General Meeting in respect of their entire holdings, amounting to 678,434 Tesco Shares in aggregate, representing approximately 0.0083 per cent. of Tesco's existing issued ordinary share capital on 1 February 2018, being the Latest Practicable Date:

Name	Number of Tesco Shares	Percentage of issued ordinary share capital of Tesco (per cent.)
Dave Lewis	100,459	0.0012
Alan Stewart	50,524	0.0006
John Allan CBE	284,082	0.0035
Mark Armour	50,000	0.0006
Steve Golsby	42,296	0.0005
Mikael Olsson	20,101	0.0002
Simon Patterson	100,000	0.0012
Alison Platt	11,242	0.0001
Lindsey Pownall OBE	20,000	0.0002
Total	**678,434**	**0.0083**

Irrevocable undertakings in respect of ADRs

Two of the Tesco Directors, Deanna Oppenheimer and Byron Grote, hold their Tesco Shares in the form of ADRs (each ADR represents three Tesco Shares). Each of Deanna Oppenheimer and Byron Grote has irrevocably undertaken to vote in favour of the Tesco Resolutions to be proposed at the Tesco General Meeting in the event that their holdings convert from the form of ADRs to Tesco Shares (and they therefore become entitled to vote at the Tesco General Meeting), with such undertakings relating to, in aggregate, 352,041 Tesco Shares representing approximately 0.0043 per cent. of the existing issued ordinary share capital of Tesco on 1 February 2018, being the Latest Practicable Date.

Name	Number of ADRs	Number of Tesco Shares	Percentage of issued ordinary share capital of Tesco (per cent.)
Deanna Oppenheimer	36,347	109,041	0.0013
Byron Grote	81,000	243,000	0.0030
Total	**117,347**	**352,041**	**0.0043**

The obligations of the Tesco Directors under the irrevocable undertakings shall lapse and cease to have effect on and from the earlier of the following occurrences:

- Booker announces that it does not intend to proceed with the Merger and no new, revised or replacement Scheme or Offer is announced in accordance with Rule 2.7 of the City Code at the same time;
- the Scheme or Offer lapses or is withdrawn and no new, revised or replacement Scheme or Offer has been announced, in accordance with Rule 2.7 of the City Code, in its place or is announced, in accordance with Rule 2.7 of the City Code, at the same time;
- the Scheme Document does not include a unanimous and unconditional recommendation made by the Booker Board to Booker Shareholders to vote in favour of the Scheme at the Scheme Court Meeting and in favour of the Merger at the Booker General Meeting (the "Booker Board Recommendation"), or Booker makes an announcement prior to the publication of the Scheme Document that: (i) the Booker Board no longer intends to make such recommendation or intends adversely to modify or qualify such recommendation; or (ii) it will not convene the necessary Booker General Meeting and/or the Scheme Court Meeting;
- the Booker Board withdraws, adversely modifies or adversely qualifies the Booker Board Recommendation or fails to publicly reaffirm or re-issue such unanimous and unqualified recommendation before the earlier of (A) 5.30 p.m. on the fifth Business Day following Tesco's reasonable request to do so; or (B) the time of the start of the Tesco General Meeting (it being understood that the issue of any holding statement(s) issued to Booker Shareholders following a change of circumstances (so long as any such holding statement contains an express statement that such recommendation is not withdrawn or adversely modified and does not contain a statement that the Booker Directors intend to withdraw or adversely modify such recommendation) shall not constitute a withdrawal or adverse modification of such recommendation for purposes of this paragraph); or
- the Scheme or Offer has not become effective by the Longstop Date.

De-listing and re-registration

It is intended that the last day of dealings in Booker Shares will be the Business Day prior to the Effective Date. It is further intended that an application will be made to the FCA for the cancellation of the listing of the Booker Shares on the UK Official List and to the London Stock Exchange for the cancellation of trading of the Booker Shares on the Main Market, with effect as of or shortly following the Effective Date.

It is also intended that, as soon as reasonably practicable following the Scheme becoming effective, Booker will be re-registered as a private company under the relevant provisions of the Act.

Settlement, listing and dealings in Tesco ordinary shares

The Consideration payable to Booker Scheme Shareholders under the terms of the Merger will be despatched by Tesco to Booker Scheme Shareholders no later than 14 days after the Effective Date.

The New Tesco Shares will be issued credited as fully paid and will rank *pari passu* in all respects with Tesco ordinary shares in issue at the time the New Tesco Shares are issued pursuant to the Merger, including the right to receive and retain dividends and other distributions declared, made or paid by reference to a record date falling on or after the Effective Date. Applications have been made to the FCA for the New Tesco Shares to be admitted to the premium listing segment of the UK Official List; to the London Stock Exchange for the New Tesco Shares to be admitted to trading on its main market for listed securities; and to the Irish Stock Exchange for the New Tesco Shares to be admitted to listing on the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities.

Dilution

It is expected that up to 1,590,000,000 New Tesco Shares will be issued pursuant to the Merger. Immediately following Admission, the existing Tesco Shareholders are expected to hold 8,191,798,719 Tesco Shares representing approximately 84 per cent. of the then issued share capital of Tesco assuming no new Tesco Shares are issued between the Latest Practicable Date and Admission.

Tesco shareholder approval

The Merger constitutes a Class 1 transaction for Tesco for the purposes of the Listing Rules. Accordingly, Tesco is seeking the approval of Tesco Shareholders for the Merger at the Tesco General Meeting. The Tesco Directors have unanimously recommended Tesco Shareholders to vote in favour of the Tesco Resolutions to be proposed at the Tesco General Meeting as all Tesco Directors who hold Tesco Shares have irrevocably undertaken to do in respect of their own holdings of, in aggregate, 678,434 Tesco Shares (representing approximately 0.0083 per cent. of the issued share capital of Tesco on 1 February 2018, being the Latest Practicable Date), or to the extent the Tesco Directors hold their Tesco Shares in the form of ADRs as they have irrevocably undertaken to do in the event that their holdings convert from the form of ADRs to Tesco Shares (and therefore become entitled to vote at the Tesco General Meeting) (with such undertakings relating to, in aggregate, 352,041 Tesco Shares representing approximately 0.0043 per cent. of the existing issued ordinary share capital of Tesco on 1 February 2018, being the Latest Practicable Date).

Tesco has sent to Tesco Shareholders, on or around the same time of this Prospectus, the Circular summarising the background to and reasons for the Merger which includes a notice convening the Tesco General Meeting. The Merger is conditional on, among other things, the Tesco Resolutions being passed by the requisite majority of Tesco Shareholders at the Tesco General Meeting.

It is expected that the Circular will be posted to Tesco Shareholders at or around the same time as the Scheme Document is posted to Booker Shareholders and that the Tesco General Meeting will be held at or around the same time as the Booker Meetings, on 28 February 2018.

Overseas shareholders

The availability of the Merger and the distribution of the Prospectus to Booker Shareholders who are not resident in the United Kingdom or the United States may be affected by the laws of the relevant jurisdiction. Such persons should inform themselves of, and observe, any applicable legal or regulatory requirements of their jurisdiction. Booker Shareholders who are in any doubt regarding such matters should consult an appropriate independent professional adviser in the relevant jurisdiction without delay.

Neither of the Merger Announcement nor this Prospectus constitutes an offer for sale for any securities or an offer or an invitation to purchase any securities. Booker Shareholders are advised to read carefully the Scheme Document and related Forms of Proxy once these have been despatched.

PART 2

INFORMATION ON THE TESCO GROUP

Overview

Tesco is one of the world's largest retailers, with over 460,000 colleagues serving millions of customers every week, from 6,809 stores in eight countries across the UK, ROI, Central Europe and Asia, and online, and with joint venture operations in China and India. Tesco's primary operations are in retailing, where it has four key categories of fresh food, packaged food & grocery, clothing and general merchandise. Tesco also sells fuel and operates in financial services, primarily through Tesco Bank, mobile telecommunications services and in pharmacies in a number of its markets. Through its dunnhumby subsidiary, Tesco operates in the field of consumer insight.

The Tesco Group places customers at the centre of everything it does to deliver its purpose – serving shoppers a little better every day. Tesco exists to serve customers – listening to them and acting on what is most important in seeking to deliver the best possible shopping trip. To achieve this Tesco has focused on building close and mutually-beneficial relationships with its supplier partners to source the best possible products to meet and anticipate customers' needs. Tesco works through a range of channels, from small shops to large shops and its online business. Tesco continuously looks to reinvest in improving its core proposition to customers.

Competition in all the markets that Tesco operates in is high, with a combination of established operators, new entrants and online operators giving shoppers a wide amount of flexibility and choice in where they shop. The food market is constantly evolving. 'In home' consumption is significant and stable, but the eating out market continues to grow and evolve, with delivery and convenience becoming increasingly important to business customers and consumers. Consumers continue to be attracted to online shopping, whether for browsing or shopping, for in store collection or home delivery. Tesco seeks to offer shopping in whatever form customers choose, at a price level that is economically sustainable.

The progress Tesco has made against the three turnaround priorities first set out in October 2014 has stabilised the Tesco Group. Tesco is more competitive, its balance sheet is more secure, and it is rebuilding trust and transparency in its brand. Tesco has made sustained improvements in price competitiveness, availability, quality and service. Tesco launched a range of new, exclusive fresh food brands in the UK in mid-2016 which are performing ahead of expectations, have improved Tesco's value proposition and have further removed reasons for customers to shop elsewhere.

Whilst it expects the market to remain challenging and uncertain, Tesco has clear plans which the Tesco Directors believe will enable it to deliver more value for all of its stakeholders – its customers, colleagues, supplier partners and shareholders. In October 2016, Tesco published six strategic drivers through which it seeks to strengthen its market position:

1. **A differentiated brand**: A strong brand creates long-term value. Tesco's purpose, to serve shoppers a little better every day, is at the heart of what the Tesco brand stands for.

2. **Reduce operating costs by £1.5 billion by FY19/20**: Tesco has undertaken a thorough review of its entire cost base, to identify further opportunities for meaningful savings.

3. **Generate £9 billion cash from operations**: Cash is the lifeblood of Tesco's business, and Tesco has set a three-year target to generate £9 billion of cumulative retail cash from operations.

4. **Maximise the mix to achieve a 3.5 per cent. to 4.0 per cent. Group operating margin**: Building sustainable profitability across Tesco's businesses, channels and product ranges.

5. **Maximise value from property**: Tesco's property strategy is about releasing value from its estate, and repurposing space to enhance its customer offer.

6. **Innovation**: Tesco's innovation strategy is driven by expertise and insight in its three differentiating capabilities: Product, Channel and Customer.

Increasing sales volumes in key fresh food and grocery categories helps to drive the Tesco business model. In recent times, volumes in these areas have been increasing. The Tesco Group had a strong performance in the 2016/2017 financial year, with group sales (excluding VAT and excluding fuel) of £49.9 billion and group operating profit before exceptional items of £1.28 billion, up from £47.9 billion and £985 million respectively on the previous financial year. In the UK & ROI, the Tesco Group has now seen eight consecutive quarters of like-for-like sales growth.

History and development

The business that today operates as Tesco was founded by Jack Cohen in 1919 and will celebrate its centenary in 2019. Tesco PLC was incorporated and registered in England and Wales on 27 November 1947 as Tesco Stores (Holdings) Limited, a private company limited by shares with the registered number 00445790, under the Companies Act 1929. The Company was re-registered as a public company limited by shares and renamed Tesco Stores (Holdings) public limited company on 14 December 1981, and was renamed Tesco PLC on 25 August 1983.

From its origins as a trading business in 1919, Tesco opened its first store in 1929, in London, and then expanded throughout the UK by a mixture of store openings and selective acquisitions. International expansion started in the 1990's and continued through the 2000's. Tesco launched its online business in the UK in 2000 making Tesco an early entrant in online retailing. Today, Tesco operates retailing businesses through stores and online through three segments in the UK and the ROI (UK/ROI segment), Czech Republic, Slovakia, Hungary and Poland (Central Europe segment), and Thailand and Malaysia (Asia segment). Tesco also has retail interests in China and India through joint ventures with local partners.

Description of the business

Tesco operates retail stores in three segments as described above and also has a bank in the UK, Tesco Bank. In addition, through dunnhumby, its wholly owned subsidiary, Tesco operates a leading customer data science business based in the UK and operating in number of international markets, that supports its customer offers and works with its large consumer goods suppliers, as well as a range of other retailers. Tesco's business is organised around the three pillars of Customers, Products and Channels. Tesco's core purpose is to serve its shoppers a little better every day.

Customer

Tesco places customers at the centre of everything it does. Important aspects of Tesco's customer focus include the range of products available, which is looked at in terms of range, quality and price. Also important is customer service, whether this is in store, as part of the home delivery service offered with grocery online shopping or as part of the customer contact centres the Tesco Group operates to support its business.

A key part of its customer understanding is obtained through its Clubcard programme, introduced in the UK in 1995 and now operating in all markets where Tesco has a retail presence. With 38 million Clubcard customers shopping in 6,500 stores and online across the Tesco

Group, Tesco has an unrivalled insight into consumer habits, trends and preferences. Tesco works closely with its insights business, dunnhumby (discussed below), to build a rich and personalised offer for its customers and to offer additional incentives to shop with Tesco through Clubcard. At its most basic level, customers earn points when they spend in store and online, and every quarter points are converted to discount vouchers. These vouchers are mailed to customers and can be spent in-store, online or with one of over 100 of Tesco's Reward Partners. From time to time, as an additional bonus, members may receive special product coupons, tailored to individual customer preferences.

Customer satisfaction levels are measured via direct feedback from customers on a continuous basis and are used to guide decision making and inform the Executive and the Tesco Board as to how the business is performing in the eyes of customers.

Products

Tesco operates its retail business through four broad categories: fresh food; packaged food & grocery; clothing; and general merchandise. With a combination of own brand and third party branded products, Tesco seeks to appeal to a broad range of customers, offering a wide range of products with excellent quality, covering different price points.

Fresh food comprises produce (fruit and vegetables), meat, poultry, fish, eggs, dairy and bakery products, and chilled and frozen food whether prepared as ready to eat dishes or meals or as ingredients. Also included in fresh food are sandwiches and other types of ready to eat food and drink, known as "food to go".

Packaged food & grocery goods includes products such as rice and pasta, tinned foods and cereals, confectionary, soft drinks, hot drinks, crisps and biscuits, snacks and nuts, alcoholic drinks including spirits, beer and wine, health and beauty products including medicines, toiletries, baby products, household consumables, cleaning products, and pet foods.

Clothing is primarily offered through Tesco's own-label clothing brand, F&F, which aims to be a leading affordable fashion brand helping customers look good and feel great. Clothing products cover women's, men's, kids and essentials ranges, including active and leisure wear. Tesco's F&F international franchise business operates in 140 stores in 15 countries across the world.

In the general merchandise category Tesco offers a broad range of products, in sub-categories including electrical, media and entertainment, news and magazines, seasonal, home, recreation, papershop, and toys and nursery.

The Tesco Group has a large number of trademark protected brands it has developed itself, with the most significant being the core Tesco brand. Other Tesco brands include a range of exclusive fresh food brands in the UK, the Finest* premium tier grocery brand, and brands such as Carousel in the toy category, Go Cook in kitchenware and Fox & Ivy for home products.

Tesco has extensive and well developed sourcing and supply arrangements for all its products, sourcing these from a mixture of dedicated own brand suppliers and third party branded suppliers and manufacturers, from around the world. Suppliers range in size from large multinational groups, through national suppliers and to small local suppliers. Food sourcing is primarily carried out in each market for that market, with some Group sourcing now beginning for the UK, Irish and Central European businesses.

In order to support its retail businesses both in the UK and overseas Tesco operates a sourcing centre in Hong Kong which is focussed on sourcing clothing and general merchandise ranges from sourcing hubs located across Asia. In addition to working with supplier partners to source at competitive prices, Tesco operates teams of technical experts whose objectives are to ensure all sources of supply meet strict ethical and production standards.

Channels

Tesco aims to serve its customers in whatever way they wish to shop, whether in store or online. Its stores operate in two broad formats, large stores and convenience stores, and it offers online shopping with a choice of in-store pick up (click+collect) or home delivery.

Tesco faces the ongoing challenges of a changing competitive landscape and price pressure across most of its markets. To respond to these challenges, Tesco actively seeks to be competitive on price, quality, range and service, as well as developing its online and other formats to allow it to compete in different markets. It also regularly reviews markets, trading opportunities, competitor strategies and activities and engages in market scanning and competitor analysis to refine its customer proposition.

Tesco prides itself on its focus on serving customers and giving them what they value. Experience and customer feedback have shown that the interaction with Tesco employees (colleagues) is one of the most important elements of customer satisfaction. Accordingly, Tesco places emphasis on hiring colleagues with the right values and interpersonal skills, and then training them and rewarding them fairly. Other important elements that customers value are assistance in finding products, minimising till queuing times and offering a choice of self service or operated tills – all of which are areas of close attention by Tesco.

Tesco's store operating model is well established and has proved its resilience and operational effectiveness over decades. The operating model includes processes and systems for scheduling staff and ordering and replenishing goods for resale. Tesco operates a number of distribution centres in each market and utilises a fleet of road vehicles (and rail in the UK) to move its goods between the distribution centres and its stores.

IT services and IT systems are critical to the successful operation of Tesco's business and Tesco has a complex IT system that supports all aspects of the business, including customer facing online channels. These IT systems allow Tesco's management to manage stock efficiently, ensure pricing is accurate, standardise tasks across stores and automate many interactions with customers, colleagues and suppliers. Tesco Bengaluru is the global services arm for Tesco and provides key business services for Tesco operations globally, including IT.

In addition to the four product categories referred to above, Tesco also offers a number of services in the majority of the markets in which it operates. These are tailored to the needs of the local customer, and include certain financial services products and mobile telephone services, often in conjunction with a local partner.

<u>UK/ROI Segment</u>

As at 26 August 2017, Tesco operated 3,582 supermarkets across the UK and ROI. Stores within the UK operations vary in size from 778 sq. ft up to 129,410 sq. ft and fall into four formats: Tesco Extra; Tesco Superstore; Tesco Metro; and Tesco Express.

The smallest of these formats, Tesco Express, mainly sells food and grocery convenience products, while its largest store format, Tesco Extra, aims to serve a wide range of customers' shopping needs, offering clothing and general merchandise alongside food and grocery products. In the UK, Tesco has worked with other leading brands to open concessions in or adjacent to its stores, with partners including Arcadia Group and Holland & Barrett. The Tesco Group also operates pharmacies throughout its UK store network in 373 of its large stores and one standalone pharmacy.

The UK stores portfolio also includes One Stop, which is a retail convenience business owned by Tesco but operated as a separate business in the United Kingdom with over 750 owned stores and 166 franchised neighbourhood stores across the United Kingdom, selling a range of convenience food and household goods. Under the One Stop franchise model, Tesco owns the brand and provides wholesale services to franchisees who are independent from Tesco. The table below sets out the stores in the Tesco Group UK and ROI portfolio by store type and size.

	As at 26 August 2017	
	Number of Stores	Actual Tesco Group space '000 sq. ft.[(a)]
Extra	252	17,732
Superstore	480	14,087
Metro	176	1,993
Express	1,744	4,063
Dotcom only	6	716
Total Tesco	**2,658**	**38,591**
One Stop[(b)]	775	1,260
UK[(b)]	**3,433**	**39,851**
ROI	**149**	**3,565**
UK & ROI[(b)]	**3,582**	**43,416**
Franchise stores (UK – One Stop)	166	212

(a) Continuing operations.

(b) Excludes franchise stores.

Tesco was the UK's first food retailer to offer grocery home shopping. Its grocery home shopping website sells food, drink, baby, pet and household products, with Tesco Direct selling general merchandise from both Tesco and third party suppliers, and also incorporating the F&F online store.

Tesco Petrol Filling Station is a major seller of fuel in the UK, with over 500 Tesco Petrol Filling Stations across the UK serving four million motorists every week and selling 100 million litres of fuel every day.

Tesco Mobile, the UK's largest mobile virtual network operator and fifth largest mobile operator, is a joint venture between Tesco Group and O2 that commenced in 2003. Tesco Mobile has nearly five million customers, and operates from over 480 Tesco stores in the UK. The brand is award winning and in 2017 won the uSwitch Best High Street Retailer 2017 and Best Value for Pay Monthly 2017. In Ireland, with effect from 27 October 2017, Tesco has operated its Tesco Mobile business itself, having previously been a joint venture.

In the UK and ROI, Tesco faces a changing competitive landscape and price pressure from a diverse range of retailers operating different models and formats through a variety of physical, digital and integrated distribution channels and who offer a range of distinct product propositions from the premium to the value end of the market. The UK grocery industry is highly competitive and includes competition from international operators in the form of discount retailers such as Aldi and Lidl who offer certain food and retailing products and services on a low cost model basis, premium retailers and online entrants such as Ocado and Amazon. In the UK market, in particular in recent years, discount retailers such as Aldi and Lidl have grown successfully, placing the established participants, including Tesco, under pressure. Tesco has responded to this successfully, with volume growth in its core food categories over the last eight quarters. These competitive pressures in the UK market are expected to continue.

<u>Central Europe Segment</u>

Since March 2015, Tesco's four markets in Central Europe (Czech Republic, Hungary, Poland and Slovakia) have operated as a single business unit. Whilst the four markets remain as separate legal entities they are managed by a single leadership team and have a common business strategy across the region.

The table below sets out the stores in the Tesco Group Central Europe portfolio by number and size:

	As at 26 August 2017	
	Number of stores	**Actual Tesco Group space – '000 sq. ft.**[(a)]
Czech Republic[(b)]	196	5,387
Hungary	206	6,856
Poland	424	9,406
Slovakia	152	3,759
Central Europe[(b)]	**978**	**25,408**
Franchise stores (Czech Republic)	97	91

(a) Continuing operations.

(b) Excludes franchise stores.

Tesco is the fourth largest shopping mall operator in Central Europe with over 400 shopping malls (including 130 large service malls) and over 4,500 shop units. Tesco works with a large number of concession partners in each of its Central European markets (with approximately 850 shop units in Czech Republic; 1,700 in Hungary; 1,500 in Poland; and 800 in Slovakia) including H&M, Sports Direct and Decathlon.

The Tesco Group's entry to the Hungarian market in 1995 through the acquisition of 26 S-Market stores was its first foray into the Central Europe region. Today, the Tesco Group operates over 200 stores across Hungary and two distribution centres. Tesco is the largest hypermarket chain and also one of the largest employers in the private sector in Hungary.

The Tesco Group initially entered the Czech Republic market in 1996 with the acquisition of K-Mart stores. Tesco also operates 97 Zabka convenience stores in the Czech Republic under franchise agreements. Poland is the Tesco Group's largest Central European market, with 424 stores. The Tesco Group entered the Polish market through the acquisition of 31 Savia stores in 1996 as part of a plan to expand in Central Europe.

The Tesco Group entered the Slovak market in 1996 through the acquisition of seven K-Mart Department Stores. Today the Tesco Group operates over 150 stores in Slovakia. With approximately 10,000 employees Tesco is one of the top three largest private-sector employers in Slovakia.

In Central Europe, Tesco offers its F&F clothing brand in 650 Tesco stores.

Whilst Tesco's Central European businesses have established market positions, they face a competitive environment, including greater competitive intensity in Poland. In response to these competitive pressures, management is focused on improving store economics across the Central European region, including simplifying management structures, reducing store administration and closing unprofitable store counters.

<u>Asia Segment</u>

The Asia Segment comprises Tesco's operations in Thailand and Malaysia. Tesco Lotus, Tesco's business in Thailand, began trading in 1998 and is Tesco's largest international business. Tesco's Malaysian business was launched in 2002 and has expanded since that time.

The table below sets out stores in the Tesco Group Asia segment by store number and size:

	As at 26 August 2017	
	Number of stores	Actual Tesco Group space – '000 sq. ft[(a)]
Malaysia	71	3,913
Thailand	1,944	15,583
Asia	2,015	19,496

(a) Continuing operations.

F&F was first introduced in Tesco Malaysia in 2011, as a store-in-store concept in Tesco's larger stores. Tesco also works with a number of concession partners in its Asia markets, for example HomePro, Mr DIY and Decathlon.

Tesco has a 25 per cent. interest in the Tesco Lotus Retail Growth Freehold and Leasehold Property Fund, a property investment fund incorporated in, and principally operating in, Thailand. The fund was listed on the Thai Stock Exchange in March 2012 and was Thailand's largest property fund IPO. The fund invests in 23 Tesco Lotus malls with a market capital of more than 30 billion baht.

Whilst Tesco's operations in Thailand and Malaysia have established market positions, changing customer trends away from large stores towards convenience shopping represent a competitive pressure in Malaysia (because Tesco is not currently permitted to operate small stores under local law) and an opportunity for Tesco to grow its small store numbers in Thailand.

Tesco Bank

Tesco Bank began in 1997 as Tesco Personal Finance, a joint venture between Tesco and RBS plc ("RBS"). In 2008, Tesco bought RBS's share of the business and introduced the new trading name, Tesco Bank, in 2009. Tesco Bank has 5.6 million customer accounts. Total lending at 31 August 2017 was £11 billion, comprised of unsecured lending of £8.4 billion and secured lending of £2.5 billion. Total customer deposits are £8.9 billion.

Tesco Bank is the bank for people who shop at Tesco and seeks to operate with the same values and focus as Tesco. To do this, Tesco Bank listens to customers and delivers on what they want when it comes to banking and insurance. Ease, value, and trust are the hallmarks of the products that Tesco Bank offers.

All banking and insurance products offered by Tesco Bank are available through online banking, the Tesco Bank Mobile App, or over the phone. Additionally Tesco Bank has in-store services at 299 Tesco stores across the UK.. The majority (90 per cent.) of customers enjoy the convenience of applying for their accounts online and many also service their accounts online or through the Tesco Bank Mobile Banking App. Call centres in Glasgow and Newcastle are available, seven days a week, to support customers who wish to talk to Tesco Bank.

Tesco Bank customer service colleagues are not set individual sales targets and do not receive incentives. This is because Tesco Bank wants their focus to be on listening to customers and serving their needs. Tesco Bank rewards loyalty when customers choose to buy or use its products, which it does in a number of ways including by offering Clubcard points to customers on all of their eligible spending with Tesco Bank's debit and credit cards.

Tesco Bank also operates the Tesco digital wallet Tesco Pay+. The wallet allows customers to pay with their phone and collect Clubcard points when shopping in Tesco's UK stores. With over 384,000 customers (as at January 2018), a Tesco Pay+ payment being made in a Tesco store every three seconds.

Tesco Bank offers a range of simple personal banking products, principally current accounts, travel money, credit cards, personal loans, mortgages and savings, and a range of insurance products, some of which are underwritten by Tesco Underwriting Limited, a joint venture with Ageas (UK) Limited in which Tesco Bank holds a 49.9 per cent. share. Tesco Bank also manages 3,800 ATMs in Tesco and One Stop stores throughout the UK.

Tesco Bank's products and services are available 24 hours a day, seven days a week, online, by phone, or on customers' mobiles.

The success of smaller retail banks in the UK, sometimes known as challenger banks, is principally influenced by their ability to differentiate their offer. Important elements of this include deposit rates, rates charged for lending and borrowing activities and elements such as customer service. Tesco Bank has a number of competitors and operates in a competitive environment with the established clearing banks and the challenger banks all vying for business.

dunnhumby

Founded in 1989, dunnhumby, which is wholly owned by Tesco, uncovers and applies customer insight to create more personalised shopper experiences.

dunnhumby helps its clients and their suppliers to make strategic decisions based on customer behaviour, through a mix of technology, software and consulting. It enables businesses to deliver tailored experiences for their customers, both on and offline thereby providing more value and loyalty-building experiences. dunnhumby helps companies compete in the modern data-driven economy and its insights help its clients to stock the right products, optimise prices, run relevant promotions, and communicate personalised offers for customers across all contact channels to drive sales and margin.

dunnhumby employs almost 2,000 people in offices across the UK & ROI, Europe, Asia, South Africa and the Americas working for well-known brands such as Tesco, Coca-Cola, Whole Foods Market, Procter & Gamble, and L'Oreal. The dunnhumby group also includes social marketing and advocacy experts BzzAgent and programmatic display advertising company Sociomantic.

Other businesses

Joint ventures and associates

- Gain Land Limited

Tesco operates in China through Gain Land Limited, a joint venture with China Resources (Holdings) Company Limited ("CRH"). The joint venture combines Tesco's retail practices, international sourcing and multi-channel capabilities with CRH's local knowledge and brand, to create a leading multi-format retailer in China. Tesco's investment gives it a 20 per cent. stake in this food retail business in China.

- India

Tesco operates in India through Trent Hypermarket Private Limited, a 50:50 joint venture with Trent Limited, part of the Tata group of companies. Its purpose is to develop the Star Bazaar retail business in India. As at the Latest Practicable Date, the joint venture operates 30 hypermarkets (StarHyper), supermarkets (StarMarket) and convenience stores (StarDaily).

Property

Tesco's property strategy, as stated in its 2017 Annual Report, is about releasing value from its estate and repurposing space to enhance its customer offer. Tesco has a significant property portfolio, combining both freehold and leasehold assets. In recent times, Tesco has looked to increase its freehold ownership to reduce exposure to rental increases. Tesco Group's freehold property ownership percentage, by value, has increased from 54 per cent. to 57 per cent. year-on-year, driven by both the UK & ROI and International:

	As at 25 February 2017		
	UK & ROI	International	**Group**
Property[a] – fully owned			
Estimated market value	£13.1bn	£6.7bn	**£19.9bn**
Net book value[b]	£12.6bn	£5.1bn	**£17.8bn**
% net selling space owned	52%	74%	**63%**
% total property owned – by value[c]	50%	78%	**57%**

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

(b) Property, plant and equipment excluding vehicles.

(c) Excludes fixtures and fittings.

In April 2017, Tesco regained ownership of seven large stores in the UK with a freehold valuation of £219 million in a transaction with British Land.

Tesco is also exploring opportunities to release value by selling 'air rights' above a number of its stores in urban areas – working with developers to build residential properties above or alongside its stores, without capital investment from Tesco.

Tesco has a number of UK property joint ventures with third parties, and in some cases owning certain property investments. These property investments cover primarily standalone stores and some shopping centres. The Tesco Group enters into operating leases for some or all of the properties held in the joint ventures. These leases provide the Tesco Group with some rights over alterations and adjacent land developments. Some leases also provide the Tesco Group with options to purchase the other joint venture partners' equity stakes at a future point in time. In some cases the Tesco Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria as set out in the joint venture documentation. In some cases, the Tesco Group carries out property management activities for shopping centres and small adjacent retail facilities occupied by third party tenants.

Tesco's Little Helps Plan

Over the last three years Tesco has worked hard to rearticulate its purpose and values, reflecting in particular the ideas and suggestions of Tesco colleagues. In support of its purpose, Tesco also developed a new core value for its business: 'Every little help makes a big difference', a philosophy for how small actions can add up to make a big difference – running the business in a way that makes a positive contribution to its colleagues, customers and communities. The Little Helps Plan was launched in October 2017 and seeks to make Tesco a place where colleagues can get on, whatever their background, to help its customers make healthier choices and enjoy good quality, sustainable products at affordable prices; and to help tackle food waste from farm to fork. It spans three areas core to Tesco's operating model and the long-term success of its business:

People

Tesco wants to be a great place to work and to get on. Tesco's colleagues are at the heart of its business, serving its shoppers a little better every day. Tesco employs over 460,000 people around the world. As at 25 February 2017, the Tesco Group's colleagues were employed as follows:

	Average number of colleagues for the 52/53 weeks ended		
	25 February 2017	27 February 2016	28 February 2015
United Kingdom & ROI	327,601	335,061	330,130
International	133,041	143,459	146,606
Tesco Bank	3,878	3,632	3,871
Total colleagues worldwide	464,520	482,152	480,607

	Average number of colleagues for the 52/53 weeks ended		
	25 February 2017	27 February 2016	28 February 2015
Tesco Directors	11	11	13
Senior managers – directors	522	662	809
Senior managers – directors and managers	2,980	4,609	5,579
Total colleagues worldwide	460,390	476,453	517,802

Tesco has a proud history of developing talent across its business and offering opportunities to get on and progress across all aspects of the Company's activities. It offers a competitive package to colleagues and actively engages colleagues through regular consultation, dialogue and a twice yearly employee engagement survey.

Products

As a leading food retailer, Tesco believes the food it produces and sells and the way it sources it matters. Tesco's suppliers tell Tesco they value long-term partnerships and want to work together to offer customers truly sustainable products now and in the future.

Places

Tesco has an impact on thousands of communities all over the world. Tesco wants to continue to make a positive difference to the things that matter in the local communities in which it serves.

Tesco has identified targets and actions in each of these three pillars and, in turn, the pillars are underpinned by a clear commitment to minimise the environmental impact in Tesco's own operations.

Tesco believes that progress requires partnership and in 2015 Tesco joined the UN Global Compact, an initiative that encourages businesses worldwide to work together to adopt sustainable and socially responsible policies. In 2017, Tesco Chairs Champions 12.3, a coalition of leaders dedicated to helping the world reach the UN Sustainable Development Goal target of halving global food waste by 2030.

PART 3

INFORMATION ON THE BOOKER GROUP

Overview

The Booker Group is the UK's leading food wholesaler, offering branded and own label goods which are currently sold to approximately 117,000 independent retail customers, 569,000 registered digital customers, 441,000 catering customers and 641,000 small business customers including independent convenience stores, grocers, leisure outlets, pubs and restaurants. The Booker Group currently lists approximately 18,000 product lines, comprising an extensive range of branded and own label grocery, fresh and frozen food, beers, wines, spirits, tobacco and non-food items. The Booker Group trades as Booker Wholesale, Makro, Booker Direct, Classic Drinks, Ritter Courivaud and Booker India. The Booker Group owns the Premier, Budgens, Londis and Family Shopper retail symbol fascias.

In the 52 weeks ended 24 March 2017, sales totalling £3.01 billion were collected by customers from the Booker Group's 198 branches in the UK and sales totalling £2.32 billion were delivered to the premises of Booker's customers from these branches and its UK distribution centres.

For the 52 weeks ended 24 March 2017, the Booker Group generated profit after tax of £153.8 million (compared to £127.8 million for the 52 weeks ended 25 March 2016) and as at 24 March 2017 the Booker Group had net assets of £605.6 million (compared to £590.2 million as at 25 March 2016). In the 52 weeks to 24 March 2017, like-for-like sales increased by 0.5 per cent. to £4,969 million, compared to £4,947 million for the 52 weeks ended 25 March 2016.

For the 24 weeks ended 8 September 2017, the Booker Group generated profit after tax of £74.7 million (compared to £67.8 million for the 24 weeks ended 9 September 2016) and, as at 8 September 2017, had net assets of £542.9 million (compared to £508.9 million as at 11 September 2016). In the 24 weeks to 8 September 2017, like-for-like sales increased by 2.7 per cent. to £2,574 million, compared to £2,506 million for the 24 weeks ended 9 September 2016.

Booker was also voted the UK's best wholesaler by the Grocer. This is the seventh time this has been achieved in the past eight years.

History of the Booker Group

The Booker Group can trace its origins back to 1835 since when it expanded via organic growth and acquisitions, becoming a publicly listed company in 1933. In 2000, Booker plc was acquired by Iceland Group plc, and was renamed The Big Food Group plc. The Big Food Group plc was acquired by Giant Topco Limited in February 2005 and all trading activities other than the cash and carry business of Booker Limited (including Iceland Foods Limited and Woodward Foodservice Limited) were subsequently sold.

The Booker Group was formed in its current form in 2007 when Giant Topco Limited (then the holding company of the Booker cash and carry group) reversed into Blueheath Holdings plc (which was re-named Booker Group plc) and the Booker Shares were re-admitted to trading on AIM on 4 June 2007. In July 2009, the Booker Shares were admitted to listing on the Official List and to trading on the London Stock Exchange's main market for listed securities. The principal trading company in the Booker Group is Booker Limited, a wholly owned indirect subsidiary of Booker, the holding company of the Booker Group.

In November 2005, a new senior management team (including Charles Wilson as Chief Executive) was introduced and the "Booker Plan" was announced. The plan to "Focus, Drive and Broaden" was commenced in 2005.

The first component is to "Focus" the business on improving cash management and on the customer to make the Booker Group the most efficient operator in its sector. The "stop, simplify and standardise" work strategy has allowed the Booker Group to invest resulting savings in customer service and to return significant value to Booker Shareholders, whilst retaining £161.0 million of net cash for the 52 weeks ended 24 March 2017, increasing to £165.1 million for the 24 weeks ended 8 September 2017.

The second component of the strategy is to "Drive" the business through giving customers the choice, prices and service they require. The Booker Group seeks to grow its own brand and own brand sales (including through the launch of Blackgate signature beef in October 2016, Farm Fresh in 2010 and CleanPro in 2014) and continue to improve the "good, better, best" offer to satisfy all customers. In 2016, the Booker Group won "Best Frozen Product" at the Caterer Product Excellence Awards and "Best Frozen Food" at the Wholesale Q Awards. The Booker Group commenced surveying its customers in January 2007 and now surveys approximately 45,000 customers per year. Customer perception of choice, prices and service has improved over that period.

The third component is to "Broaden" the business to become the UK's leading wholesaler, the suppliers' preferred route to market, to sell new products and serve new customers. This is evidenced by a number of initiatives and acquisitions which have allowed the Booker Group to grow internet sales, serve multiple accounts and increase delivered sales.

Acquisition of Makro

On 4 July 2012, the Booker Group acquired Makro Holding Limited and two subsidiaries, Makro Self Service Wholesalers Limited ("MSSWL") and Makro Properties Limited ("MPL") (together, "Makro") from Metro AG, in exchange for the issue of 156,621,525 new Booker Shares and the payment of £15.8 million by way of cash consideration.

Full clearance of the transaction was received from the Competition Commission on 19 April 2013 and Makro was consolidated into the Booker Group from this date. As a result of the acquisition, the Booker Group is able to sell a wider range of products to SME customers at a time when multiple retailers are increasingly targeting SME customers.

Acquisition of Budgens/Londis

On 14 September 2015, the Booker Group acquired BRP. Londis was a symbol retail chain of 1,850 convenience stores and Budgens was a franchised chain of 156 grocery stores. BRP was acquired for £40 million on a cash free and debt free basis with a normalised working capital level. Since completion of the acquisition, the Budgens and Londis systems have been fully integrated into the Booker platform and Budgens has been transitioned into a symbol chain. In the year following the acquisition, the Booker Group opened a net 381 Londis and 6 Budgens outlets. Sales have grown strongly as a result and, as at 8 September 2017, net cash generated in relation to the BRP acquisition reached £48 million. In 2017, Budgens was awarded the "Symbol Convenience Retailer of the Year" by The Grocer and Londis was awarded "Symbol Group of the Year" by the Federation of Independent Retailers.

Key strengths

The Booker Group's key strengths include:

- a broad customer base including approximately 441,000 catering businesses and 117,000 independent retailers;
- being the UK's leading food wholesaler, having been awarded "Best Wholesaler of the Year" by The Grocer in 2017, for the seventh time in the past eight years;

- fast growth in internet and delivered wholesale operations, with internet sales up 10 per cent. to £1,072 million for the 52 weeks ended 24 March 2017, an increase of 11 per cent. to £560 million for the 24 weeks ended 8 September 2017, with 569,000 customers registered on the Booker website, compared to 490,000 in the previous period; and
- a proven track record of cash generation and profit growth, with an increase in sales by 6.7 per cent. to £5,300 million and an increase in operating profit by 14 per cent. to £176.1 million in the 52 weeks ending 24 March 2017, and a sales increase of 2.5 per cent. to £2,600 million and operating profit increase of 9 per cent. to £89.1 million in the 26 weeks ending 8 September 2017.

Strategy

The Booker Group's strategy to "Focus, Drive and Broaden" its business has worked since its inception. The Booker Group's strategy has included acquisitions of Makro and BRP, in order to help the business become the "UK's best and biggest supplier to small business" and generate shareholder value.

Focus

The Booker Group has scope to further "Focus" its business as it seeks to become the most efficient operator in its sector by continuing to manage cash and costs tightly. As at 24 March 2017, Booker's close attention to cash resulted in having £161.0 million of net cash, increasing to £165.1 million at 8 September 2017), whilst keeping the Booker Group's cost base in line with the previous year. Since 2005, the Booker Group has generated £1,200 million of cash, of which approximately £695 million has been returned to Booker Shareholders.

Drive

The Booker Group continues to "Drive" sales through surveying customers and improving choice, price and service. The Booker Group "drives" choice, price and service for customers by surveying 45,000 cash and carry customers each year to identify where improvements can be made. Customer satisfaction is a key measure within the business. This has contributed to organic sales (excluding revenue acquired through the Makro and BRP acquisitions) increasing by £1,200 million since 2005.

Broaden

Booker seeks to offer the best choice, price and service to caterers, retailers and small businesses. It also seeks to be the suppliers' preferred route to market. The Booker Group continues to "Broaden" its business by improving the branch experience, extending its internet operations, growing delivered wholesale and offering new products and services to customers. This has contributed to increased sales, with the Makro and BRP acquisitions contributing sales of over £1,200 million in the 52 weeks ended 24 March 2017.

The Booker Group has "Broadened" its digital sales at booker.co.uk, with sales increasing to £1,072 million for the 52 weeks ended 24 March 2017, from £979 million as at 25 March 2016.

Ritter-Courivaud is a speciality foods supplier to the UK's leading restaurants.

Following opening of the first store in Mumbai in September 2009, Booker India has grown to serve 21,000 customers across four branches in Mumbai, one in Surat and one joint venture branch in Pune.

Business Overview

By improving choice, prices and service to its customers, Booker has grown its sales from £3,000 million in 2007 to £5,360 million in 2017, which is testament to serving customers well, and has driven its operating profit to £176.1 million in 2017 and has increased shareholder value by £4,700 million from 2005 to the Latest Practicable Date (of which approximately £695 million in cash has been returned to Booker Shareholders) and is testament to serving all customers well.

Booker is predominantly engaged in the wholesale supply of food and non-food products to a range of caterers, retailers and other small businesses, with a large majority of its profits generated from business customers in the catering sector.

Cash and Carry branches

Following successful integration of Makro into the Booker Group, the cash and carry business now has 198 business centres. The Booker Group and Makro now have a common business centre operating structure, enabling the Booker Group to move business from one location to another to improve operational efficiency and customer satisfaction. For example, five hundred Premier retailers are now delivered from Makro business centres rather than Booker branches.

The average size of the sales area of these branches is approximately 43,000 sq. ft., although Booker has two branches with sales areas over 100,000 sq. ft. and 20 branches with sales areas under 20,000 sq. ft.

Caterers

As at 24 March 2017, the Booker Group had approximately 441,000 catering customers including pubs, restaurants, leisure facilities and catering outlets. These can be independent, single site locations, group accounts and national chains. All customers can choose between the Booker, Makro, Classic and Chef Direct infrastructures, which facilitates a broad range of customer choices. Booker serves group accounts and its Chef Direct business serves clients from a range of well known restaurant groups and chains.

Retailers

In the 52 weeks ended 24 March 2017, the Booker Group serviced approximately 117,000 retail customers.

The Booker Group offers its independent retail customers the opportunity to trade under its Premier, Londis, Budgens and Family Shopper fascias which provide the benefits of national symbol groups whilst retaining the personality and entrepreneurial spirit of the independent retailer. These affiliated independent customers remain free to determine their own commercial strategy and overall retail proposition. This enables Booker to use the combined consumer reach of its symbol group members to negotiate competitive terms and promotions from suppliers. The Booker Group will typically fund the store's fascia, signage and other imagery in return for certain minimum spend contracts. As at 8 September 2017, there were 3,394 Premier stores, 1,829 Londis stores, 176 Budgens stores and 61 Family Shopper stores.

Booker Direct

Booker Direct is the Booker Group's delivered wholesale business. This is an established part of the Booker Group's business which serves national retail chains from its distribution centres with customers including Marks and Spencer, most of the cinema chains in the UK and the prison service in England and Wales.

Product Range

The Booker Group sells an extensive range of catering, grocery, alcohol and other products used by its customers, who are predominantly independent retailers and caterers. In the 52 weeks ended 24 March 2017, tobacco sales were £1,600 million (30 per cent. of total sales for the period) and sales of other products totalled £3,730 million (70 per cent. of total sales for the period). In the 24 weeks ended 8 September 2017, tobacco sales were £699.6 million (27 per cent. of total sales for the period) and sales of other products totalled £1,887.7 million (73 per cent. of total sales for the period).

Digital

The Booker Group's digital proposition represents a consistently growing proportion of revenue. In June 2016, booker.co.uk won the "Best Wholesale Website" award at the Federation of Wholesale Distributors annual conference, as voted for by independent retailers and foodservice operators. For the 52 weeks ended 24 March 2017, sales at booker.co.uk reached £1,072 million with 569,000 customers registered on the website, as compared to £979 million in sales and 490,000 registered customers for the 52 weeks ended 25 March 2016. For the 26 weeks ended 8 September 2017, booker.co.uk sales reached £560 million, as compared to £506 million as at 11 September 2016. Booker customers can view their account details and order products online. All digital sales are then delivered to Booker customers' premises. Booker's website has double the number of stock keeping units available to a typical customer through its unique order system.

Booker India

Outside of the UK, Booker has a small wholesale operations in India where it provides products to a range of catering, retailer and other small businesses. In September 2009, Booker opened its first business centre in Mumbai. The Booker Group's presence in India has now expanded, with four branches in Mumbai, one in Surat and one joint venture branch in Pune. As at 24 March 2017, these branches serve 21,000 customers, and have also launched 200 Happy Shopper symbol retailers, using a similar model to Premier in the UK for the Kirana stores of Mumbai. The Booker Group's revenues in India account for less than one per cent. of the Booker Group's overall revenues.

Market

The Booker Group competes in the UK grocery and foodservice wholesaling market which includes cash and carry, delivered grocery wholesale, delivered foodservice wholesale and disposables, equipment and janitorial supplies. The total value of the market for UK grocery and foodservice wholesaling in 2017, as estimated by external sources including IGD and Horizons, was approximately £45 billion.

Supply and distribution

Supply

Supplier structures differ between the various product categories. Within packaged groceries, impulse and drinks categories, there is typically a mix of: (i) large international suppliers offering household brands; (ii) smaller (often national) suppliers offering local, more premium or different types of products; and (iii) own brand suppliers. This mix is key to offering an attractive and diverse range to attract a wide array of customers. Booker's sales are weighted towards branded goods in the drinks, impulse and tobacco categories, which are predominantly supplied by globally powerful suppliers.

Distribution

The Booker Group operates three regional distribution centres, Hatfield and Haydock in England and Livingston in Scotland, and has a national distribution centre in Wellingborough. These distribution centres supply the cash and carry branches and two of them also handle national retail deliveries. Londis and Budgens operate distribution centres in Thamesmead, Wellingborough, South Elmsall and Andover. Chef Direct operates a distribution centre in Didcot.

Seasonality

The Booker Group's business is subject to seasonal fluctuations, with higher sales and operating profits generated during the summer.

Current Trading and Prospects

For the 16 weeks ended 29 December 2017, based on unaudited management accounts, Booker Group's non-tobacco sales rose by 5.9 per cent. with non-tobacco like-for-likes up 6.2 per cent. Booker Group's tobacco sales declined by 2.6 per cent., with tobacco like-for-likes down 2.1 per cent. As a result, total sales were up 3.4 per cent. and like-for-likes were up 3.8 per cent.

Both the catering and retail sides of Booker Group made good progress. Premier continued to grow and Budgens and Londis performed well. Booker commenced the supply to Shell and MRH forecourt businesses in December 2017. Internet sales increased by 14 per cent. to £381 million (excluding Budgens and Londis) and Booker India continued to make progress.

Booker continues to work to Focus, Drive and Broaden the business to improve choice, prices and service for its customers.

Competition

The food wholesale sector is highly fragmented and there are many large wholesale players, including Bestway, Spar, Nisa, Costco, Today's, Landmark, Bidfood, Conviviality and Brakes. There is strong competition from a wide range of players, including cash and carry wholesalers, delivered wholesalers, buying groups, and specialist regional and local wholesalers. The Booker Group experiences competition in the following areas:

Cash and Carry

The Booker Group is one of the largest cash and carry businesses in the UK by sales and it faces competition from national and local competitors.

Delivered Grocery

There are many businesses delivering to independent and multiple retailers.

Food Service/Catering

Catering businesses are operating in increasingly competitive markets as players expand into new formats, location types and provide meals according to customer needs. The Booker Group also competes with a multitude of suppliers.

Property

The distribution centres described above are leased. In addition, the cash and carry operates from 169 leased buildings and 27 freehold or long leasehold premises. Budgens Londis has five leasehold Budgens retail stores, which are legacy stores that are in the process of being divested. Ritter has three small leasehold distribution centres. There are four leasehold offices.

Total rent recognised in the Profit and Loss for the leased land and buildings occupied by the Booker Group in the 52 weeks ended 24 March 2017 was £57.3 million.

The cash and carry has an additional 10 leasehold premises of which nine are sublet and one is vacant. Budgens Londis is the head lessor of 52 retail stores, 47 of which are sublet and five of which are vacant.

In relation to vacant and sub-let properties, Booker has made provisions where appropriate to cover the present value of the expected costs that may arise in relation to these properties over the remaining life of the leases. As at 24 March 2017, the Booker Group had balance sheet property provisions of £36.9 million, covering the expected cost of dilapidations on leasehold properties and onerous costs on vacant and sublet leasehold premises. The total cost of freehold land and buildings, leasehold improvements and plant, equipment and vehicles at 24 March 2017 was £530.1 million, as compared to £520.2 million at 25 March 2016.

Employees and labour relations

As at 24 March 2017, the Booker Group employed 13,440 employees, as set out below by category:

	Average number of colleagues for the 52 weeks ended		
	27 March 2015	25 March 2016	24 March 2017
Booker Directors	11	10	8
Senior managers	57	66	62
Other Employees	12,248	13,564	13,370

The Booker Directors encourage colleagues to become shareholders in order to promote active participation in, and commitment to, the Booker Group's success. This policy has been extended to all colleagues through the provision of a save as you earn ("**SAYE**") share scheme. As at 24 March 2017, the following number of colleagues were contributing to the following schemes:

	Number of colleagues contributing monthly
2016 SAYE scheme	2,959
2015 SAYE scheme	2,847
2014 SAYE scheme	2,319

The Booker Group is an equal opportunities employer and an inclusive organisation where no-one receives less favourable treatment on the grounds of gender, nationality, marital status, colour, race, ethnic origin, creed, sexual orientation or disability. The Booker Group has a balanced workforce in terms of experience, with an average age of 41.1, as at 24 March 2017.

The Booker Group maintains good relationships with its colleagues and provides opportunities to develop their skills and expertise. For example, to build on the butchery teams' expertise, the Booker Group has worked with the Institute of Meat to raise and recognise the teams' skill level. In February 2017, 8 butchery managers were officially awarded the Institute of Meat, Master Butcher Award. This is part of a longer term plan to upskill and develop the Booker Group's future butchery managers who all work through an in-house craft butcher training programme, which has been developed with and is endorsed by the Institute of Meat.

The Booker Group has broadened its business in 2017 with the launch of a Driver Academy, open to internal and external colleagues who wish to develop their career with the Booker Group. With over 50 drivers working towards becoming a van or heavy goods vehicle driver across the Makro and Booker business centres, the Booker Group aims to have the right drivers in place to fulfil succession in this growing area of the business.

Pensions

Booker operates a number of defined benefit pension schemes, the assets of which are held in separate trustee-administered funds to meet future benefit payments. The trustees are responsible for running the schemes in line with the governing documents for each scheme and for complying with UK pension legislation. The main pension scheme is the Booker Pension

Scheme, a funded defined benefit pension arrangement based on final salary and which was closed to new defined benefit entrants in 2001, with defined benefits ceasing to accrue from 2002. Following completion of the latest actuarial valuation of the scheme, a deficit of £41.1m was agreed with the trustees and in respect of which Booker will make deficit contributions of £5.4m per annum payable for six years, with effect from 1 April 2017.

Following its acquisition of Musgrave Retail Partners GB Limited on 14 September 2015, Booker also operates the Budgens Pension Scheme and the Londis Pension Scheme, both trust based occupational defined benefit pension schemes. The Londis Pension Scheme was closed to new entrants in 1991 and future benefit accrual in 2009. The Budgens Pension Scheme closed to both new entrants and future accrual in 2010. Following the latest actuarial valuations of both of these pension schemes no employer contributions are required in respect of the schemes.

Booker's total defined benefit obligations as at 24 March 2017 calculated on an IAS19 basis by rolling forward from the results of the latest actuarial funding valuation for each scheme are an aggregated net deficit of £46.9 million, comprising assets of £751m and liabilities of £797.9m. As at 8 September 2017, the aggregate net deficit was £47.0 million, comprising assets of £765.0 million and liabilities of £812.0 million.

Booker also operates defined contribution pension arrangements in respect of which it made contributions of £8.3m in the period covered by the Annual Report and Accounts 2017.

Information Technology

The Booker Group has an integrated IT system that supports all the major aspects of its business, including in-store systems, product management, warehousing, logistics, human resources, finance and other administrative systems. It also supports its product delivery service and online platform. These Booker Group IT systems enable management to make efficient pricing and inventory management decisions, facilitate budgeting and financial reporting processes, standardise operations across the supply and distribution chain and automate many of the ordinary course transactions with customers.

The Booker Group's in-store systems are developed to provide efficient operations for collect and delivered customers. The Booker Group's in-store application ("MIDAS") is bespoke, but fully maintained by Wincor Nixdorf to meet any additional changes required, including the development of improved picking efficiency for the delivered service, self-scan for collect customers and legislative changes such as minimum unit pricing for alcohol sales in Scotland. The following are the main stock management systems in operation across the Booker Group: (i) in-store stock is locally managed on the MIDAS system; (ii) warehouse stock is managed through Exceed from Infor in the four Booker Retail Partners depots and a bespoke warehouse management systems called Locator in the five Booker distribution centres (including the Chef Direct distribution centre at Didcot); and (iii) in-store and warehouse replenishment is managed centrally using JDA Advanced Store Replenishment software.

Intellectual property

The Booker Group owns or licences a number of "own label" trademarks and/or devices including:

- *Catering and food*: Chef's Larder, Lichfields, Farm Fresh, Black Gate and CleanPro;
- *Wine, spirit and tobacco*: Malt House Vintners and Chekov;
- *Retail brands*: Happy Shopper and Euro Shopper; and
- *Symbol fascias*: Premier, Family Shopper, Londis and Budgens.

Following the acquisition of Makro, the Booker Group was granted an exclusive, non-transferable licence to use Makro trademarks (the “Makro Marks”). The licence of the Makro Marks is subject to a monthly royalty of £125,000.

Euro Shopper is a brand that the Booker Group is licensed to use by AMS Sourcing B.V. (“AMS”) throughout the United Kingdom (the “Euro Shopper Licence”). The Euro Shopper Licence runs for an indefinite period, although either party can terminate the licence and distribution agreement on 36 months’ notice. The Euro Shopper Licence will also terminate if a separate cooperation agreement with AMS is terminated.

Environmental matters and sustainability

The Booker Group fulfils its duty to minimise adverse environmental impacts by ensuring efficient use of materials and energy, recycling whenever possible, minimising waste and ensuring compliance with relevant legislation. Using energy efficiently, minimising emissions to air and monitoring energy consumption are key components of the Booker Group’s environmental work. As at 24 March 2017, the Booker Group had obtained four consecutive Carbon Trust Standard awards and its second Carbon Trust Waste Standard in 2015, externally verifying eight years of absolute carbon footprint emissions reductions and four years of improved waste management. The Booker Group is the only wholesaler to have held this standard for that length of time. The award demonstrates the Booker Group’s long term commitment to successfully measuring, managing and reducing its carbon footprint.

As at 24 March 2017, examples of these initiatives include the conversion of 35 business centres, one distribution centre and two freezer rooms to LED energy efficient lighting with roll out continuing across the remainder of the estate, reducing business miles through the use of video conferencing and a trial of heavy goods vehicles that comply with the European EURO VI emission standards, showing an improvement of six per cent. in fuel efficiency.

The Carbon Trust Standard is a voluntary certification and mark of excellence that enables organisations to demonstrate their success in cutting their carbon footprint. The Standard can be achieved for Energy, Waste and Water. The Standard is awarded for a two year period, with the Booker Group obtaining a fourth consecutive Carbon Trust Standard and second Carbon Trust Waste Standard in 2015. This accreditation externally verifies eight years of absolute carbon footprint emissions reductions and four years of improved waste management. The Booker Group is the only wholesaler to have held the standard for that length of time. The award demonstrates the Booker Group’s long term commitment to successfully measuring, managing and reducing its carbon footprint.

The Booker Group works to prevent waste, redistribute fit for purpose food, increase recycling and divert waste away from landfill. Each store and distribution centre participates in surplus food donations, recycling paper, plastic, cardboard, metal and wood. During the 52 weeks ended 24 March 2017, the Booker Group reduced waste to landfill by 73 per cent. and now recycles 99 per cent. of total Group waste. In April 2012, the Booker Group packaging recycling service was launched with approximately 13,500 customers regularly using the service. Volumes of cardboard recycled in the 52 weeks ended 24 March 2017 were up on the prior year at over 17,000 tonnes.

PART 4

REGULATORY OVERVIEW

Non-financial operations

The Tesco Group and the Booker Group are and, following completion of the Merger, the Combined Group will be subject to a wide variety of laws and regulations in key areas such as planning and environmental regulation, packaging regulation, regulation of the transportation, handling, storage and distribution of fuel, food hygiene standards, health and safety laws, tobacco regulation, alcohol regulation, regulation of e-commerce (including, for example, in relation to online payment systems), data protection law, employment law (including in relation to minimum wages and working hours), trade and immigration law, consumer law (including trading, pricing, and advertising laws), anti-corruption and bribery laws, regulation of foreign investors, the FCA, the London Stock Exchange and the Irish Stock Exchange (in the case of the Tesco Group and, following completion of the Merger, the Combined Group), income, corporate and other tax rules and others. As referred to below, the Tesco Group and the Booker Group are and, following completion of the Merger, the Combined Group will be also subject to oversight and scrutiny by competition and other regulatory authorities.

Groceries supplier regulations

The Tesco Group and the Booker Group are and, following completion of the Merger, the Combined Group will be subject to regulatory oversight in relation to their relationships with their suppliers in the United Kingdom (in the case of the Tesco Group, the Booker Group and the Combined Group), and in the ROI and in Central Europe (in the case of the Tesco Group and the Combined Group). Across these jurisdictions, independent adjudicators are responsible for overseeing the relationship between supermarkets and their suppliers. The principal objective of these independent adjudicators is to ensure that large supermarkets treat their direct suppliers lawfully and fairly, by investigating complaints and arbitrating in disputes. Regulations in the United Kingdom, the ROI and in Central Europe have been implemented which are designed to reduce potential consumer detriment by controlling practices that transfer excessive risks and unexpected costs to suppliers, and have an impact on suppliers' quality, innovation and willingness to invest. Regulators in each of these jurisdictions have a range of disciplinary and enforcement powers, including the imposition of public notices and fines, pursuant to which they can sanction grocery retailers for breach of regulatory requirements.

United Kingdom – Groceries Supply Code of Practice

Following its investigation into the groceries market in 2008, the Competition Commission created the Groceries (Supply Chain Practices) Market Investigation Order 2009 (the "Order") and the Groceries Supply Code of Practice ("GSCOP") to regulate aspects of the commercial relationship between the largest grocery retailers in the United Kingdom and their suppliers of grocery products. The overarching principle of GSCOP is that large retailers must deal with suppliers fairly and lawfully. The Order imposes training, dispute resolution and reporting obligations on retailers, whereas GSCOP governs some of the key elements of the retailer-supplier relationship (with the important exception of price) and imposes a number of specific supplier protections, including the obligation for retailers to give reasonable notice of changes or reductions in the volume of purchases and a number of provisions relating to payments and charges.

The Groceries Code Adjudicator ("GCA") is tasked with arbitrating disputes arising in relation to GSCOP, monitoring compliance and investigating possible breaches of GSCOP. The GCA has a suite of enforcement powers, ranging from requiring retailers to publish details of a breach of

GSCOP, issuing binding recommendations or, for breaches occurring after 6 April 2015, imposing financial penalties of up to one per cent. of the retailer's turnover.

In 2015, the GCA carried out an investigation into certain historical practices of Tesco. The GCA's investigation report, published in January 2016, concluded that Tesco had delayed certain payments to suppliers and issued recommendations to Tesco to address future compliance. The GCA confirmed in September 2016 that Tesco had complied with these recommendations, and continues to monitor compliance at six-monthly intervals.

GSCOP compliance is embedded in Tesco's ways of working with suppliers (including, where possible, automation within internal systems) and is monitored through a number of mechanisms, including a GSCOP audit and monitoring programme, oversight by a cross-functional governance group, regular review by the United Kingdom Leadership Team and United Kingdom Compliance Committee and the work of GSCOP Compliance Officer.

The ROI – Grocery Goods Undertakings Regulations

On 1 February 2016 the Consumer Protection Act 2007 (Grocery Goods Undertakings) Regulations 2016 (the "Regulations") were signed into law with a commencement date of 30 April 2016. The purpose of the Regulations is to facilitate greater certainty and transparency in the dealings between suppliers of grocery goods (i.e. food and drink for human consumption) and relevant grocery goods undertakings (retailers and wholesalers of grocery goods with worldwide annual turnover of more than €50 million).

The Regulations impose a number of supplier protections including notice requirements to vary or terminate agreements, prohibitions on levying certain charges unless previously agreed in writing and default payment terms. The Competition and Consumer Protection Commission ("CCPC") is responsible for monitoring compliance, investigating complaints and, where appropriate, taking enforcement action through the Courts against relevant grocery goods undertakings in the event of non-compliance. Sanctions include issue of public notices and criminal prosecution with penalties including fines up to €100,000 and/or two years imprisonment. Given that the Regulations are relatively immature there has to date been no indication of intended revisions or additions, no enforcement action and no subsequent guidance provided.

Central Europe – Groceries supplier regulations

The Tesco Group is also subject to grocery supplier regulations in Czech Republic, Hungary, Poland and Slovakia. Suppliers and retail legislation is treated as one the Tesco Group's key compliance risks across all of the jurisdictions in which the Tesco Group operates across Central Europe. The various regulations in Central Europe prohibit grocery retailers from engaging in certain abusive behaviours in relation to pricing and payment terms or in connection with the imposition of other unfair terms and conditions. Regulations in these jurisdictions provide the relevant regulatory body in each jurisdiction with powers to sanction grocery retailers for non-compliance, including through public censure and the imposition of fines.

Financial operations

United Kingdom regulatory environment

Tesco Bank, like other financial services providers, is subject to various regulatory regimes, requiring it to be authorised by the PRA and regulated by the PRA and the FCA and to comply with the relevant United Kingdom and European legislation. Tesco Bank owns 49.9 per cent. of Tesco Underwriting Limited ("Tesco Underwriting"), which is also authorised by the PRA and regulated by the FCA and the PRA.

Financial Services and Markets Act 2000

The FSMA is the key piece of United Kingdom legislation which makes provision about the regulation of financial services and markets. It gives powers to HM Treasury to make financial-services related secondary legislation and gives the FCA and the PRA powers to make rules and guidance for firms within the scope of the FSMA regulatory regime.

The FCA and the PRA

Tesco Bank and Tesco Underwriting are authorised by the PRA to carry out certain regulated activities and are regulated by the FCA and the PRA. Banks domiciled in the United Kingdom, such as Tesco Bank, must comply with the rules and guidance of the PRA and the FCA made under the FSMA. Such dual regulated firms are subject to, *inter alia*, the PRA Rulebook (the "PRA Rulebook") and the FCA Handbook of Rules and Guidance (the "FCA Handbook").

The FCA is responsible for conduct of business regulation for all authorised firms, market regulation and the prudential regulation of firms not authorised by the PRA. The PRA oversees and is responsible for the prudential regulation of banks, building societies, insurers, credit unions and those investment firms which have been designated by the PRA.

The PRA and the FCA have extensive powers to supervise and intervene in the affairs of the firms they are responsible for regulating, for example, if they consider that there is a risk that the firm may not satisfy the minimum threshold conditions for a firm to be authorised which are set out in the FSMA (the "Threshold Conditions") or that the firm has failed to comply with obligations under the relevant legislation or rules.

The FCA and the PRA have a range of informal and formal disciplinary and enforcement powers, including private censure, public censure, and financial penalties. The PRA or FCA, where relevant, may also cancel or vary (including by imposing limitations on) the firm's authorisation. They also have the power to give a direction to a qualifying parent undertaking in certain circumstances, if the parent undertaking is incorporated (or has a place of business) in the United Kingdom, is not itself an authorised person, a recognised investment exchange or a recognised clearing house and is a "financial institution" of a kind prescribed by HM Treasury by order.

FCA Handbook and PRA Rulebook

The FCA Handbook applies to both FCA-authorised firms and PRA-authorised firms. It contains conduct requirements that apply to all regulated firms and prudential requirements relevant to FCA-authorised firms.

The FCA Handbook also contains Principles for Businesses (the "Principles for Businesses") which provide a general statement of the fundamental obligations of firms under the regulatory system. In particular, the FCA is responsible for ensuring that authorised firms treat customers fairly ("TCF") in line with Principle 6 of the Principles for Businesses, and communicate with customers in a manner that is clear, fair and not misleading in line with Principle 7 of the Principles for Businesses.

The PRA Rulebook applies to PRA-authorised firms only and contains prudential requirements relevant to these firms. The PRA Rulebook also contains a number of Fundamental Rules, which are high-level rules similar to the FCA's Principles for Businesses but focused on prudential matters such as the requirement for PRA-authorised firms to act in a prudent manner.

Tesco Bank, like other similar financial services providers in the United Kingdom, is subject to the following financial services regulatory regimes: the Consumer Credit Regime (including the rules in the Consumer Credit Sourcebook ("CONC") of the FCA Handbook; Conduct of Business Rules (including the Banking Conduct of Business Sourcebook ("BCOBS") of the FCA Handbook, the Mortgages and Home Finance: Conduct of Business Sourcebook ("MCOB") of the FCA

Handbook and the Insurance: Conduct of Business Sourcebook ("ICOBS") of the FCA Handbook);and the Senior Managers Regime, Certification Regime and Conduct Rules.

Other bodies impacting the regulatory regime

Other bodies that are relevant to operators within financial markets in the United Kingdom, such as Tesco Bank, are The Bank of England, HM Treasury and the Financial Ombudsman Service, which provides a low-cost way for customers to resolve complaints against financial services firms.

EU and EEA regulatory environment

On 23 June 2016 the United Kingdom voted by referendum to withdraw from the European Union. A number of the laws and regulations which apply to Tesco Bank and Tesco Underwriting and their businesses derive from the implementation of European law into English law. At this time, it is unclear what relationship the United Kingdom will have with the EU and what the medium to long term effect will be on laws deriving from European law. Until the United Kingdom leaves the EU it remains a full Member State of the EU and all the rights and obligations of EU membership remain in force. Further, European directives, once implemented into English law form part of English law and so will continue to apply after the United Kingdom leaves the EU unless amended or repealed. European regulations are directly applicable without implementation into English law. However, it is anticipated that directly-effective EU legislation, including European regulations, will form part of English law on and after the date of the UK's exit from the EU by means of an act (currently in the form of the European Union (Withdrawal) Bill).

Key legislation which governs European financial services providers, such as Tesco Bank or Tesco Underwriting, includes: the Capital Requirements Regulation and Capital Requirements Directive; the Insurance Mediation Directive (to be repealed and replaced by the Insurance Distribution Directive in February 2018); the Fourth Money Laundering Directive; and the Payment Services Directive.

PART 5

TESCO DIRECTORS, PROPOSED DIRECTORS AND CORPORATE GOVERNANCE

Tesco Directors

The following table lists the names, positions and ages of the Tesco Directors.

Name	Age	Position
John Allan CBE	69	Non-Executive Chairman
Dave Lewis	52	Group Chief Executive
Alan Stewart	57	Chief Financial Officer
Deanna Oppenheimer	59	Senior Independent Director
Mark Armour	63	Independent Non-Executive Director
Steve Golsby	63	Independent Non-Executive Director
Byron Grote	69	Independent Non-Executive Director
Mikael Olsson	60	Independent Non-Executive Director
Simon Patterson	44	Independent Non-Executive Director
Alison Platt	55	Independent Non-Executive Director
Lindsey Pownall OBE	56	Independent Non-Executive Director

The business address of each of the Tesco Directors is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

John Allan CBE (Non-Executive Chairman)

John was appointed to the Tesco Board on 1 March 2015.

John brings a wealth of executive management expertise from across the commercial and financial sectors. He was CEO of Exel PLC and when it was acquired by Deutsche Post in 2005 he joined the board of Deutsche Post, becoming CFO in 2007 until his retirement in 2009. John was Chairman of Dixons Retail plc during its turnaround period and following its merger with Carphone Warehouse was Deputy Chairman and Senior Independent Director of Dixons Carphone until 2015. John was the former Chairman of Worldpay Group plc until 2015 and remained a Non-Executive Director until its merger with Vantiv on 16 January 2018. He was also previously a Non-Executive Director of National Grid plc, the UK Home Office Supervisory Board, 3i plc, PHS Group plc, Connell plc, Royal Mail plc, Wolseley plc and Hamleys plc.

John is currently also the Chairman of Barratt Developments PLC and London First, and Vice President of the Confederation of British Industry and the co-founder and Chairman of J and A Mentoring Partners.

Dave Lewis (Group Chief Executive)

Dave was appointed to the Tesco Board on 1 September 2014.

Dave has significant experience in brand marketing, customer management and general management. Prior to joining Tesco, he worked for Unilever for nearly 30 years in a variety of different roles across Europe, Asia and the Americas. He has experience across many sectors in the UK and overseas, and has been responsible for a number of business turnarounds. He was previously a Non-Executive Director of Sky PLC.

Dave is currently also a member of the Governance Committee of the Consumer Goods Forum and Chairman of Champions 12.3, a UN programme seeking to add momentum to the achievement of the UN Sustainable Development Target 12.3 by 2030.

Alan Stewart (Chief Financial Officer)

Alan was appointed to the Tesco Board on 23 September 2014.

Alan brings to the Tesco Board significant corporate finance and accounting experience from a variety of highly competitive industries, including retail, banking and travel, as well as executive leadership experience within a listed company environment. Prior to joining Tesco, he was UK CEO and CFO of Thomas Cook Holdings, Group Finance Director of WHSmith plc and CFO for AWAS and Marks and Spencer plc. He was previously a Non-Executive Director of Games Workshop Group plc.

Alan is currently also a Non-Executive Director of Diageo plc and Tesco Bank, Member of the Advisory Board, Chartered Institute of Management Accountants and Member of the Main Committee and Chairman of the Pension Committee of the 100 Group of Finance Directors.

Deanna Oppenheimer (Senior Independent Director)

Deanna was appointed to the Tesco Board on 1 March 2012 and appointed as Senior Independent Director on 3 January 2017.

Deanna was appointed as a Non-Executive Director and the Chairwoman of Hargreaves Lansdown PLC on 2 February 2018. Deanna has significant marketing, brand management and consumer knowledge and experience from the numerous roles she has held within the finance sector. She held a number of senior roles at Barclays plc, including Chief Executive of UK Retail and Business Banking and Vice Chairwoman of Global Retail Banking. Prior to Barclays, Deanna held senior positions at Washington Mutual, Inc. She was previously a Non-Executive Director of Catellus and Plum Creek Timber.

Deanna is also the founder of consumer focused boutique advisory firm, CameoWorks LLC, BoardReady.io, a start-up that accelerates the diversification of governing boards, and Vettd, a technology driven human resource solutions business. Deanna is also a Non-Executive Director of AXA Group, the Joshua Green Corporation, Whitbread PLC, Worldpay Group PLC and Brooks Sports and a trustee of the University of Puget Sound. Additionally, she is a senior advisor to Bain & Company.

Mark Armour (Independent Non-Executive Director)

Mark was appointed to the Tesco Board on 2 September 2013.

Mark has significant strategic and financial expertise, as well as experience of executive leadership. He was CFO of Reed Elsevier Group PLC (now RELX Group PLC), and its two parent companies, Reed Elsevier PLC and Reed Elsevier NV, from 1996 to 2012. Prior to joining Reed Elsevier, he was a partner at Price Waterhouse in London. He also has considerable experience of digital business transition and operating a multi-channel environment. He was previously a Non-Executive Director and Chairman of the Audit Committee of SABMiller PLC.

Mark is currently also a Non-Executive Director of the Financial Reporting Council.

Steve Golsby (Independent Non-Executive Director)

Steve was appointed to the Tesco Board on 1 October 2016.

Steve has a wealth of knowledge of operating internationally, specifically significant management experience in South East Asia. He has a strong background in consumer marketing and has held senior executive positions with Bristol Myers Squibb and Unilever, before being appointed President of Mead Johnson Nutrition, a leading global infant nutrition company in 2004. Steve was President and CEO from 2008 to 2013 following its IPO and listing on the New York Stock Exchange and after 2013, a Non-Executive Director until June 2017 when the business was acquired by Reckitt Benckister. He was previously a Non-Executive Director of Beam Inc, until 2014 when it was acquired by Suntory, and a Non-Executive Director of Masan Consumer where he also acted as the KKR & Co. representative.

Steve is currently also a Non-Executive Director of RMA Group, advisor to Thai Union Group PLC, a global leader in the seafood industry, and an Honorary Advisor to the Thailand Board of Investment.

Byron Grote (Independent Non-Executive Director)

Byron was appointed to the Tesco Board on 1 May 2015.

Byron brings broad financial and international experience to the Tesco Board, having worked across BP PLC in a variety of commercial, operational and executive roles covering numerous geographies. He served on the BP plc board from 2000 until 2013 and was BP's CFO during much of that period. He was previously a Non-Executive Director of Unilever PLC.

Byron is currently also Vice Chairman of the Supervisory Board of Akzo Nobel NV and a Non-Executive Director of Anglo American PLC and Standard Chartered PLC.

Mikael Olsson (Independent Non-Executive Director)

Mikael was appointed to the Tesco Board on 1 November 2014.

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

Mikael is currently also a Non-Executive Director and Vice Chairman of Volvo Cars AB, a Non-Executive Director of Ikano S.A. and Lindengruppen AB, and a member of the Supervisory Board of The Royal Schiphol Group.

Simon Patterson (Independent Non-Executive Director)

Simon was appointed to the Tesco Board on 1 April 2016.

Simon has extensive knowledge of and years of experience in finance, technology and global operations gained in various management and leadership roles. He was a member of the founding management team of the logistics software company Global Freight Exchange and has worked at the Financial Times and McKinsey & Company. He has previously served on the boards of Skype, MultiPlan, Cegid Group, Intelsat, Gerson Lehrman Group and N Brown Group.

Simon is also the Managing Director of Silver Lake Partners, a leading global technology investment firm, a board member of Dell, a Trustee of the Natural History Museum and a Trustee of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry.

Alison Platt (Independent Non-Executive Director)

Alison was appointed to the Tesco Board on 1 April 2016.

Alison has extensive experience of the property sector and customer service delivery. Alison was Chief Executive of Countrywide plc until January 2018. She also has significant business-to-business and international commercial experience, having held a number of senior positions at Bupa. Alison was previously Chairwoman of 'Opportunity Now', which seeks to accelerate change for women in the workplace, as well as a Non-Executive Director of the Foreign & Commonwealth Office and Cable & Wireless Communications PLC.

Lindsey Pownall OBE (Independent Non-Executive Director)

Lindsey was appointed to the Tesco Board on 1 April 2016.

Lindsey has substantial experience in food, grocery and retail brand development, having enjoyed a career of over 20 years at Samworth Brothers, the leading UK supplier of premium quality chilled and ambient foods. She joined the Samworth Board in 2001 and served as Chief Executive between 2011 and 2015.

Lindsey is also a Non-Executive Director of Meadow Foods Limited and Story Contracting Limited.

Proposed Directors

The following table lists the names, positions and ages of the Booker Directors who it is proposed will join the Combined Group's Board upon completion of the Merger. A brief biography of each Proposed Director is also set out below.

Name	Age	Position
Stewart Gilliland	60	Chairman of Booker
Charles Wilson	52	Chief Executive of Booker

The business address of each of the Proposed Directors is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

Stewart Gilliland (Booker Chairman) (Non-Executive Chairman)

Stewart was first appointed to the board of Booker in December 2010 and was appointed as Chairman in July 2015.

Stewart is currently Senior Independent Director of Mitchells & Butlers plc and a Non-Executive Director of C&C Group plc and Curious Drinks Ltd. He is also a Director of Nature's Way Foods Ltd. Stewart was formerly Chief Executive of Muller Dairies UK and the ROI and has held senior roles with leading consumer facing companies, including Whitbread and Interbrew.

Charles Wilson (Booker Chief Executive)

Charles was first appointed to the board of Booker in June 2007.

Charles started his career in 1986 with Procter & Gamble following which he was a consultant with OC&C Strategy Consultants and a Director of Abberton Associates. In 1998 he became an Executive Director of Booker Group plc which merged with Iceland plc in 2000. In 2001 he became an Executive Director of Arcadia Group plc and in 2004 he became an Executive Director of Marks and Spencer Plc. In 2005 he was appointed as Chief Executive of Booker. In addition to joining the Combined Group's Board, Charles will also join the Combined Group's Executive Committee.

Tesco Senior Managers

In addition to the Tesco Executive Directors listed above, the following Tesco Senior Managers are considered relevant to establishing that Tesco has the appropriate expertise and experience for the management of its business:

Name	Age	Position
Matt Davies	47	UK & ROI CEO
Matt Simister	44	CEO, Central Europe
Tony Hoggett	43	CEO, Asia
Benny Higgins	57	CEO, Tesco Bank and Group Strategy Director
Adrian Morris	50	Group General Counsel
Jane Lawrie	52	Group Communications Director
Alison Horner	51	Chief People Officer
Jason Tarry	50	Chief Product Officer
Alessandra Bellini	53	Chief Customer Officer

The business address of each of the Tesco Senior Managers is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

Matt Davies (UK & ROI CEO)

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

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

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

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

Matt Simister (CEO, Central Europe)

Matt joined the Tesco Group Executive Committee on 1 April 2017. Matt is responsible for all of Tesco's businesses in the Czech Republic, Hungary, Poland and Slovakia.

Matt joined Tesco in 1996 as a marketer. He built on his UK experience with three years as Commercial Director for the Tesco Group's Czech and Slovak businesses before returning to the UK to set up its Group Food capability, managing its regional fresh food and Tesco Brand sourcing, buying and inbound supply chains for the UK, ROI, Central Europe and Asia. For the last two years, Matt has integrated these capabilities into the UK business.

Tony Hoggett (CEO, Asia)

Tony joined the Tesco Group Executive Committee on 1 April 2017. Tony is responsible for all of Tesco's businesses in Thailand and Malaysia, as well as its joint ventures in India and China.

Tony joined Tesco as a 16-year old student in 1990 and managed a number of stores in the north of England. Between 2007 and 2011 he held a number of roles in China before moving to Turkey as Chief Operating Officer for Tesco Kipa. In 2011, Tony returned to the UK as Managing Director for Superstores, before becoming.

Managing Director for Extra in 2012. He was also appointed as a board member of Tesco Mobile at this time. In 2014, he joined the UK Leadership Team as Retail Director UK and then Chief Operating Officer UK in 2016.

Benny Higgins (CEO, Tesco Bank and Group Strategy Director)

Benny joined the Tesco Group Executive Committee on 28 January 2013 and was appointed as Group Strategy Director in January 2015. Benny will retire from the Tesco Group on 28 February 2018.

As CEO of Tesco Bank, Benny is responsible for Tesco Bank and as Group Strategy Director he has responsibility for the development of strategic options. Benny began his career in 1983 qualifying as an actuary. He has since held senior positions at the Royal Bank of Scotland and has been Chief Executive of Tesco Bank since 2008.

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

Adrian Morris (Group General Counsel)

Adrian joined the Tesco Group Executive Committee on 6 September 2012.

As Tesco Group General Counsel, Adrian is responsible for the legal, company secretarial and governmental relations and regulatory functions across Tesco globally. Adrian joined Tesco in September 2012 as Tesco Group General Counsel. Prior to Tesco, Adrian worked at BP PLC as Associate General Counsel for Refining and Marketing and prior to that at Centrica PLC, initially as European Group General Counsel and then as General Counsel for British Gas.

Jane Lawrie (Group Communications Director)

Jane joined the Tesco Group Executive Committee on 10 October 2016.

As Group Communications Director, Jane is responsible for rebuilding trust in the Tesco brand and its business. Jane has over 25 years' experience of corporate, financial, colleague and digital communications. She joined Tesco from Coca-Cola, where she led European public affairs and communications. She has significant experience in advising businesses on trust and corporate reputation, including previous roles at Diageo and Boots the Chemist.

Alison Horner (Chief People Officer)

Alison joined the Tesco Group Executive Committee on 1 March 2011.

As Chief People Officer, Alison is responsible for setting the overall agenda for and developing people management programmes at Tesco, including reward and employee relations. Alison joined Tesco in 1999 as a Personnel Manager and was later promoted to Personnel Director for Tesco's UK operations. Alison is a pension trustee.

Alison is a member of the Manchester Business School Advisory Board.

Jason Tarry (Chief Product Officer)

Jason joined the Tesco Group Executive Committee on 1 January 2015.

As Chief Product Officer, Jason is responsible for everything related to the design, procurement and delivery of all products to Tesco channels. In addition, he is responsible, together with the Chief Customer Officer, for the customer promotional plan. Jason joined Tesco in October 1990 on the graduate recruitment programme. He has held a number of positions in both food and non-food divisions. Jason was appointed CEO of Group Clothing in 2012, which included UK & ROI store and online operations as well as taking F&F to Tesco's Asia business and further afield via franchise partnerships.

Alessandra Bellini (Chief Customer Officer)

Alessandra joined the Tesco Group Executive Committee on 1 March 2017.

As Chief Customer Officer, Alessandra is responsible for building the Tesco brand globally and putting the customer at the heart of everything that Tesco does. Prior to Tesco, Alessandra worked at Unilever for over 21 years, latterly as Vice President for the Food Category in North America and Food General Manager for the USA. Previously, she had a 12-year career in advertising, working both in Italy and the UK.

An international executive, Alessandra has held roles in North America, the UK, Italy and Central and Eastern Europe.

Corporate governance

Overview

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

The governance framework provides clear parameters of delegation and responsibilities from the Tesco Board down through the Tesco Group.

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

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

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

In addition, the Tesco Group has approved a Group Delegated Authorities Schedule which sets out who within the management team has authority to take decisions based on the nature of the decision and the values associated with it.

UK Corporate Governance Code

The UK Corporate Governance Code ("Governance Code") published by the Financial Reporting Council ("FRC") sets out principles and specific provisions as to how a company should be directed and controlled to achieve standards of good corporate governance. The Governance Code can be found on the FRC's website at: www.frc.org.uk.

As envisaged by the Governance Code, the Tesco Board has established an Audit Committee, a Tesco Nominations and Governance Committee, and a Remuneration Committee, and has also established a Corporate Responsibility Committee and a Disclosure Committee, each of which is discussed further below. If the need should arise, the Tesco Board may set up additional committees as appropriate.

The Governance Code also recommends that, except for smaller companies (below the FTSE 350), at least half the board of directors, excluding the chairperson, should comprise non-executive directors determined by the board to be independent in character and judgement and free from relationships or circumstances which may affect, or could appear to affect, the director's judgement.

All companies with a premium listing of equity shares in the UK, including Tesco, are required by the Listing Rules to report on how they have applied the Governance Code in their annual report and accounts. The Tesco Board confirms that, throughout the financial year ended 25 February 2017, Tesco applied the main principles and complied with the relevant provisions set out in the Governance Code issued by the FRC in September 2014.

In April 2016, the FRC published an updated version of the Governance Code which has applied to Tesco for the financial year beginning 26 February 2017, and Tesco is preparing to report on the updated version of the Governance Code for the 2017/2018 financial year.

Board Committees

Specific responsibilities have been delegated to the Tesco Board Committees, each of which is responsible for reviewing and dealing with matters within its own terms of reference. Each Tesco Board Committee reports to, and has its terms of reference approved by, the Tesco Board. The Tesco Board Committee papers and minutes are shared with all Tesco Directors.

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

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

Tesco Audit Committee

The role of the Audit Committee is to assist the Tesco Board in the discharge of its responsibilities in relation to financial reporting, internal control and risk management framework of the Company. The Audit Committee will normally meet five times a year. Ad hoc meetings may also be held.

The specific responsibilities of the Audit Committee include:

- monitoring the Tesco Group's financial reporting processes;

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

The Tesco Audit Committee's full terms of reference can be found at www.tescoplc.com.

The Tesco Audit Committee comprises Byron Grote (as Chairman), Mark Armour and Simon Patterson, each of whom is an Independent Non-Executive Director of Tesco. The Company Secretary and/or Assistant Secretary will act as Secretary to the Committee. Other regular attendees at Tesco Audit Committee meetings include the Chairperson, Group Chief Executive, Chief Financial Officer, Chief Audit & Risk Officer, Group Head of Finance & Performance and representatives of the external auditor.

The Governance Code recommends that all members of the audit committee be non-executive directors, independent in character and judgment, and free from any relationship or circumstance which may, could, or would be likely to, or appear to, affect their judgment, and that one such member has recent and relevant financial experience. The Tesco Board considers that Tesco complies with the requirements of the Governance Code in this respect.

Tesco Nominations and Governance Committee

The role of the Tesco Nominations and Governance Committee is to assist the Tesco Board in reviewing the structure, size and composition of the Tesco Board. The Tesco Nominations and Governance Committee will normally meet twice a year, and hold ad hoc meetings as required.

The specific responsibilities of the Tesco Nominations and Governance Committee include:

- review of the structure, size and composition (including skills, knowledge, experience, and diversity) of the Tesco Board and its Committees and making recommendations to the Tesco Board regarding any changes;
- identification and nomination of candidates for appointment to the Tesco Board;

- review of succession over the longer term for Tesco Directors and senior management;
- keeping under review the time commitment expected from the Chairperson and Non-Executive Directors;
- ensuring an effectiveness review is conducted annually of the Tesco Board, its Committees and Directors;
- reviewing an approving changes to the Tesco Board's governance framework, including monitoring the Tesco Group's compliance with applicable legal, regulatory and listing requirements and recommending to the Board such changes or additional actions as deemed necessary;
- conducting an annual review of the Conflicts of Interest Register; and
- making recommendations to the Tesco Board on the independence of Non-executive Directors and reviewing the terms of office of Non-executive Directors after three years based on a review of the director's performance.

The Tesco Nominations and Governance Committee's full terms of reference are available at www.tescoplc.com.

The Tesco Nominations and Governance Committee comprises John Allan (as Chairman), Deanna Oppenheimer and Byron Grote. The Senior Independent Director chairs all Tesco Nominations and Governance Committee meetings where matters relating to the Chairperson are discussed.

The Governance Code recommends that a majority of the nomination committee be Non-Executive Directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. All of the Tesco Nominations and Governance Committee members (other than John Allan) are Independent Non-Executive Directors and the Tesco Board is satisfied that a majority of members have significant, recent and relevant financial experience for the purposes of the Governance Code and are competent in accounting and auditing.

In addition, and as required by the revised Governance Code which was issued in April 2016 as applied to the Tesco Group from its 2017/18 financial year, the Tesco Board considers that the Tesco Nominations and Governance Committee members as a whole have competence relevant to the Tesco Group's sector, in addition to general management and commercial experience.

Tesco Remuneration Committee

The role of the Remuneration Committee is to assist the Tesco Board to manage executive remuneration. The Remuneration Committee will normally meet four times a year. Ad hoc meetings may also be held.

The specific responsibilities of the Remuneration Committee include:

- determining and recommending to the Tesco Board the remuneration policy for Tesco Executive Directors, senior management and the Chairperson;
- ensuring the level and structure of remuneration is designed to attract, retain and motivate the Executive Directors and senior management needed to run Tesco, and ensuring that the individual's contribution to the long-term success of Tesco is rewarded in a manner that remains appropriate in the context of the remuneration arrangements throughout the Tesco Group;

- ensuring 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
- monitoring the level and structure of remuneration of senior management.

The Tesco Remuneration Committee's full terms of reference are available at www.tescoplc.com.

The remuneration committee comprises Deanna Oppenheimer (as Chairwoman), John Allan, Steve Golsby, Byron Grote, Mikael Olsson, and Alison Platt. The Governance Code recommends that all members of the remuneration committee be Non-Executive Directors, independent in character and judgment and free from any relationship or circumstance which may, could or would be likely to, or appear to, affect their judgment. The Tesco Board considers that the Tesco Group complies with the requirements of the Governance Code in this respect.

Tesco Corporate Responsibility Committee

The role of the Corporate Responsibility Committee is to assist the Tesco Board in ensuring that it maintains an adequate focus on corporate responsibility in its widest sense. The Corporate Responsibility Committee will normally meet three times a year. Ad hoc meetings may also be held.

The specific responsibilities of the Corporate Responsibility Committee include:

- overseeing the Tesco Group's conduct with regard to its corporate and societal obligations as a responsible corporate citizen;
- approving a strategy for discharging the Tesco Group's corporate and social responsibilities in such a way as to build trust, command respect and confidence;
- reviewing progress of the corporate responsibility strategy against agreed performance measures;
- identifying and monitoring those external developments that are likely to have a significant influence on the Tesco Group's reputation and/or its ability to conduct its business appropriately as a good citizen and review how best to protect that reputation or that ability;
- overseeing the creation of appropriate policies and supporting measures;
- overseeing the Tesco Group's engagement with external stakeholders and other interested parties;
- reviewing expenditure and other commitments by the Tesco Group on corporate donations, community programmes and charitable support; and
- ensuring that appropriate communications policies are in place and working effectively to build and protect the Tesco Group's reputation both internally and externally.

The full terms of reference for the Tesco Corporate Responsibility Committee are available at www.tescoplc.com.

The Corporate Responsibility Committee comprises Lindsey Pownall (as Chairman), John Allan, Steve Golsby, Mikael Olsson and Deanna Oppenheimer.

Tesco Disclosure Committee

The Tesco Board has established a Disclosure Committee to assist the Tesco Board in ensuring timely and accurate disclosure of all information that is required to be disclosed to the market to meet the legal and regulatory obligations and requirements arising from the listing of Tesco's securities on the London Stock Exchange, including the Listing Rules, the DTR and MAR.

The specific responsibilities of the Disclosure Committee include:

- overseeing the implementation and operation of appropriate procedures for the verification of financial statements, annual reports, circulars and other relevant documents which are to be publicly disclosed, and reviewing their form and content to ensure they are true, accurate and complete;
- assessing and deciding whether information amounts to inside information for the purpose of MAR, the LRs and the DTRs;
- supervising the verification process for regulatory announcements, shareholder circulars, prospectuses and other documents issued by the Company under any legal or regulatory requirement; and to scrutinise the same in order to ensure that they comply with applicable requirements;
- maintaining a record of Tesco's disclosures; matters considered for disclosure but not disclosed; and any decision to delay disclosure of inside information;
- overseeing the Company's response to the leak of inside information;
- assessing relevant and substantive market rumours or speculation concerning the Tesco Group and making recommendations as to what response, if any, should be made;
- monitoring analysts' expectations as to the Tesco Group's performance and recommending any necessary corrective action;
- monitoring the Tesco Group's performance against its own forecasts; and
- periodically reviewing the Tesco Group Disclosure Policy and recommending changes to that Policy to the Tesco Board.

The full terms of reference of the Tesco Disclosure Committee are available at www.tescoplc.com.

The Disclosure Committee will meet at such times and in such manner as shall be necessary or appropriate, as determined by the Chairperson of the Committee or, in his or her absence, by any other member of the Committee. The Disclosure Committee is chaired by the Group Chief Financial Officer and its other members are the Tesco Group General Counsel; the Group Head of Finance and Performance; the Group Company Secretary; and the Group Investor Relations Director, as they may be from time to time. Any two of the Group Chief Executive, Group Chief Financial Officer and Group General Counsel may form the Disclosure Committee for the purposes of making decisions regarding inside information.

Tesco Share dealing code

Tesco has a share dealing code in place governing the dealing in Tesco securities by Tesco Directors, members of the Tesco Group Executive Committee and Tesco employee insiders. This share dealing code prohibits Tesco Directors, members of the Tesco Group Executive Committee, Tesco employee insiders and each of their connected persons from dealing in Tesco securities at any time whilst in possession of inside information; when there exists any matter which constitutes inside information in relation to Tesco; during a closed period; or on considerations of a short term nature. Those subject to the share dealing code must seek advance clearance before dealing in Tesco securities on their own behalf or in respect of their connected persons. The share dealing code has been reviewed for compliance with MAR.

Conflicts of interest

Save as disclosed in this paragraph, there are no potential conflicts of interest between any duties owed by the Tesco Directors or Senior Managers to the Company and their private interests or other duties.

The Tesco Group has a policy in place that requires any Tesco Director or Senior Manager to absent themselves from any discussions relating to commercial arrangements with companies or businesses in relation to which they have an actual or relevant potential conflict of interest. The Board has specifically considered the executive or non-executive roles that some of the Tesco Directors have with companies who may be suppliers to, or in competition with, the Tesco Group. The Board is satisfied that no actual conflicts exist, that potential conflicts are appropriately managed, and that the independence of such Tesco Directors and the commercial interests of the Tesco Group are not compromised.

Name	Interest	Potential conflicts
Alan Stewart	Non-executive director of Diageo plc	Diageo is a key supplier to the Tesco Group
Lindsey Pownall OBE	Consultant to Samworth Brothers	Samworth Brothers is a key supplier to the Tesco Group
Simon Patterson	Director of Dell Technologies Inc.	Dell is a key supplier to the Tesco Group
Deanna Oppenheimer	Non-executive director of WorldPay Group plc	WorldPay provides secure payment services to the Tesco Group
	Non-executive director of AXA S.A.	AXA is a competitor to Tesco Bank
Mikael Olsson	Non-executive director of Ikano S.A.	Ikano is a competitor to Tesco Bank
Byron Grote	Non-executive director of Standard Chartered PLC	Standard Chartered is a competitor to Tesco Bank

PART 6

SELECTED FINANCIAL INFORMATION

Section A – Tesco Group

The tables below set out the Tesco Group's selected financial information for the periods indicated, as reported in accordance with IFRS. The unaudited interim consolidated financial information for the Tesco Group as of and for each of the 26 weeks ended 27 August 2016 and 26 weeks ended 26 August 2017 has been extracted without material adjustment from the interim financial results announcement of Tesco on 4 October 2017. The audited consolidated financial information for the Tesco Group as of and for the 53 weeks ended 28 February 2015, the 52 weeks ended 27 February 2016 and the 52 weeks ended 25 February 2017 has been extracted without material adjustment from Tesco's Annual Reports and Financial Statements, each of which is incorporated by reference into this Prospectus. The income statement data in Part 7 has been restated to exclude the impact of discontinued operations. Refer to Part 7 – TESCO OPERATING AND FINANCIAL REVIEW for a reconciliation of the restated data to the previously reported financial information below.

Condensed consolidated income statement data

	Financial period			26 weeks ended	
			(£m)		
	53 weeks ended 28 February 2015	52 weeks ended 27 February 2016	52 weeks ended 25 February 2017	26 weeks ended 27 August 2016	26 weeks ended 26 August 2017
Revenue	62,284	54,433	55,917	27,338	28,348
Operating profit/(loss)	(5,792)	1,046	1,017	515	885
Profit/(loss) before tax (continuing operations)	(6,376)	162	145	71	562
Taxation	657	54	(87)	(40)	(138)
Profit/(loss) from discontinued operations	(47)	(87)	(112)	(131)	211
Profit/(loss) for the period	(5,766)	129	(54)	(100)	635

Condensed consolidated balance sheet data

	As at			As at	
			(£m)		
	28 February 2015	27 February 2016	25 February 2017	27 August 2016	26 August 2017
Non-current assets	32,256	29,076	30,436	30,355	30,689
Current assets	11,958	14,828	15,417	16,817	15,802
Net current liabilities	(7,852)	(4,886)	(3,988)	(4,451)	(4,104)
Non-current liabilities	(17,333)	(15,574)	(20,034)	(19,993)	(16,036)
Net assets	7,071	8,616	6,414	5,911	10,549
Total equity attributable to owners of the parent	7,071	8,626	6,438	5,930	10,574

Condensed consolidated cash flow statement data

	Financial period			26 weeks ended	
			(£m)		
	53 weeks ended 28 February 2015	52 weeks ended 27 February 2016	52 weeks ended 25 February 2017	26 weeks ended 27 August 2016	26 weeks ended 26 August 2017
Net cash generated from operating activities	484	2,126	1,989	900	1,087
Net cash (used in)/ from investing activities	(2,015)	(615)	279	(901)	(41)
Net cash (used in)/ from financing activities	814	(604)	(1,387)	281	(556)
Cash and cash equivalents at the end of the period	2,165	3,082	3,821	3,355	4,319

Section B – Booker Group

The tables below set out the Booker Group's selected financial information for the periods indicated, as reported in accordance with IFRS. The unaudited interim consolidated financial information for the Booker Group as of and for each of the 24 weeks ended 9 September 2016 and the 24 weeks ended 8 September 2017 has been extracted without material adjustment from Part 9: ("Booker Historical Financial Information") of this Prospectus. The audited consolidated financial information for the Booker Group as of and for each of the 52 weeks ended 27 March 2015, 25 March 2016, and 24 March 2017 has been extracted without material adjustment from Part 9: ("Booker Historical Financial Information") of this Prospectus.

Condensed consolidated income statement data

	52/53 weeks ended			24 weeks ended	
			(£m)		
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Revenue	4,753.0	4,991.5	5,327.9	2,524.4	2,587.3
Operating profit	140.3	152.8	176.1	81.4	89.1
Profit/(loss) before tax	138.8	150.8	174.0	81.0	88.0
Profit/(loss) after tax	117.7	127.8	153.8	67.8	74.7

Condensed consolidated balance sheet data

	As at			As at	
			(£m)		
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Non-current assets	676.4	723.3	711.0	714.1	706.0
Current assets	599.6	662.4	725.5	637.4	683.6
Total liabilities	(677.9)	(795.5)	(830.9)	(842.6)	(846.7)
Net assets	598.1	590.2	605.6	508.9	542.9
Total equity attributable to owners of the company	598.1	590.2	605.6	508.9	542.9

Condensed consolidated cash flow statement data

	52/53 weeks ended			24 weeks ended	
			(£m)		
	27 March 2015	25 March 2016	24 March 2017	9 September 2016	8 September 2017
Cash generated from operating activities	134.6	175.3	177.5	101.9	151.5
Net cash outflow from investing activities	(24.4)	(70.5)	(11.2)	3.4	(5.8)
Net cash outflow from financing activities	(112.8)	(124.4)	(133.0)	(127.0)	(141.3)
Cash and cash equivalents at the end of the period	147.0	127.4	160.7	105.7	165.1

PART 7

TESCO OPERATING AND FINANCIAL REVIEW

The following discussion and analysis should be read in conjunction with Part 2 ("Information on the Tesco Group") and the historical financial information on Tesco and the notes related thereto referred in Part 8 ("Tesco Historical Financial Information"), which has been incorporated by reference into this document. Prospective investors should read the entire document and not just rely on the summary set out below. The financial information included in this Part 7 has been extracted from the financial information referred to in Part 8 ("Tesco Historical Financial Information and restated to exclude the impact of discontinued operations from historic income statement information. Refer to the Appendix to this Part 7 for a reconciliation to the previously reported financial information referred to in Part 8 ("Tesco Historic Financial Information").

The following discussion of the Company's results of operations and financial condition contains forward-looking statements. The Company's actual results could differ materially from those discussed in the forward-looking statements. Factors that could cause or contribute to such differences include those discussed below and elsewhere in this document, particularly under the sections entitled "Risk Factors" and "Important Information –Forward-looking Statements". In addition, certain industry issues also affect the Company's results of operations and these are described in Part 2 ("Information on the Tesco Group").

Overview

Tesco is one of the world's largest retailers, with over 460,000 colleagues serving millions of customers every week, from 6,809 stores in eight countries across the UK, ROI, Central Europe and Asia, and online, and with joint venture operations in China and India. Tesco's primary operations are in retailing, where it has four key categories of fresh food, packaged food & grocery, clothing and general merchandise. Tesco also sells fuel and operates in financial services, primarily through Tesco Bank, mobile telecommunications services and in pharmacies in a number of its markets. Through its dunnhumby subsidiary, Tesco operates in the field of consumer insight.

The Tesco Group places customers at the centre of everything it does to deliver its purpose – serving shoppers a little better every day. Tesco exists to serve customers – listening to them and acting on what is most important in seeking to deliver the best possible shopping trip. To achieve this Tesco has focused on building close and mutually-beneficial relationships with its supplier partners to source the best possible products to meet and anticipate customers' needs. Tesco works through a range of channels, from small shops to large shops and its online business. Tesco continuously looks to reinvest in improving its core proposition to customers.

Competition in all the markets that Tesco operates in is high, with a combination of established operators, new entrants and online operators giving shoppers a wide amount of flexibility and choice in where they shop. The food market is constantly evolving. 'In home' consumption is significant and stable, but the eating out market continues to grow and evolve, with delivery and convenience becoming increasingly important to business customers and consumers. Consumers continue to be attracted to online shopping, whether for browsing or shopping, for in store collection or home delivery. Tesco seeks to offer shopping in whatever form customers choose, at a price level that is economically sustainable.

The progress Tesco has made against the three turnaround priorities first set out in October 2014 has stabilised the Tesco Group. Tesco is more competitive, its balance sheet is more secure, and it is rebuilding trust and transparency in its brand. Tesco has made sustained improvements in price competitiveness, availability, quality and service. Tesco launched a range of new, exclusive fresh food brands in the UK in mid-2016 which are performing ahead of expectations, have improved Tesco's value proposition and have further removed reasons for customers to shop elsewhere.

Whilst it expects the market to remain challenging and uncertain, Tesco has clear plans which the Tesco Directors believe will enable it to deliver more value for all of its stakeholders – its customers, colleagues, supplier partners and shareholders. In October 2016, Tesco published six strategic drivers through which it seeks to strengthen its market position:

1. **A differentiated brand**: A strong brand creates long-term value. Tesco's purpose, to serve shoppers a little better every day, is at the heart of what the Tesco brand stands for.

2. **Reduce operating costs by £1.5 billion by FY19/20**: Tesco has undertaken a thorough review of its entire cost base, to identify further opportunities for meaningful savings.

3. **Generate £9 billion cash from operations**: Cash is the lifeblood of Tesco's business, and Tesco has set a three-year target to generate £9 billion of cumulative retail cash from operations.

4. **Maximise the mix to achieve a 3.5 per cent. to 4.0 per cent. Group operating margin**: Building sustainable profitability across Tesco's businesses, channels and product ranges.

5. **Maximise value from property**: Tesco's property strategy is about releasing value from its estate, and repurposing space to enhance its customer offer.

6. **Innovation**: Tesco's innovation strategy is driven by expertise and insight in its three differentiating capabilities: Product, Channel and Customer.

Increasing sales volumes in key fresh food and grocery categories helps to drive the Tesco business model. In recent times, volumes in these areas have been increasing. The Tesco Group had a strong performance in the 2016/2017 financial year, with group sales (excluding VAT, excluding fuel) of £49.9 billion and group operating profit before exceptional items of £1.28 billion, up from £47.9 billion and £985 million respectively on the previous financial year. In the UK & ROI, the Tesco Group has now seen eight consecutive quarters of like-for-like sales growth.

Key performance indicators

The Tesco Directors assess the Tesco Group's performance using six simple key performance measures for the whole business: sales, profit, cash flow, customer loyalty, great place to work and shop (Colleague), and trusted partnerships (Partnership), each of which is described further below.

The table below presents the Tesco Group's KPIs as at and for the periods indicated. All figures are at actual currency rates unless otherwise indicated. These performance measures are not determined in accordance with IFRS. Please refer to the section entitled "*Non-IFRS financial information*" for an explanation of the limitations of the use of non-IFRS measures.

The results for the 52 weeks ended 27 February 2016 and 53 weeks ended 28 February 2015 have been restated to exclude the Korean and Turkish operations, which were classified as discontinued operations and subsequently disposed of. Refer to pages 139-140 for a reconciliation to the previously reported financial information.

	52/53 weeks ended			26 weeks ended	
	(£m, except where otherwise indicated)				
	28 February 2015 Restated	27 February 2016 Restated	25 February 2017	27 August 2016	26 August 2017
Financial KPIs					
Group sales	49,278	47,859	49,867	24,402	25,172
Operating profit before exceptional items	1,035	985	1,280	596	759
Retail operating cash flow	1,739	2,088	2,279	955	1,139
Retail free cash flow[(a)]	(1,481)	4,768	1,282	753	586
Non-financial KPIs					
Group customer loyalty[(b)]	n/a	2 points	7 points	5 points	9 points
Great place to work [(c)]	70%	81%	83%	78%	79%
Great place to shop [(d)]	n/a	41 NPS	48 NPS	41 NPS	44 NPS
Group supplier satisfaction [(e)]	58%	70%	77%	74%	71%

(a) Tesco redefined the 'free cash flow' measure in the 26 weeks ended 26 August 2017. 'Retail cash flow' has been restated to reflect the new definition for all periods prior to the 26 weeks ended 26 August 2017.

(b) Net Promoter Score (NPS), which equals 'fans' (those scoring 9–10 out of 10) minus 'critics' (those scoring 0–6) on an 11 point scale question of 0–10.

(c) Percentage of colleagues recommending Tesco as a great place to work based on the results of Tesco's internal "What Matters To You" survey.

(d) Net Promoter Score (NPS), which equals 'fans' (those scoring 9–10 out of 10) minus 'critics' (those scoring 0–6) on an 11 point scale question of 0–10.

(e) Based on responses to the question "Overall, how satisfied are you with your experience of working with Tesco?" in Tesco's Supplier Viewpoint Survey.

Group sales

The Tesco Group measures sales by reference to Tesco Group sales excluding VAT and excluding fuel. This is the headline measure of revenue for the Tesco Group. The Tesco Directors believe that the impact of sales made at petrol filling stations should be excluded from the measure of sales to better demonstrate the Tesco Group's underlying performance in the core retail and financial services businesses, by removing the volatilities associated with the movement in fuel prices. Please see the section entitled "*Important Information – Non-IFRS financial information*" for an explanation of the limitations of the use of non-IFRS measures and page 170 of Tesco's 2017 Annual Report and Financial Statements for detail on Tesco Group APMs.

The Tesco Group's strategic focus on maximising the mix within the business has also led to improving profitability through driving volume more selectively, reducing the level of short-term promotions and increasing the proportion of full price sales. Increasing volume is key to the success of the business model and both volumes and transactions are increasing as customers are buying more products, more often at Tesco.

Operating profit before exceptional items

Operating profit before exceptional items is the headline measure of the Tesco Group's performance. This is calculated as operating profit before the impact of certain costs or incomes that derive from events or transactions that fall within the normal activities of the Tesco Group, but which the Tesco Directors believe should be excluded by virtue of their size and nature in order to reflect the underlying trading performance of the Tesco Group. Please see the section entitled "*Important Information – Non-IFRS financial information*" for an explanation of the limitations of the use of non-IFRS measures and page 170 of Tesco's 2017 Annual Report and Financial Statements for detail on Tesco Group APMs.

Improvements to operating profit before exceptional items would indicate that the Tesco Group's trading performance is improving, and that the Tesco Group is succeeding in its objectives to continue delivering a better shopping trip for customers and build more value into its offer. This success will in turn allow the Tesco Group to achieve greater customer loyalty, higher market share, increased sales volumes, and a stronger financial position.

Retail operating cash flow

The Tesco Group measures cash flow by reference to retail operating cash flow, which is calculated as the cash generated from continuing operations excluding the effects of Tesco Bank cash flows. It is a measure of the cash generation and working capital efficiency of the retail business, recognising that Tesco Bank is run and regulated independently from the retail operations. The Tesco Directors believe this is a key measure to demonstrate the recovery of the Tesco Group's retail operations. Please see the section entitled "Important Information – Non-IFRS financial information" for an explanation of the limitations of the use of non-IFRS measures and page 170 of Tesco's 2017 Annual Report and Financial Statements for detail on Tesco Group APMs.

Strong operating cash flow is needed to finance the Tesco Group's day-to-day operational needs, and to allow it to reinvest cash in its strategic plans and other capital expenditure to drive sales and revenue improvements in the future. Positive and increasing cash flow figures show the Tesco Group's financial position is improving.

Retail free cash flow

Retail free cash flow includes all cash flows from operating and investing activities for the retail business with the exception of investing cash flows that increase/decrease items with retail net debt. This measure reflects the cash available to shareholders. Previously, free cash flow only included capital expenditure cash flows within investing activities. In Tesco's 2017/2018 Interim Results Statement, 'free cash flow' was redefined as 'retail free cash flow'. The Tesco Directors consider retail free cash flow to now be a key measure. Please see the section entitled "Important Information – Non-IFRS financial information" for an explanation of the limitations of the use of non-IFRS measures and page 170 of Tesco's 2017 Annual Report and Financial Statements for detail on Tesco Group APMs.

Group customer loyalty

The Tesco Group measures Tesco Group customer loyalty using a Net Promoter Score (NPS), which equals 'fans' (those scoring 9–10 out of 10) minus 'critics' (those scoring 0–6) on an 11 point scale question of 0–10.

Strong customer loyalty means that more shoppers will choose to shop more often at Tesco, allowing the Tesco Group's results to benefit from improved market share, volumes, and transactions, driving higher sales and revenues and a stronger financial position.

Great place to work and shop

The Tesco Group measures whether colleagues recommend Tesco as a great place to work based on the results of its internal "What Matters To You" survey and whether colleagues recommend Tesco as a great place to shop based on a Net Promoter Score (NPS), which equals 'fans' (those scoring 9–10 out of 10) minus 'critics' (those scoring 0–6) on an 11 point scale question of 0–10.

Despite changes to the way the Tesco Group serves its customers across channels, its colleagues remain focused on serving shoppers a little better every day. Strong colleague satisfaction and loyalty drive a better in-store experience for customers, allowing the Tesco

Group's results of operations to benefit from improved customer loyalty and higher market share, volumes, and transactions, as well as lower costs associated with staff turnover.

Trusted partnerships

The Tesco Group measures the strength of its supplier partnerships based on responses to the question "Overall, how satisfied are you with your experience of working with Tesco?" in Tesco's Supplier Viewpoint Survey.

The Tesco Group is committed to strong partnerships with its suppliers, built on open, fair and transparent relationships.

Significant factors affecting the Tesco Group's results of operations

The Tesco Group's results have been affected, and are expected to be affected in the future, by a variety of factors. A discussion of key factors that have had, or may have, an effect on the Tesco Group's results is set forth below. For a further discussion of factors affecting the Tesco Group's results of operations see, the section entitled "Risk Factors" beginning on page 26 of this document.

Economic environment

The Tesco Group's results of operations are affected by prevailing economic conditions (including higher inflation, higher interest rates, declining access to credit, lower or stagnating wages, increasing unemployment, weakness in housing and real estate markets, changes in government fiscal or tax policies, removal of subsidies, reduced public spending or credit crises affecting disposable incomes, increases in fuel prices, a loss of consumer confidence and a change in customer spending preferences) in the markets in which it operates. The cost of doing business could also be materially affected as a result of, amongst other things, the increasing costs of, or volatility in the cost of, raw materials or commodities, including foods, petroleum, electricity and other fuels, adverse exchange rate movements, cost increases being passed along supply chains by primary producers and suppliers and associated increases in administrative costs, which may materially impact upon the Tesco Group's sale volumes, revenues, costs of sales, and operating profits, whether positively or negatively.

General economic factors

Changes in general economic conditions may lead to, amongst other things, changes in the rate of inflation or interest rates, declining access to credit, lower or stagnating wages, increasing unemployment, weakness in housing and real estate markets, changes in government fiscal or tax policies, removal of subsidies, reduced public spending or credit crises affecting disposable incomes, increases in fuel prices, a loss of consumer confidence and a change in customer spending preferences which could affect the Tesco Group's sales volumes and revenue.

In addition, changes in general economic conditions may affect the Tesco Group's cost of doing business as a result of, amongst other things, changes in the cost of raw materials (such as foods, petroleum, electricity and other fuels) being passed up supply chains, the effect of exchange rate movements on non-sterling procurement transactions, and changes to other costs of doing business such as property lease expenses. Any such changes may affect the Tesco Group's costs of sales, administrative and other costs, and operating profit. If the Tesco Group seeks to reflect cost changes in retail price adjustments, market share, sales volumes and revenues may also be affected. In addition, the value of investments and loans denominated in foreign currencies may change, exposing the Tesco Group to translation risk in relation to the accounting value of assets not denominated in the Tesco Group's reporting currency (GBP).

Effects of Brexit

On 23 June 2016, a majority of voters in the United Kingdom elected in a national referendum to withdraw from the European Union (commonly referred to as "Brexit"). On 29 March 2017, the UK Prime Minister, Theresa May, formally triggered the Brexit process by serving notice under Article 50 of the Lisbon Treaty. The significant political and economic uncertainty resulting from the referendum result, and/or the terms of future trading relationships between the United Kingdom and the European Union and other countries outside the European Union (which are currently unknown), could cause changes to general economic conditions of the types and with the effects described above, as well as other disruptions to and uncertainty around the Tesco Group's business. As further details of the Brexit terms emerge, Tesco's management will continue to assess their potential risks and impacts on Tesco's business.

Competitive environment

The Tesco Group faces the ongoing challenge of a changing competitive landscape (including one which could intensify as a result of possible future market consolidation) and price pressure across their markets from a diverse range of retailers and wholesalers who operate different models and formats through a variety of physical, digital and integrated distribution channels and who offer a range of distinct product propositions from the premium to the value end of the market. The United Kingdom grocery industry, in particular, is highly competitive (including competition from United Kingdom retailers as well as from international operations in the United Kingdom and in the form of budget retailers who offer certain food and retailing products and services on a low cost model basis, premium retailers and online entrants) and historically has experienced periods of intense price competition (including in the form of price matching and price reduction initiatives) and grocery price deflation. These competitive pressures affect the Tesco Group's ability to make retail price adjustments to reflect changes to its cost of sales without affecting customer loyalty and market share, which ultimately impact sales volumes and revenues.

The Tesco Board actively seeks to be competitive on price, range and service, as well as developing its online and multiple formats to allow it to compete in different markets. The Tesco Group's Executive Committee and operational management regularly review markets, trading opportunities, competitor strategy and activity, and the Tesco Group engages in market scanning and competitor analysis to refine its customer proposition.

Strategic drivers

The Tesco Group identified six strategic drivers in October 2016 which drive the Tesco Group's medium and long-term decisions: a differentiated brand, reducing operating costs by a further £1.5 billion, generating £9.0 billion cash from operations, "maximising the mix" to achieve a 3.5-4.0 per cent. Group margin, maximising value from property, and innovation.

If the Tesco Group is successful in delivering on these six strategic drivers, the Tesco Group's results of operations will improve to reflect a reduction in operating costs, an increase in cash from operations, and an increase in Group margin, as well to reflect the indirect benefits to the Tesco Group's sales and revenues which arise from improved brand loyalty, value from property, and innovation.

Business strategies are, however, based on numerous assumptions, and are subject to a number of variables outside the Tesco Group's control, such as general economic conditions and consumer preferences. Whilst the Tesco Group regularly reviews its business strategies in order to assess their effectiveness, if the Tesco Group is unable to realise the benefits that those strategies were expected to deliver, its results of operations may fail to improve as expected, or may deteriorate.

Inflation

The Tesco Group is anticipating continuing inflationary pressures on costs of sales, labour costs, and other costs (such as inflation-linked leasehold property costs). Given the strong competition which the Tesco Group faces from other retailers, it may not always be possible to recover increased costs through retail price adjustments without losing market share and sales volumes. This is particularly the case if inflation is not offset by an equivalent increase in wages, in which case consumers' disposable incomes and market confidence may decline, leading to a change in customer spending decisions negatively impacting upon the Tesco Group's sales volumes and revenue.

Foreign exchange movements

The Tesco Group operates internationally, with business operations in 10 countries (including joint ventures in China and India) and products sourced in over 12 currencies. The Tesco Group's results of operations are therefore exposed to transaction and translation risks associated with foreign currency movements.

Transactional exposure arises from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Tesco Group income statement are hedged via forward foreign currency contracts or purchased currency options.

Translation exposure arises from changes in the value of net investments denominated in currencies other than the reporting currency of the Tesco Group (GBP). The Tesco Group hedges a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. Loans to non-UK subsidiaries are hedged via foreign currency derivatives and borrowings in matching currencies.

Discontinued operations

The Tesco Group has undertaken a number of strategic disposals which have affected its results of operations. The most significant recent disposals by the Tesco Group were:

- the disposal of the Tesco Group's 95.5 per cent. controlling interest in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (referred to as Turkish operations or Turkey) on 1 March 2017 for proceeds of approximately £38 million; and
- the disposal of the Tesco Group's Korean operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, on 22 October 2015 for cash consideration of £3,944 million before tax and other transaction costs.

Results of the above disposed operations have been removed from 2015 and 2016 comparable results noted in Part 7 – TESCO OPERATING AND FINANCIAL REVIEW of this Prospectus.

Seasonality and weather patterns

The business of the Tesco Group is subject to seasonal peaks with, for example, higher sales and operating profits generated in the financial quarter that includes the Christmas holiday period. If sales during this period were lower than expected, for example as a result of a severe and prolonged weather event, this could adversely impact the Tesco Group's results of operations for the whole of the relevant financial year.

Fuel prices

Fuel prices are subject to significant volatility as a result of factors outside the Tesco Group's control. The Tesco Group's cost of sales are materially impacted by fuel price volatility, as a result of the Tesco Group's reliance on fuel-powered transport both to distribute products to Tesco stores for sale, and for delivery of on-line orders direct to customers.

In addition, the Tesco Group's petrol filling stations face significant competition from other fuel retailers. A failure by the Tesco Group to deliver competitive pricing, including by responding quickly to price decreases offered by competitors, may result in a loss of market share negatively impacting upon sales and revenue.

Tesco Bank

Tesco Bank's results of operations are affected by a number of factors outside the control of the Tesco Group, including changes in general economic conditions affecting interest rates, consumer credit profiles and the availability of retail deposits and/or wholesale liquidity and funding; the occurrence of large scale damage-causing events resulting in claims on insurance policies; and changes to law and regulation. Tesco Bank actively manages the external factors to which it is exposed through the day-to-day management of the business, its strategic priorities, long-term plan, capital planning, liquidity management and stress testing.

Impact of 53rd week

The Tesco group's financial year is a 52 or 53 week period ending on the last Saturday of February. The 2015/2016 and 2016/2017 financial years consisted of 52 weeks, whereas the comparative 2014/2015 financial year consisted of 53 weeks.

Impact of changes to accounting standards

IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. IFRS 16 is expected to have a significant impact on reported assets, liabilities and income statement of the Tesco Group, as well as the classification of cash flows relating to lease contracts. The full impact of IFRS 16 is currently under review as part of the implementation project.

Segmental reporting

26 weeks ended 26 August 2017

The principal activities of the Tesco Group for the 26 weeks ended 26 August 2017 are presented in the following segments:

Retailing and associated activities (Retail) in:

- UK & ROI, comprising the United Kingdom and Republic of Ireland; and
- Central Europe, comprising Czech Republic, Hungary, Poland and Slovakia; and
- Asia, comprising Malaysia and Thailand.

Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

In line with changes in management structure reporting to the Chief Operating Decision Maker (CODM), the Tesco Group reassessed its reportable segments and determined that the retailing and associated activities previously disclosed within the International segment should be segregated between the Central Europe and Asia segments. The amounts disclosed within the Central Europe and Asia segments total the amounts previously disclosed within the International segment.

52 weeks ended 25 February 2017, the 26 weeks ended 27 August 2016 and the 52 weeks ended 27 February 2016

In respect of the 52 weeks ended 25 February 2017, the 26 weeks ended 27 August 2016 and the 52 weeks ended 27 February 2016, the principal activities of the Tesco Group were presented in the following segments:

- Retailing and associated activities (Retail) in:
  - UK & ROI, comprising the United Kingdom and Republic of Ireland; and
  - International, comprising Czech Republic, Hungary, Poland, Slovakia, Malaysia, Thailand, and, for the 52 weeks ended 27 February 2016 only, Turkey; and
  - Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).
- The amounts disclosed within the International segment total the amounts previously disclosed within the Asia and Europe segments, in 2015 with the exception of the Republic of Ireland, which was presented with the UK in the UK & ROI segment.

53 weeks ended 28 February 2015

In respect of the 53 weeks ended 28 February 2015, the principal activities of the Tesco Group were presented in the following segments:

Retailing and associated activities (Retail) in:

- the United Kingdom (UK);
- Asia, comprising India, Malaysia, South Korea and Thailand; and
- Europe, comprising Czech Republic, Hungary, Poland, the Republic of Ireland, Slovakia, and Turkey; and
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

The retailing and associated activities of Turkey are excluded from the segmental information for the 26 weeks ended 27 August 2016 and all subsequent periods, as these activities were classified as discontinued operations during the financial period. The same applies for the Tesco Group's Korean operations for the 26 weeks ended 29 August 2015 onwards.

Description of Key Line Items

Revenue

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

- *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 Tesco Group acts as an agent selling goods or services, only the commission income is included within revenue.
- *Financial services*: Revenue consists of interest, fees and income from the provision of retail banking and insurance. Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method. Calculation of the effective interest rate takes into account fees receivable that are an integral part

of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs. Fees in respect of services (credit card interchange fees, late payment and ATM revenue) are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered.

The Tesco 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.

Cost of sales

Cost of sales comprises the costs related to the sale of products and services, primarily the costs of purchasing and storing products for sale, store payroll and property costs, distribution and marketing costs.

The Tesco 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. The Tesco Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers. Commercial income is recognised when earned by the Tesco 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.

Gross profit

Gross profit comprises total revenue minus cost of sales.

Administrative expenses

Administrative expenses consist of salaries and benefits for the Tesco Group's finance, legal, regulatory and compliance, human resources, and other administrative employees and executives, as well as outside consulting, legal, and accounting services, and facilities and other supporting overhead costs.

Profits/losses arising on property-related items

Profits/losses arising on property-related items primarily consist of profits/losses on disposal of property assets, development properties built exclusively for resale, and property joint ventures. Also included in this balance are pre-opening costs that cannot be capitalised, aborted fees, post-closure costs and income/charges arising from decreases/increases in property related provisions.

Operating profit

Operating profit comprises gross profit minus administrative expenses plus/minus profits/losses arising on property-related items.

Operating profit before exceptional items

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

Share of post-tax profits/(losses) of joint ventures and associates

The Tesco Group has interests in a number of joint ventures and associates. The share of post-tax profits/(losses) of joint ventures and associates is based on the Tesco Group's economic ownership percentage of these joint ventures and associates.

Finance income/expense

Finance income consists of interest receivable and similar income, and financial instruments fair value remeasurements and excludes income arising from financial services. Finance income is recognised in the period to which it relates using the effective interest rate method.

Finance costs consist of interest payable, net pension finance costs, finance charges payable under finance leases and hire purchase contracts, financial instruments fair value remeasurements and foreign exchange losses on GBP short term investments held in overseas entities. 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 Tesco Group income statement in finance costs. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Taxation

The tax expense included in the Tesco 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 Tesco Group income statement except to the extent that it relates to items recognised in the Tesco Group statement of comprehensive income or directly in the Tesco Group statement of changes in equity, in which case it is recognised in the Tesco Group statement of comprehensive income or directly in the Tesco Group statement of changes in equity, respectively.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Tesco Group income statement, except when it relates to items charged or credited directly to the Tesco Group statement of changes in equity or the Tesco Group statement of comprehensive income, in which case the deferred tax is also recognised in equity, or other comprehensive income, respectively.

Current trading and prospects

Tesco has made further progress towards meeting the medium-term ambitions outlined in October 2016. Since Tesco's 3Q and Christmas Trading Update was released on 11 January 2018, the Tesco Group's trading performance has been in line with management's expectations and the Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018. The Tesco Directors further intend to propose that shareholders approve the payment of a final dividend of 2.0 pence per Tesco Share in respect of the financial year ending 24 February 2018 at the Tesco 2018 annual general meeting.

Results of operations

The table below presents the Tesco Group's results of continuing operations for the periods indicated, which has been extracted from the historical financial information set out in the respective annual accounts referred to in Part 8 ("*Tesco Historical financial information*").

The results for the 52 weeks ended 27 February 2016 and 53 weeks ended 28 February 2015 have been restated to exclude the Korean and Turkish operations, which were classified as discontinued operations and subsequently disposed.

	52/53 weeks ended			26 weeks ended	
			(£m)		
	28 February 2015 Restated	27 February 2016 Restated	25 February 2017	27 August 2016	26 August 2017
Revenue	56,309	53,933	55,917	27,338	28,348
Cost of sales	(58,394)	(51,089)	(53,015)	(25,995)	(26,781)
Gross profit/(loss)	**(2,085)**	**2,844**	**2,902**	**1,343**	**1,567**
Administrative expenses	(2,544)	(1,814)	(1,995)	(882)	(780)
Profits/(losses) from property-related items	(970)	42	110	54	98
Operating profit/(loss)	**(5,599)**	**1,072**	**1,017**	**515**	**885**
Share of post-tax profits/(losses) of joint ventures and associates	(13)	(21)	(107)	2	12
Finance income	80	29	109	83	42
Finance costs	(631)	(878)	(874)	(529)	(377)
Taxation	670	54	(87)	(40)	(138)
Profit/(loss) for the period	**(5,493)**	**256**	**58**	**31**	**424**
Operating profit before exceptional items	**1,035**	**985**	**1,280**	**596**	**759**

Results of operations for the 26 weeks ended 26 August 2017 compared to the 26 weeks ended 27 August 2016

Revenue

Revenue for the Tesco Group increased by £1,010 million, or 3.7 per cent., to £28,348 million in the 26 weeks ended 26 August 2017 from £27,338 million in the 26 weeks ended 27 August 2016. Like-for-like sales increased by 0.8 per cent. due to strong volume growth in meat and produce categories in the UK. Tesco's bakery business also performed well due to improvements made to the in-store experience. In addition, the ongoing weakness of the sterling resulted in a 2.6 per cent. foreign exchange benefit.

Cost of sales

Cost of sales for the Tesco Group increased by £786 million, or 3.0 per cent., to £26,781 million in the 26 weeks ended 26 August 2017 from £25,995 million in the 26 weeks ended 27 August 2016. This increase was primarily volume driven. Market conditions were also challenging with inflationary pressures being felt throughout the half.

Gross profit

Gross profit for the Tesco Group increased by £224 million, or 16.7 per cent., to £1,567 million in the 26 weeks ended 26 August 2017 from £1,343 million in the 26 weeks ended 27 August 2016. This increase was primarily driven by Tesco Group's strategic focus on maximising the margin mix and driving volume more selectively, reducing the level of short-term promotions and increasing the proportion of full price sales (particularly in clothing).

Administrative expenses

Administrative expenses for the Tesco Group decreased by £102 million, or 11.6 per cent., to £780 million in the 26 weeks ended 26 August 2017 from £882 million in the 26 weeks ended 27 August 2016. Administrative expenses before exceptional items remained flat year on year. Profits arising on the disposal of Tesco Group's remaining minority stake in Lazada Group S.A on 30 June 2017 generated a profit of £124 million, thereby contributing to an overall decrease in administrative expenses.

Profits/losses arising on property-related items

Profits arising on property-related items for the Tesco Group increased by £44 million, or 81.5 per cent., to £98 million in the 26 weeks ended 26 August 2017, from £54 million in the 26 weeks ended 27 August 2016. £33 million of profits arising on property-related items before exceptional items included profits on the disposal of a development site in Welwyn Garden City in the UK, a department store in the Czech Republic and a number of other smaller transactions. Further, the development of a store in Hackney as part of the 'air-rights' programme contributed £44 million to exceptional profits. The Tesco Group also recognised a net gain of £21 million from the unwind of its joint venture with British Land.

Operating profit

Tesco Group Operating profit increased by £370 million, or 71.8 per cent., to £885 million in the 26 weeks ended 26 August 2017 from £515 million in the 26 weeks ended 27 August 2016. In the UK and ROI, operating profits before exceptional items were up 21.1 per cent. driven by a reduction in operating costs across stores and head office. Tesco Group has also worked to improve operational efficiencies within stores and distribution centres, for example, the Tesco Group has made further progress in operating the four markets in Central Europe as one combined region, opening a new distribution centre in Slovakia which serves all four countries.

Exceptional items moved from a net cost of £81 million in the 26 weeks ended 27 August 2016 to a net income of £126 million in the 26 weeks ended 26 August 2017. The movement was due to £124 million of profit on the disposal of the Lazada Group stake in the 26 weeks ended 26 August 2017, and higher restructuring costs and a charge for customer redress in the 26 weeks ended 27 August 2016.

Share of post-tax profits/losses of joint ventures and associates.

Tesco Group's share of post-tax profits of joint ventures and associates increased by £10 million, or 500.0 per cent., to £12 million in the 26 weeks ended 27 August 2017 from a profit of £2 million in the 26 weeks ended 27 August 2016. This was primarily due to reduced losses in Gain Land Limited, Tesco Group's joint venture in China.

Finance income/expense

Finance income decreased by £41 million, or 49.4 per cent., to £42 million in the 26 weeks ended 26 August 2017 from £83 million in the 26 weeks ended 27 August 2016. This was predominantly due to a £47 million reduction in fair value remeasurements on mark-to-market financial instruments, which are driven by changes in the market's assessment of credit risk and various market indices.

Finance costs decreased by £152 million, or 28.7 per cent., to £377 million in the 26 weeks ended 26 August 2017 from £529 million in the 26 weeks ended 27 August 2016. This decrease was primarily due to a £132 million reduction in foreign exchange losses on GBP short-term investments held in overseas entities and a £33 million reduction in interest payable due to repayment of debt. This was partially offset by a £23 million increase in net pension finance costs which increased in line with the higher opening IAS 19 pension deficit, partly mitigated by a lower opening discount rate.

Taxation

The Tesco Group taxation charge increased by £98 million, or 245.0 per cent., to £138 million in the 26 weeks ended 26 August 2017, from £40 million in the 26 weeks ended 27 August 2016 due to significantly higher statutory profits in the period.

Results of operations for the 52 weeks ended 25 February 2017 compared to the 52 weeks ended 27 February 2016

Revenue

Revenue for the Tesco Group (excluding VAT, including fuel) increased by £1,984 million, or 3.7 per cent., to £55,917 million in the 52 weeks ended 25 February 2017, from £53,933 million in the 52 weeks ended 27 February 2016. Like-for-like sales increased by 1.0 per cent. due to strong volume growth across all categories as the Tesco Group continued to outperform the market on a volume basis. Volume outperformance was particularly strong in fresh food, where the exclusive brands launched in the UK in March 2016 significantly strengthened the value proposition. International sales grew by 2.1 per cent. at constant rates, including an 0.8 per cent. growth driven by new store openings in Thailand which more than offset the impact of store closure in Europe. Finally, the weakness of the sterling resulted in a 3.2 per cent. foreign exchange benefit.

Cost of sales

Cost of sales for the Tesco Group increased by £1,926 million, or 3.8 per cent., to £53,015 million in the 52 weeks ended 25 February 2017, from £51,089 million in the 52 weeks ended 27 February 2016. This increase was in line with a corresponding increase in revenues as well as additional exceptional items associated with redundancy and restructuring costs. Exceptional items included costs relating to ongoing UK and ROI changes to the Tesco Group's distribution network and to store colleague structures and working practices.

Gross profit

Gross profit for the Tesco Group increased by £58 million, or 2.0 per cent., to £2,902 million in the 52 weeks ended 25 February 2017, from £2,844 million in the 52 weeks ended 27 February 2016. On a pre-exceptional basis, gross margin improved by 19bps, which reflected the effect of optimising the mix of the customer offer across channels and products in the UK. For example, within the beers, wines and spirits category, the Tesco Group has focused on improving the relevance and profitability of the offer by broadening the range of speciality beers, increasing the prominence of own brand products and maintaining a strong, stable core price position in an extremely promotional market.

Administrative expenses

Administrative expenses for the Tesco Group increased by £181 million, or 10.0 per cent., to £1,995 million in the 52 weeks ended 25 February 2017, from £1,814 million in the 52 weeks ended 27 February 2016. This increase was primarily due to an exceptional charge of £235 million in relation to the Deferred Prosecution Agreement (the "DPA") and FCA obligations. On 10 April 2017, Tesco Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a DPA with the UK SFO regarding historic accounting practices. On 28 March 2017, Tesco Group also announced that it had agreed with the FCA to a finding of market abuse in relation to its trading statement announced on 29 August 2014.

Before exceptional items, administrative expenses decreased by £102 million, or 5.5 per cent., mainly due to costs relating to the head office move, which were incurred in 2015/16.

Profits/losses arising on property-related items

Profits arising on property-related items for the Tesco Group increased by £68 million, or 161.9 per cent., to £110 million in the 52 weeks ended 25 February 2017, from £42 million in the 52 weeks ended 27 February 2016. As part of the Tesco Group's Strategy to maximise value from property, the Tesco Group generated profit on disposal of surplus properties and development sites of £74 million. In addition, two malls in Central Europe were disposed of, generating a profit of £91 million. These were partially offset by net impairment and net restructuring costs.

Operating profit

Tesco Group's operating profit Tesco decreased by £55 million, or 5.1 per cent., to £1,017 million in the 52 weeks ended 25 February 2017, from £1,072 million in the 52 weeks ended 27 February 2016. The Tesco Group's operating profit before exceptional items, however, increased by £295 million, or 29.9 per cent., to £1,280 million in the 52 weeks ended 25 February 2017, from £985 million in the 52 weeks ended 27 February 2016. This was driven by investments in core offer particularly in lowering core prices and in the quality and price of the exclusive brands which were launched in March 2016. These investments enabled the Tesco Group drive volume growth, which, in addition to managing costs more effectively, generated positive operational leverage.

The key drivers of the lower operating costs are lower pension costs, marketing savings from ending Fuel save and benefits from simplifying the store operating model.

Exceptional items, including £199 million of net restructuring costs and £235 million of charges relating to the DPA and FCA obligations contributed to a net year on year decrease in Tesco Group's operating profit.

Share of post-tax profits/losses of joint ventures and associates.

Tesco Group's share of post-tax losses of joint ventures and associates increased by £86 million, or 409.5 per cent., to £107 million in the 52 weeks ended 25 February 2017 from a loss of £21 million in the 52 weeks ended 27 February 2016. This increase was primarily due to the Tesco Group's share of impairment in Gain Land Limited (£54 million) and the Tesco Group's share of an adjustment to insurance reserves in its joint venture Tesco Underwriting (£23 million). The impairment in Gain Land Limited arose following a fair valuation exercise of its investment properties. The adjustment to insurance reserves resulted from a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims.

Finance income/expense

Finance income increased by £80 million, or 275.9 per cent., to £109 million in the 52 weeks ended 25 February 2017, from £29 million in the 52 weeks ended 27 February 2016. This increase was primarily due to a £19 million increase in interest income due to the Tesco Group holding larger cash balances throughout the year and finance income of £61 million arising from fair value remeasurements on mark-to-market financial instruments, which are driven by changes in the market's assessment of credit risk and debt risk.

Finance costs decreased by £4 million, or 0.5 per cent., to £874 million in the 52 weeks ended 25 February 2017, from £878 million in the 52 weeks ended 27 February 2016. This decrease was primarily due to a £42 million reduction net pension finance costs and a £19m favourable impact from fair value remeasurements on mark-to-market financial instruments. Net pension finance costs reduced in line with the reduction in the opening IAS 19 pension deficit. Remeasurements on mark-to-market financial instruments were driven by changes in the market's assessment of credit risk and various market indices. Interest payable increased due to debt acquired as part of Tesco's February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. The impact of this was partially offset by a £26 million reduction in interest following the repayment of debt in the year.

Taxation

The Tesco Group taxation charge increased by £141 million to a charge of £87 million in the 52 weeks ended 25 February 2017, from a credit of £54 million in the 52 weeks ended 27 February 2016.

The effective tax rate for the Tesco Group for the 52 weeks ended 25 February 2017 was 60.0 per cent., an increase of 86.6 percentage points on the effective tax rate for the 52 weeks ended 27 February 2016 of (26.6) per cent. The high tax rate for the 52 weeks ended 25 February 2017 was driven by the DPA and FCA obligations, which were significant expenses not eligible for tax relief . The lower rate for the 52 weeks ended 27 February 2016 was the result of an exceptional release of provisions and tax credits arising from a significant number of store disposals. The effective tax rate before exceptional items for the 52 weeks ended 25 February 2017 was 25.4 per cent. This tax rate was higher than the UK statutory rate, primarily due to the impact of the 8 per cent. supplementary tax surcharge on bank profits introduced in January 2016, and depreciation of assets that did not qualify for tax relief. The effective tax rate for the 52 weeks ended 25 February 2017 benefited from the impact on deferred tax of the expected reduction in the UK corporation tax rate from 18 per cent. to 17 per cent. in 2020.

Results of operations for the 52 weeks ended 27 February 2016 compared to the 53 weeks ended 28 February 2015

Revenue

Revenue for the Tesco Group decreased by £2,376 million, or 4.2 per cent., to £53,933 million in the 52 weeks ended 27 February 2016, from £56,309 million in the 53 weeks ended 28 February 2015. This decrease was primarily driven by one less week of revenues in 2016 as well as currency fluctuations due to the weakness of the European currencies. These were partially offset by improving volume performance, strong growth in Tesco Bank customer deposits and lending, and the continued growth of Tesco Mobile.

Cost of sales

Total cost of sales for the Tesco Group decreased by £7,305 million, or 12.5 per cent., to £51,089 million in the 52 weeks ended 27 February 2016, from £58,394 million in the 53 weeks ended 28 February 2015. The 2015 figure was higher due to £4,825 million of impairment and inventory valuations and provisions, which were all treated as exceptional items. Before exceptional items, cost of sales decreased by £2,445 million from £53,569 million in the 53 weeks ended 28 February 2015 to £51,124 million in the 52 weeks ended 27 February 2016 in line with the reduction in revenues.

Gross profit

Gross profit for the Tesco Group increased by £4,929 million to a gross profit of £2,844 million in the 52 weeks ended 27 February 2016, from a gross loss of £2,085 million in the 53 weeks ended 28 February 2015. This increase was predominantly driven by exceptional items relating to impairment, inventory valuations and provisions which were included in cost of sales in 2015.

Administrative expenses

Total administrative expenses for the Tesco Group decreased by £730 million, or 28.7 per cent., to £1,814 million in the 52 weeks ended 27 February 2016, from £2,544 million in the 53 weeks ended 28 February 2015. Administrative expenses in 2015 included exceptional items of £884 million relating to impairments of investments and loans to joint ventures and associates as well as head office restructuring costs.

Profits/losses arising on property-related items

Profits arising on property-related items for the Tesco Group increased by £1,012 million, to £42 million in the 52 weeks ended 27 February 2016, from a loss of £970 million in the 53 weeks ended 28 February 2015. The 2015 figure included exceptional losses of £925m, mainly relating to property impairments and provisions for onerous contracts.

Operating profit

Operating profit for the Tesco Group increased by £6,671 million, to a profit of £1,072 million in the 52 weeks ended 27 February 2016, from a loss of £5,599 million in the 53 weeks ended 28 February 2015. Tesco Operating profit for the Tesco Group in the 53 weeks ended 28 February 2015 included £6,634 million of exceptional costs, primarily in relation to impairment losses, stock write offs and restructuring costs.

Share of post-tax profits/losses of joint ventures and associates

Tesco Group's share of post-tax losses of joint ventures and associates increased by £8 million, or 61.5 per cent., to £21m in the 52 weeks ended 27 February 2016 from a loss of £13 million in the 53 weeks ended 28 February 2015. The increase was due to higher losses from Tesco Gain Land Limited and lower profits from dunnhumby joint ventures. These were partially offset by increased profits recognised on Tesco Group's UK property joint ventures.

Finance income and costs

Finance income decreased by £51 million, or 63.8 per cent., to £29 million in the 52 weeks ended 27 February 2016 from £80 million in the 53 weeks ended 28 February 2015. This decrease was primarily due to a reduction in income from debt-hedging swaps.

Finance costs increased by £247 million, or 39.1 per cent., to £878 million in the 52 weeks ended 27 February 2016 from £631 million in the 53 weeks ended 28 February 2015. This increase was primarily due to an exceptional non-cash loss of £220 million arising on the translation of the proceeds from the sale of the Tesco Group's Homeplus business in Korea, which were held in GBP money market funds in a non-Sterling denominated entity in 2016 . The remaining increase was due to lower capitalised interest from lower levels of work in progress, unwinding of discount on onerous lease provisions, and increased net pension finance costs in line with the opening pension deficit offset in part by a lower opening discount rate. This was partially offset by a reduction in interest costs on bonds and medium term notes.

Taxation

The Tesco Group taxation credit decreased by £616 million to £54 million in the 52 weeks ended 27 February 2016, from £670 million in the 53 weeks ended 28 February 2015.

The effective tax rate for the Tesco Group for the 52 weeks ended 27 February 2016 was (26.6) per cent, a decrease of 37.5 percentage points on the effective tax rate for the 53 weeks ended 28 February 2015 of 10.9 per cent. The negative tax rate in 2016 was primarily due to an exceptional tax credit of £86 million relating to a release of provisions in respect of uncertain tax positions following settlement of a number of historic enquiries relating to years up to 2011. In 2015 the tax credit on the accounting loss was lower than expected as a large element of the loss arose from store impairment charges. A proportion of these impairment charges did not qualify for tax relief.

The effective tax rate before exceptional items for the 52 weeks ended 27 February 2016 was 2.4 per cent. This tax rate was lower than the UK statutory rate, primarily due to a lower book value than tax value of property assets disposed of in the year, partially offset by unrecognised tax losses.

Liquidity and capital resources

The Tesco Group has a strong funding and liquidity profile, underpinned by £4.4 billion of undrawn committed facilities, with key credit metrics improving over the 2016/17 financial year.

The Tesco Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, bank borrowings and leases. The policy is to maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise. The Tesco Group retains access to capital markets so that maturing debt may be refinanced as it falls due.

The Tesco Group has a £15.0 billion Euro Medium Term Note programme, of which £5.2 billion was in issue at 24 November 2017. The Tesco Group also has £0.6 billion equivalent of USD denominated notes outstanding issued under 144A documentation.

Cash flows

The table below presents a summary of the Tesco Group's cash flows for the periods indicated, which have been extracted without material adjustment from Tesco's audited accounts, as referred to in Part 8 ("*Tesco Historical Financial Information*").

	52/53 weeks ended			26 weeks ended	
			£m		
	28 February 2015	27 February 2016	25 February 2017	27 August 2016	26 August 2017
Cash generated from/ (used in) operations	1,467	2,434	2,558	1,120	1,308
Net cash generated from/ (used in) operating activities	484	2,126	1,989	900	1,087
Net cash generated from/ (used in) investing activities	(2,015)	(615)	279	(901)	(41)
Net cash generated from/ (used in) financing activities	814	(604)	(1,387)	281	(556)
Cash and cash equivalents at the end of the period	**2,165**	**3,082**	**3,821**	**3,355**	**4,319**

Cash flows from operating activities

Net cash generated by operating activities increased by £187 million, or 20.8 per cent., to £1,087 million in the 26 weeks ended 26 August 2017 from £900 million in the 26 weeks ended 27 August 2016. This was primarily due to increased cash flows from operations, driven by increased operating profit of continuing operations and reduced losses of discontinued operations. Net working capital has increased from last half year, driven by reduced trade and other payables, increased Tesco Bank loans and advances to customers offset by increased provisions. Interest payments have reduced primarily driven by matured debts which is offset by increased tax payments due to lower surrenderable losses available to Group entities.

Net cash generated by operating activities decreased by £137 million, or 6.4 per cent., to £1,989 million in the 52 weeks ended 25 February 2017, from £2,126 million in the 52 weeks ended 27 February 2016.

This was primarily due to reduced cash flows from operations (excluding working capital), which was largely driven by an operating loss from discontinued operations compared with operating profit in the prior year. This was partially offset by a net decrease in working capital primarily due to increased Tesco Bank customer and bank deposits as well as increased Tesco Group provisions and trade and other payables, offset by an increase in Tesco Bank loans and advances to customers.

Corporation tax was a net outflow of £47 million in the 52 weeks ended 25 February 2017 compared to an inflow of £118 million in the 52 weeks ended 27 February 2016, due to tax payments in the international businesses more than offsetting UK tax refunds.

Interest paid increased by £96 million, or 22.5 per cent., to £522 million in the 52 weeks ended 27 February 2017 due to the debt acquired as part of the Tesco Group's February 2016 agreement to regain sole ownership of 49 stores and two distribution centres. The impact was partially offset by £1.2 billion of debt the Tesco Group redeemed in September 2016 and a further £0.7 billion of debt redeemed in January 2017.

Net cash generated by operating activities increased by £1,642 million, or 339.3 per cent., to £2,126 million in the 52 weeks ended 27 February 2016, from £484 million in the 53 weeks ended 28 February 2015, primarily due to higher operating profit driven by lower restructuring and property costs. This is offset by a net increase in working capital, principally driven by significant provisions recorded in the prior year and an increase in trade and other payables.

Corporation tax paid was a net inflow, compared to an outflow in the prior year, due to the tax refund relating to a claim raised with HMRC to carry back the loss made in the year ended 28 February 2015 to offset against the taxable profits from the year ended 22 February 2014.

Interest paid reduced by £187 million due to three medium term notes maturing in the prior year being refinanced at lower interest rates. Timing differences also resulted in a lower number of instalments requiring payment compared to the prior year.

Cash flows from investing activities

Net cash used in investing activities has reduced by £860 million, or 95.4 per cent., to an outflow of £41 million in the 26 weeks ended 26 August 2017 from an outflow of £901 million in the 26 weeks ended 27 August 2016, primarily due to increased proceeds from the sale of Money Market Funds. This was partly offset by increased capital expenditure, lower proceeds from sale of property, plant and equipment and lower proceeds from disposal of subsidiaries.

Net cash generated by investing activities increased by £894 million to an inflow of £279 million in the 52 weeks ended 25 February 2017, from an outflow of £615 million in the 52 weeks ended 27 February 2016, primarily due to increased proceeds from the sale of Money Market Funds and proceeds from the partial disposal of Lazada Group S.A., offset by lower proceeds from disposal of subsidiaries and increased capital expenditure year on year.

Net cash generated by investing activities decreased by £1,400 million, or 69.5 per cent., to £615 million in the 52 weeks ended 27 February 2016 from £2,015 million in the 53 weeks ended 28 February 2015, primarily due to increased investment in Money Market Funds offset by higher cash proceeds received from disposal of subsidiaries (Korea) and lower capital expenditure year on year, which is offset by increased investment in Money Market Funds.

__Cash flows from financing activities__

Net cash generated from financing activities decreased by £837 million, or 297.9 per cent., to an outflow of £556 million in the 26 weeks ended 26 August 2017 from an inflow of £281 million in the 26 weeks ended 27 August 2016, primarily due to a net decrease in borrowings, partially offset by increased cash inflows from derivative financial instruments.

Net cash generated from financing activities decreased by £783 million, or 129.6 per cent., to an outflow of £1,387 million in the 52 weeks ended 25 February 2017, from an outflow of £604 million in the 52 weeks ended 27 February 2016, primarily due to higher net repayment of bonds partially offset by cash inflows from matured derivative financial instruments.

Net cash generated from financing activities decreased by £1,418 million, to an outflow of £604 million in the 52 weeks ended 27 February 2016, from an inflow of £814 million in the 53 weeks ended 28 February 2015, primarily due to lower bonds issued partially offset by lower repayment of loans. This was partially offset by cash inflows from matured derivative financial instruments and a dividend outflow in 2015.

Capitalisation and indebtedness

Gross Indebtedness

The following table sets out Tesco's gross indebtedness as at 25 November 2017. The figures have been extracted without material adjustment from Tesco's unaudited management accounts:

£ million	Tesco As at 25 November 2017
Current debt	
Secured	17
Unguaranteed/unsecured	2,423
Total current debt	2,440
Non-current debt (excluding current portion of long-term debt)	
Secured	549
Unguaranteed/unsecured	6,617
Total non-current debt	7,166
Total gross indebtedness	**9,606**

Capitalisation

The following table sets out Tesco's capitalisation as at 25 November 2017. The figures have been extracted without material adjustment from Tesco's unaudited management accounts:

£ million	Tesco As at 25 November 2017
Shareholders' Equity	
Called up share capital	410
Share premium reserve	5,105
All other reserves	914
Total equity attributable to equity holders of the parent	6,429
Total gross indebtedness	9,606
Total capitalisation	**16,035**

There has been no material change in Tesco's capitalisation since 25 November 2017.

Indebtedness

The following table sets out Tesco's net indebtedness as at 25 November 2017. The figures have been extracted without material adjustment from Tesco's unaudited management accounts:

£million	**Tesco As at 25 November 2017**
Cash	4,248
Cash equivalents	434
Short term investments	798
Loans to associates and JVs	138
Derivative financial instruments	28
Current financial receivable	5,646
Current bank debt	(1,326)
Current portion of non-current debt	(17)
Bonds issued – current	(1,097)
Obligations under finance leases current	(8)
Derivative financial instruments	(63)
Current financial debt	(2,511)
Net current financial liquidity	**3,135**
Derivative financial instruments	1,178
Non-current financial receivable	1,178
Non-current bank loans	(549)
Bonds issued	(6,617)
Obligations under finance leases non-current	(110)
Derivative financial instruments	(555)
Non-current financial debt	(7,831)
Net non-current financial indebtedness	(6,653)
Net financial indebtedness	**(3,518)**

Borrowings

The table below presents a breakdown of the Tesco Group's interest-bearing loans and borrowings as at the dates indicated.

	As at 28 February 2015	As at 27 February 2016	As at 25 February 2017	As at 27 August 2016	As at 26 August 2017
			£m		
4% RPI MTN	313	316	–	317	–
5.875% MTN	872	877	–	940	–
2.7% USD Bond	325	361	–	381	–
5.4478% Term Loan	–	396	–	389	–
LIBOR + 0.5% Term Loan	–	478	484	481	–
1.250% MTN	362	394	423	430	465
5.5% USD Bond	625	666	709	687	678
5.5457% Secured Bond	–	367	354	362	347
5.2% Tesco Bank Retail Bond	135	132	129	131	128
3.375% MTN	548	595	641	656	709
LIBOR + 0.45% Tesco Bank Bond	149	150	150	150	–
1.375% MTN	911	990	1,063	1,066	1,152
5.5% MTN	353	353	353	363	363
1% RPI Tesco Bank Retail Bond	60	66	67	66	69
LIBOR + 0.65% Tesco Bank Bond	–	299	299	299	300
2.125% MTN	362	394	423	432	466
5% Tesco Bank Retail Bond	205	211	210	213	208
LIBOR + 0.65% Tesco Bank Bond	349	349	349	349	349
6.125% MTN	895	896	896	923	924
5% MTN	407	411	411	403	401
2.5% MTN	547	595	640	637	689
3.322% LPI MTN	318	320	326	322	331
6.067% Secured Bond	–	189	190	189	190
LIBOR + 1.2% Secured Bond	–	30	31	30	32
6% MTN	261	257	253	261	257
5.5% MTN	262	259	255	263	259
1.982% RPI MTN	263	265	270	266	272
6.15% USD Bond	917	1,035	1,063	1,106	807
4.875% MTN	175	175	175	171	171
5.125% MTN	631	486	522	515	330
5.2% MTN	275	275	275	275	222
Commercial paper, bank loans and overdrafts	1.982	845	912	971	1,346
Loans from joint ventures	16	6	6	6	6
Finance leases	141	99	114	105	117
	12,659	**13,537**	**11,993**	**14,155**	**11,588**

The Tesco Group has undrawn committed facilities available as at 26 August 2017 of £4.4 billion expiring in more than two years, including £1.8 billion of bilateral facilities and a £2.6 billion syndicated revolving credit facility.

Commitments and Contingent Liabilities

Commitments

The Tesco Group has commitments for capital expenditure contracted for, but not incurred, at 26 August 2017 were £232 million (25 February 2017: £115m, 27 August 2016: £271m), principally relating to store development.

The Tesco Group's lease commitments relate to finance leases for items of plant, equipment, fixtures and fittings, and a small number of buildings, and lease commitments under non-cancellable operating leases.

The table below presents a summary of the Tesco Group's lease commitments as at 25 February 2017.

	Less than one year	One to five years	More than five years	Total
		(£m)		
Minimum finance lease commitments	19	57	126	202
Minimum operating lease commitments	1,199	3,767	7,395	12,361
Total	**1,218**	**3,824**	**7,521**	**12,563**

The Tesco Group has lease-break options on certain sale and leaseback transactions. These options are exerciseable if the Tesco Group exercises an existing option to buy back, at market value and at a specific date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of these buy-back options as the options are at the Tesco Group's discretion. The Tesco Group is not obliged to pay lease rentals after that date, therefore minimum lease commitments exclude those falling after the buy-back date. The total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £2.6 billion using current rent values, as at 25 February 2017.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Tesco Group. The Tesco 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.

The Tesco Group's material contingent liabilities include assets held under finance leases pledged as security for the finance lease liabilities; litigation against the Tesco Group by claimant groups for matters arising out of or in connection with the overstatement of expected profits in 2014; legacy guarantees provided in respect of lease agreements in respect of Tesco's Korean operations prior to their disposal; guarantees of certain audit-exempt UK and Irish subsidiary undertakings; and contractual lending commitments of Tesco Bank.

See Notes 11 and 32 of Tesco's 2017 Annual Report and Financial Statements, which are available as set out in Part 8 ("*Tesco Historical Financial Information*"), for further details.

Capital expenditure

The table below presents a breakdown of the Tesco Group's capital expenditure for the periods indicated.

	52/53 weeks ended			26 weeks ended	
			(£m)		
	28 February 2015	27 February 2016	25 February 2017	27 August 2016	26 August 2017
UK & ROI	1,342	686	1,107	338	471
Europe	n/a	n/a	n/a	22	45
Asia	n/a	n/a	n/a	77	74
International	392	254	403	n/a	n/a
Tesco Bank	59	40	46	16	26
Group	**1,793**	**980**	**1,556**	**453**	**616**
Group (excluding store buy backs)	**1,793**	**970**	**1,180**	**339**	**427**

The most significant element of the Tesco Group's capital expenditure during the period under review was an increased spend to refresh more than 200 stores in the UK and to accelerate the store opening programme in Thailand.

Tesco is focussed on maintaining discipline in its capital expenditure in order to make further progress in protecting and strengthening the balance sheet going forward. The directors expect Tesco Group capital expenditure to be around £1.1 billion in the 2017/18 financial year, excluding store buy backs.

Off-balance sheet arrangements

The credit risk exposure from off balance sheet items, mainly undrawn contractual lending commitments, increased by £200 million, or 1.68 per cent., to £12.1 billion as at 25 February 2017, from £11.9 billion as at 27 February 2016.

Dividend policy

Reflecting Tesco's improved performance and the Tesco Board's confidence in its future prospects, on 4 October 2017 the Tesco Board announced a return to dividends and on 24 November 2017 paid an interim dividend of 1.0 pence per ordinary share (this follows payment of no dividend in the 52 weeks ended 27 February 2016 and 25 February 2017, and payment of a dividend of 1.16 pence per ordinary share in the 53 weeks ended 28 February 2015). The Tesco Board expects a broadly one-third, two-thirds split between the interim and final dividend (and is intending to pay a final dividend for the 52 weeks ending 24 February 2018 of 2.0 pence per ordinary share (subject to shareholder approval)), with dividends expected to grow progressively from 2017, with the aim of achieving a target cover of approximately 2x earnings per share over the medium term.

Quantitative and qualitative disclosures about market risks

For a description of the Tesco Group's management of interest rate risk, credit risk, liquidity risk, foreign exchange risk, capital risk, and insurance risk, including for risks specific to Tesco Bank, see Note 23 of Tesco's 2017 Annual Report and Financial Statements, which are available as set out in Part 8 ("*Tesco Historical Financial Information*").

Critical accounting policies and estimates

For a description of the Tesco Group's critical accounting policies, judgements, and sources of estimation uncertainty, see Note 1 to Tesco's 2017 Annual Report and Financial Statements, which are available as set out in Part 8 ("*Tesco Historical Financial Information*").

Reconciliation of the restated balances to previously reported financial information

The following is a reconciliation of the restated balances to previously reported financial information.

52 weeks ended 27 February 2016:

	27 February 2016 Reported £m	Less: Turkey £m	27 February 2016 As restated in 2017 AR £m
Revenue	54,433	(500)	53,933
Cost of sales	(51,579)	490	(51,089)
Gross profit/(loss)	**2,854**	**(10)**	**2,844**
Administrative expenses	(1,852)	38	(1,814)
Profits/(losses) from property-related items	44	(2)	42
Operating profit/(loss)	**1,046**	**26**	**1,072**
Share of post-tax profits/(losses) of joint ventures and associates	(21)	–	(21)
Finance income	29	–	29
Finance costs	(892)	14	(878)
Taxation	54	–	54
Profit/(loss) for the year	**216**	**40**	**256**

52 weeks ended 27 February 2016 (before exceptional items):

	27 February 2016 Reported £m	Less: Turkey £m	27 February 2016 As restated in 2017 AR £m
Revenue	54,433	(500)	53,933
Cost of sales	(51,629)	505	(51,124)
Gross profit/(loss)	**2,804**	**5**	**2,809**
Administrative expenses	(1,874)	38	(1,836)
Profits/(losses) from property-related items	14	(2)	12
Operating profit/(loss)	**944**	**41**	**985**
Share of post-tax profits/(losses) of joint ventures and associates	(21)	–	(21)
Finance income	29	–	29
Finance costs	(672)	14	(658)
Taxation	(8)	–	(8)
Profit/(loss) for the year	**272**	**55**	**327**

53 weeks ended 28 February 2015:

	28 February 2015 Reported £m	Less: Korea £m	Less: Turkey £m	28 February 2015 Restated £m
Revenue	62,284	(5,359)	(616)	56,309
Cost of sales	(64,396)	5,268	734	(58,394)
Gross profit/(loss)	**(2,112)**	**(91)**	**118**	**(2,085)**
Administrative expenses	(2,695)	121	30	(2,544)
Profits/(losses) from property-related items	(985)	12	3	(970)
Operating profit/(loss)	**(5,792)**	**42**	**151**	**(5,599)**
Share of post-tax profits/(losses) of joint ventures and associates	(13)	–	–	(13)
Finance income	90	(10)	–	80
Finance costs	(661)	10	20	(631)
Taxation	657	13	–	670
Profit/(loss) for the year	**(5,719)**	**55**	**171**	**(5,493)**

53 weeks ended 28 February 2015 (before exceptional items):

	28 February 2015 As reported in 2016 AR	Less: Turkey	28 February 2015 Restated
Revenue	56,925	(616)	56,309
Cost of sales	(54,247)	678	(53,569)
Gross profit/(loss)	**2,678**	**62**	**2,740**
Administrative expenses	(1,690)	30	(1,660)
Profits/(losses) from property-related items	(48)	3	(45)
Operating profit/(loss)	**940**	**95**	**1,035**
Share of post-tax profits/(losses) of joint ventures and associates	(13)	–	(13)
Finance income	80	–	80
Finance costs	(651)	20	(631)
Taxation	(28)	–	(28)
Profit/(loss) for the year	**328**	**115**	**443**

PART 8

TESCO HISTORICAL FINANCIAL INFORMATION

Tesco Historical Financial Information

The following documents, which have been filed with the FCA and are available for inspection in accordance with paragraph Part 15 (‘*Additional Information*’) of this Prospectus, contain financial information which is relevant to the Merger:

- Tesco’s 2017 Annual Report and Financial Statements (which include Tesco’s audited financial statements for the 52 weeks ended 25 February 2017) (“Tesco’s 2017 Annual Report and Financial Statements”);
- Tesco’s 2016 Annual Report and Financial Statements (which include Tesco’s audited financial statements for the 52 weeks ended 27 February 2016) (“Tesco’s 2016 Annual Report and Financial Statements”);
- Tesco’s Interim Results 2017/2018 (which include Tesco’s unaudited interim condensed consolidated financial statements for the 26 weeks ended 26 August 2017) (“Tesco’s 2017/2018 Interim Results Statement”); and
- Tesco’s Interim Results 2016/2017 (which include Tesco’s unaudited interim condensed consolidated financial statements for the 26 weeks ended 27 August 2016) (“Tesco’s 2016/2017 Interim Results Statement”).

Information incorporated by reference

The information set out in the table below is incorporated by reference into, and forms part of, this Prospectus, for purposes of the Prospectus Rules. Only those parts of the documents identified below which are specifically referred to below are incorporated by reference into, and form part of, this Prospectus.

For the 26 weeks ended 26 August 2017:

Information incorporated by reference	Document information is incorporated from	Page number in document information is incorporated from
Independent review report to Tesco plc	Interim Results 17/18	54
Tesco Group balance sheet	Interim Results 17/18	16
Tesco Group income statement	Interim Results 17/18	14
Tesco Group statement of comprehensive income (loss)	Interim Results 17/18	15
Tesco Group statement of changes in equity	Interim Results 17/18	17 – 18
Tesco Group cash flow statement	Interim Results 17/18	19 – 20
Notes to the Tesco Group financial statements	Interim Results 17/18	21 – 49

For the 52 weeks ended 25 February 2017:

Information incorporated by reference	Document information is incorporated from	Page number in document information is incorporated from
Independent auditor's report to the members of Tesco	Tesco's 2017 Annual Report and Financial Statements	79 – 85
Tesco Group balance sheet	Tesco's 2017 Annual Report and Financial Statements	88
Tesco Group income statement	Tesco's 2017 Annual Report and Financial Statements	86
Tesco Group statement of comprehensive income (loss)	Tesco's 2017 Annual Report and Financial Statements	87
Tesco Group statement of changes in equity	Tesco's 2017 Annual Report and Financial Statements	89
Tesco Group cash flow statement	Tesco's 2017 Annual Report and Financial Statements	90
Notes to the Tesco Group financial statements	Tesco's 2017 Annual Report and Financial Statements	91 – 149

For the 26 weeks ended 27 August 2016:

Information incorporated by reference	Document information is incorporated from	Page number in document information is incorporated from
Independent review report to Tesco plc	Interim Results 16/17	42
Tesco Group balance sheet	Interim Results 16/17	14
Tesco Group income statement	Interim Results 16/17	12
Tesco Group statement of comprehensive income (loss)	Interim Results 16/17	13
Tesco Group statement of changes in equity	Interim Results 16/17	15 – 16
Tesco Group cash flow statement	Interim Results 16/17	17 – 18
Notes to the Tesco Group financial statements	Interim Results 16/17	19 – 41

For the 52 weeks ended 27 February 2016:

Information incorporated by reference	Document information is incorporated from	Page number in document information is incorporated from
Independent auditor's report to the members of Tesco	Tesco's 2016 Annual Report and Financial Statements	77 - 84
Tesco Group balance sheet	Tesco's 2016 Annual Report and Financial Statements	87
Tesco Group income statement	Tesco's 2016 Annual Report and Financial Statements	85
Tesco Group statement of comprehensive income (loss)	Tesco's 2016 Annual Report and Financial Statements	86
Tesco Group statement of changes in equity	Tesco's 2016 Annual Report and Financial Statements	88
Tesco Group cash flow statement	Tesco's 2016 Annual Report and Financial Statements	89
Notes to the Tesco Group financial statements	Tesco's 2016 Annual Report and Financial Statements	90 – 141

For the 53 weeks ended 28 February 2015:

Information incorporated by reference	Document information is incorporated from	Page number in document information is incorporated from
Independent auditor's report to the members of Tesco	Tesco's 2015 Annual Report and Financial Statements	75 – 82
Tesco Group balance sheet	Tesco's 2015 Annual Report and Financial Statements	85
Tesco Group income statement	Tesco's 2015 Annual Report and Financial Statements	83
Tesco Group statement of comprehensive income (loss)	Tesco's 2015 Annual Report and Financial Statements	84
Tesco Group statement of changes in equity	Tesco's 2015 Annual Report and Financial Statements	86
Tesco Group cash flow statement	Tesco's 2015 Annual Report and Financial Statements	87
Notes to the Tesco Group financial statements	Tesco's 2015 Annual Report and Financial Statements	88 – 138

PART 9

BOOKER HISTORICAL FINANCIAL INFORMATION

Booker Historical Financial Information

Basis of financial information

The following pages set out the audited consolidated financial information of Booker for the 52 weeks ended 24 March 2017, the 52 weeks ended 25 March 2016 and the 52 weeks ended 27 March 2015 and the unaudited interim condensed consolidated financial statements for the 24 weeks ended 8 September 2017.

This information, including the relevant audit opinions, has been extracted without material adjustment from the financial statements for the 52 weeks ended 24 March 2017, as set out in Booker's annual report and accounts for 2017, the financial statements for the 52 weeks ended 25 March 2016, as set out in Booker's annual report and accounts for 2016 and the financial statements for the 52 weeks ended 27 March 2015, as set out in Booker's annual report and accounts for 2015 and Booker's unaudited interim condensed consolidated financial statements for the 24 weeks ended 8 September 2017. The audit reports in Booker's annual reports and accounts for 2017, 2016 and 2015 were unqualified.

Booker's financial statements for the 24 weeks ended 8 September 2017 were prepared in accordance with the accounting policies and presentation applied in preparing the preceding annual financial statements, except as otherwise disclosed therein. The financial statements for the 24 weeks ended 8 September 2017 are unaudited, but have been reviewed by the auditors and the review report was unqualified.

As described above, each of these financial statements has been extracted without material adjustment (in each case, as originally published) and reproduced in this Part 9 ("*Booker Historical Financial Information*"). Consequently, page numbers and other references may no longer be valid (in particular, there may be references to other parts of the annual reports not reproduced in this Part). The terms used in the Booker historical financial information have the meaning given to them in the relevant annual report and accounts.

SECTION A: HISTORICAL FINANCIAL INFORMATION RELATED TO BOOKER GROUP FOR THE 52 WEEKS ENDED 27 MARCH 2015

Consolidated Income Statement

For the 52 weeks ended 27 March 2015

		52 weeks ended 27 March 2015	52 weeks ended 28 March 2014		
	Note	Total £m	Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Revenue		4,753.0	4,681.6	–	4,681.6
Cost of sales		(4,524.8)	(4,473.4)	(2.0)	(4,475.4)
Gross profit		228.2	208.2	(2.0)	206.2
Administrative expenses		(87.9)	(87.8)	5.4	(82.4)
Operating profit		140.3	120.4	3.4	123.8
Financial expenses	6	(1.5)	(1.7)	–	(1.7)
Profit before tax	4	138.8	118.7	3.4	122.1
Tax	7	(21.1)	(17.6)	0.7	(16.9)
Profit for the period attributable to the owners of the Group		117.7	101.1	4.1	105.2
Earnings per share (Pence)					
Basic	8	6.73p			6.06p
Diluted	8	6.63p			5.94p

All of the Group's operations during the period shown above represent continuing operations.

There are no exceptional items in the year ended 27 March 2015.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 27 March 2015

	Note	52 weeks ended 27 March 2015 £m	52 weeks ended 28 March 2014 £m
Profit for the period		117.7	105.2
Items that will not be reclassified to profit or loss			
Remeasurements of the pension scheme	19	(18.5)	(6.4)
Tax on pension scheme remeasurements	7, 14	3.7	1.4
Items that may be reclassified to profit or loss			
Currency translation differences		–	(1.0)
Total other comprehensive expense		(14.8)	(6.0)
Total comprehensive income for the period		102.9	99.2

Consolidated Balance Sheet

As at 27 March 2015

	Note	52 weeks ended 27 March 2015 £m	52 weeks ended 28 March 2014 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	207.1	204.5
Intangible assets	11	439.8	438.7
Investment in joint venture	12	1.4	1.1
Deferred tax asset	14	28.1	20.1
		676.4	664.4
Current assets			
Inventories	15	328.1	327.6
Trade and other receivables	16	124.5	113.6
Cash and cash equivalents		147.0	149.6
		599.6	590.8
Total assets		1,276.0	1,255.2
LIABILITIES			
Current liabilities			
Trade and other payables	17	(586.0)	(586.2)
Current tax		(19.9)	(15.8)
		(605.9)	(602.0)
Non-current liabilities			
Other payables	17	(26.9)	(27.5)
Retirement benefit liabilities	19	(19.7)	(3.6)
Provisions	20	(25.4)	(25.5)
		(72.0)	(56.6)
Total liabilities		(677.9)	(658.6)
Net assets		598.1	596.6
EQUITY			
Share capital	21	17.6	17.4
Share premium		41.2	36.4
Merger reserve		260.8	260.8
Capital redemption reserve		60.9	–
Other reserves		75.8	136.8
Share option reserve		11.2	8.5
Retained earnings		130.6	136.7
Total equity attributable to equity holders		598.1	596.6

These financial statements were approved by the Board of Directors on 20 May 2015 and were signed on its behalf by:

Charles Wilson
Director

Jonathan Prentis
Director

Consolidated Cash Flow Statement

For the 52 weeks ended 27 March 2015

	Note	52 weeks ended 27 March 2015 £m	52 weeks ended 28 March 2014 £m
Cash flows from operating activities			
Profit before tax		138.8	122.1
Depreciation	10	20.3	20.4
Amortisation	11	0.9	0.7
Net finance costs		1.5	1.7
Loss/(profit) on disposal of property, plant and equipment		0.2	(0.5)
Equity settled share based payments		5.3	4.3
(Increase)/decrease in inventories		(0.5)	6.8
Increase in debtors		(10.9)	(6.9)
(Decrease)/increase in creditors		(1.9)	20.7
Decrease in amount due to investment		–	(5.6)
Contributions to pension scheme	19	(2.4)	(9.6)
Decrease in provisions	20	(1.4)	(4.1)
Non cash item: Gain on bargain purchase		–	(11.2)
Net cash flow from operating activities		149.9	138.8
Net interest paid		(0.2)	(0.3)
Tax paid		(15.1)	(12.3)
Cash generated from operating activities		134.6	126.2
Cash flows from investing activities			
Acquisition of property, plant and equipment		(23.6)	(15.5)
Acquisition of intangible asset		(1.0)	(2.5)
Investment in joint venture		(0.3)	(0.5)
Sale of property, plant and equipment		0.5	17.6
Net debt arising from acquisition of subsidiary		–	(7.9)
Net cash outflow from investing activities		(24.4)	(8.8)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		5.0	1.6
Redemption of B shares	23	(60.9)	–
Dividends paid	23	(56.9)	(46.6)
Net cash outflow from financing activities		(112.8)	(45.0)
Net (decrease)/increase in cash and cash equivalents		(2.6)	72.4
Cash and cash equivalents at the start of the period		149.6	77.2
Cash and cash equivalents at the end of the period		147.0	149.6

Reconciliation of net cash flow to movement in net cash in the period

	£m	£m
Net (decrease)/increase in cash and cash equivalents	(2.6)	72.4
Opening net cash	149.6	77.2
Net cash at the end of the period	147.0	149.6

Consolidated Statement of Changes in Equity

52 weeks ended 27 March 2015

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 28 March 2014		17.4	36.4	260.8	–	136.8	8.5	136.7	596.6
Profit for the period		–	–	–	–	–	–	117.7	117.7
Remeasurements of the pension scheme	19	–	–	–	–	–	–	(18.5)	(18.5)
Tax on pension scheme remeasurements	7, 14	–	–	–	–	–	–	3.7	3.7
Total comprehensive income for the period		–	–	–	–	–	–	102.9	102.9
Dividends to shareholders	23	–	–	–	–	–	–	(56.9)	(56.9)
Issue B shares	23	–	–	–	–	(61.0)	–	–	(61.0)
Redemption of B shares	23	–	–	–	60.9	–	–	(60.9)	–
Share options exercised		0.2	4.8	–	–	–	(2.6)	2.6	5.0
Share based payments	24	–	–	–	–	–	5.3	–	5.3
Tax on share schemes	7	–	–	–	–	–	–	6.2	6.2
At 27 March 2015		17.6	41.2	260.8	60.9	75.8	11.2	130.6	598.1

52 weeks ended 28 March 2014

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 28 March 2013		17.3	34.9	260.8	–	136.8	6.6	81.7	538.1
Profit for the period		–	–	–	–	–	–	105.2	105.2
Remeasurements of the pension scheme	19	–	–	–	–	–	–	(6.4)	(6.4)
Tax on pension scheme remeasurements	7, 14	–	–	–	–	–	–	1.4	1.4
Currency translation differences		–	–	–	–	–	–	(1.0)	(1.0)
Total comprehensive income for the period		–	–	–	–	–	–	99.2	99.2
Dividends to shareholders	23	–	–	–	–	–	–	(46.6)	(46.6)
Share options exercised		0.1	1.5	–	–	–	(2.4)	2.4	1.6
Share based payments	24	–	–	–	–	–	4.3	–	4.3
At 27 March 2015		17.4	36.4	260.8	–	136.8	8.5	136.7	596.6

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. General information

a) Overview

Booker Group plc is a public limited company incorporated in the United Kingdom (Registration number 05145685). The Company is domiciled in the United Kingdom and its registered address is Equity House, Irthlingborough Road, Wellingborough, Northamptonshire, NN8 1LT. The nature of the Group's operations and its principal activities are set out in the Strategic and Directors' Reports.

b) Basis of accounting

In accordance with EU law (IAS Regulation EC 1606/2002), the group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the EU as at 27 March 2015 ('adopted IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ('UK GAAP').

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements are presented in Sterling and rounded to the nearest hundred thousand.

The financial statements for the current period have been prepared for a 52 week period to reflect internal management reporting.

c) Basis of consolidation

On 4 June 2007 the Company, then named Blueheath Holdings plc, became the legal parent company of Giant Topco Limited in a share-for-share transaction. Due to the relative values of the companies, the former Giant Topco Limited shareholders became the majority shareholders with 90.36% of the enlarged share capital. As part of the business combination Blueheath Holdings plc changed its name to Booker Group plc and changed its accounting reference date to 31 March. Following the transaction, the Company's continuing operations and executive management were predominantly those of Giant Topco Limited. IFRS 3 'Business Combinations' defines the acquirer in a business combination as the entity that obtains control. Accordingly, the combination was accounted as a reverse acquisition i.e. as if Giant Topco Limited had acquired Blueheath Holdings plc in return for consideration equal to the fair value of the shares issued.

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power to direct the relevant activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

In July 2012, the Group acquired the entire share capital of Makro Holding Limited ('Makro'). The transaction was subject to Competition Commission approval and, whilst this process was in progress, the investment was held as an available for sale financial asset and cash subsequently advanced from Makro was shown within creditors. Full clearance to the acquisition of Makro was received from the Competition Commission on 19 April 2013 and Makro has been consolidated from this date, being the date that control passed to the Group. See notes 9 and 13 for more details.

d) Accounting standards adopted in the period

The Group has adopted the following new standards:

IFRS 10 'Consolidated Financial Statements'

IFRS 11 'Joint Arrangements'

IFRS 12 'Disclosure of Interests in Other Entities'

The Group has adopted the following amendments and interpretations:

IAS 27 (revised 2011) 'Separate Financial Statements'

IAS 28 (revised 2011) 'Investments in Associates and Joint Ventures'

Amendments to IAS 32 'Offsetting Financial Assets and Financial Liabilities'

Improvements to IFRS 2013

IAS 36 'Recoverable amount disclosures for Non Financial Assets'

Amendments to IFRS 7 'Disclosures – Offsetting Financial Assets and Financial Liabilities'

The new standards, amendments and interpretations adopted have not had a significant impact on the financial statements.

e) New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period but have not yet been endorsed by the European Union. The following have not been adopted early by the Group:

	Effective for accounting periods starting on or after
IFRS 14 'Regulatory Deferral Accounts'	1 January 2016
Amendments to IFRS 10, IFRS 12 and IAS 28 'Investment Entities: Applying the Consolidation Exception'	1 January 2016
Amendments to IAS 16 and IAS 28 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016
Amendments to IFRS 11 'Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016
IFRS 15 'Revenue from Contracts with Customers'	1 January 2017
IFRS 9 'Financial Instruments'	1 January 2018

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements.

f) Going concern

The risks noted in the Strategic Report are those known to the Directors at the date of this Report which the Directors consider to be material to the Group, but these do not necessarily comprise all the risks to which the Group is exposed. In particular, the Group's performance could be adversely affected by poor economic conditions. Additional risks and uncertainties currently unknown to the Directors, or which the Directors currently believe are immaterial, may also have a material adverse effect on the business, financial condition or prospects of the Group.

In July 2011, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. A new facility is expected to be negotiated in the near future, in advance of the facility ending in July 2016. At the period end, the Group had net cash of £147m and during the year to 27 March 2015, the Group did not draw on this facility. In addition, the Group complied with all its covenants during the year. The Group's forecasts and projections, taking account of possible changes in trading performance and considering the risks identified, show that the Group should be able to operate within the level of its bank facility.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for the foreseeable future. Accordingly, they continue to adopt the going concern basis in preparing the Group and Company financial statements.

g) Use of assumptions and estimates

The preparation of accounts in accordance with generally accepted accounting principles requires the Directors 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, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Some of these policies require a high level of judgement and the Directors believe that the most critical accounting policies and significant areas of judgement and estimation arise from the accounting for:

- IAS37 'Provisions, contingent liabilities and contingent assets'. The Group is party to a number of leases on properties that are no longer required for trading. Whilst every effort is made to profitably sub-let these properties, it is not always possible to do so. Where a lease is onerous to the Group, a provision is established for the difference between amounts contractually payable to the landlord and amounts contractually receivable from the tenant (if any) for the period up until the point it is judged that the lease will no longer be onerous. In addition, provisions exist for the expected future dilapidation cost on leasehold properties and the expected future costs of removing asbestos from leasehold properties. The Directors believe that their estimates, which are based upon the advice of an in-house property department who monitor the UK property market, are appropriate.

- IAS19 'Employee benefits'. Defined benefit schemes are accounted for in accordance with the advice of an independent qualified actuary but significant judgements are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and mortality that underpin their valuations. Sensitivities in relation to key assumptions are disclosed in note 19.

- IAS36 'Impairment of assets'. In testing for impairment of goodwill and other assets, the Directors have made certain assumptions concerning the future development of the business that are consistent with its annual budget and forecast into perpetuity. Should these assumptions regarding the discount rate or growth in the profitability be unfounded then it is possible that goodwill included in the balance sheet could be impaired. At 27 March 2015, the Directors do not consider that any reasonably likely changes in key assumptions would cause the carrying value of the goodwill to become impaired. Sensitivities in relation to key assumptions are disclosed in note 11.

- IAS12 'Income Taxes'. In applying the Group's accounting policy in relation to deferred tax, as set out below, the Directors are required to make assumptions regarding the Group's ability to utilise historical tax assets following an assessment of the likely quantum and timing of future taxable profits. A deferred tax asset is recognised to the extent that the Directors are confident that the Group's future profits will utilise historical tax assets.

2. Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Intangible assets

a) ***Business combinations and goodwill***

Subject to the transitional relief in IFRS 1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 April 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is capitalised and is subject to an impairment review, both annually and when there are indications that its carrying value may not be recoverable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

b) ***Other intangibles***

Customer relationships and know-how are capitalised and amortised on a straight-line basis over 5 years and charged to administrative expenses.

Revenue

Revenue is recognised when goods are received by the customer and the risks and rewards of ownership have passed to them. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods net of discounts, volume rebates and value added tax. Discounts are accounted for in the period they are earned. Provision is made for expected customer returns.

Cost of sales

Cost of sales represents all costs incurred up to the point of sale including the operating expenses of the trading outlets.

Employee benefits

a) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

b) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The defined benefit obligation calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses were recognised as at 1 April 2006, the date of transition to Adopted IFRSs. In respect of actuarial gains and losses that arise subsequent to 1 April 2006 the Group recognises them in the period they occur directly in other comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Under IAS 19 (2011), the Group determines the net interest expense/(income) for the period on the net defined benefit liability/asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contributions and benefit payments.

c) Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Financial instruments

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, available for sale financial assets, cash and cash equivalents, loans and borrowings, and trade and other payables.

a) Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

b) Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits repayable on demand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

d) Interest-bearing borrowings

Interest bearing borrowings are recognised in the balance sheet at amortised cost. Costs associated with extending the bank facility have been recognised in the income statement. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Guarantees

Third party property guarantees are initially recognised as a financial liability under IAS 37 'Provisions, Contingent Liabilities and Contingent Assets'. These are measured and recognised at fair value. These property guarantees are included within 'Provisions' on the balance sheet.

Impairment

The carrying values of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any impairment. In performing the impairment reviews, the asset's recoverable amount is estimated and compared to the carrying amount.

An impairment loss is recognised to the extent that the carrying value of an asset exceeds its recoverable amount and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on either the weighted average principle or the replacement cost and includes certain warehousing and distribution costs incurred in bringing the inventory to their existing location less supplier volume rebates. Net realisable value is the estimated selling price less the estimated costs of disposal.

Investment in joint ventures

The Group conducts its joint venture arrangements through jointly controlled entities and accounts for them using the equity method of accounting. The Group records its share of the joint controlled entities' post tax profit or loss within the income statement and its share of the net assets within investments. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Where a lease has a minimum fixed increase, the total minimum lease payments are spread over the lease term. The total amount payable over the life of the lease remains unchanged but the timing of the income statement charge relative to the lease payments change. The excess of the rent charged over the cash payment in any period will be held on the balance sheet within 'Accruals and deferred income'.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Operating segments

IFRS 8 'Operating Segments' requires that segments should be reported on the same basis as the internal reporting information that is provided to the Chief Operating Decision Maker ('CODM'). The CODM has been identified as the CEO. In accordance with IFRS 8, the Group may aggregate operating segments into one reportable segment to the extent that the criteria for aggregation in IFRS 8 are met. These criteria include consideration of whether the operating segments have similar economic characteristics; similar nature of products and services; similar type or class of customers; similar methods used to distribute products or provide services; and similar regulatory environments.

The CODM receives turnover information analysed in a number of different ways (for example by customer and product types, by delivery channels and between Booker Wholesale, Booker Direct, Chef Direct, Classic Drinks, Ritter-Courivaud and Makro). However, none of these ‘possible’ segments have a unique management structure, products share the same supply chain and distribution channels, and there are a large amount of supplier rebates, expenses and assets/(liabilities) that are not specific. It is therefore not possible to analyse, and the CODM does not receive, information in respect of profitability or balance sheets in the same way in which turnover is analysed. Internal reports reviewed regularly by the CODM focus on the operations of the Group as a whole and report the results and financial position on an IFRS basis.

As a result, the Group has not disclosed discrete financial information about any of the ‘possible segments’, which in any event would meet the criteria for aggregation under IFRS 8, separately in these financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Labour and associated costs that have been incurred specifically on the ‘Extra’ business centre conversions have been capitalised in leasehold improvements and are being depreciated over the lesser of 10 years or the number of years remaining on the lease.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Freehold buildings 30 years
- Leasehold improvements lesser of the unexpired term of the lease and 50 years
- Plant and equipment 3–20 years
- Motor vehicles 4 years

Freehold land is not depreciated.

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administrative expenses.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax rate that reflects the time value of money and the risks specific to the liability.

Share based payments

The Group has issued equity settled share based payments to certain employees in exchange for services rendered by them. The fair value is measured using an option valuation model at the date of grant and is recognised as an employee expense over the period in which the employees become unconditionally entitled to the options, with a corresponding increase in equity, shown in a separate share option reserve. This valuation is based on estimates of the number of options that will eventually vest, taking into account service conditions and market performance.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

Supplier rebates

A number of different types of rebate are negotiated with suppliers in connection with the purchase of goods for resale. Such rebates are only recognised when earned by the Group, which occurs when all obligations conditional for earning the rebate have been discharged, and the rebate can be measured reliably based on the terms of the contract. These rebates are recognised as a credit within cost of sales and, to the extent that the rebate relates to unsold stock purchases, as a reduction in the cost of inventory.

There are two main types of supplier rebates:

a) Terms, which are generally annual agreements (not always coterminous with the Group's year end), are signed by the Group and the supplier. Rebates are determined relative to volumes purchased or by other conditional arrangements as follows:

- Volume based rebates include overriders, advertising allowances and targeted income. Rebates are accrued based on the Group's purchasing volumes and the current agreement with the supplier. Amounts are recognised once confirmation of agreement to that rebate has been received from the supplier.
- Non-volume based rebates include marketing support, range promotion and product development. Amounts are recognised when the rebate is earned through the completion of any required obligations and confirmed by suppliers.

Invoices are issued to suppliers periodically, quarterly or annually, depending on the terms of the agreement.

b) Promotional funding, which relates to price investments by suppliers through promotional activity. The calculation of funding is mechanical and based on a formula agreed in advance of each promotion with the supplier. Funding is recognised in the Income Statement as units are sold and is invoiced throughout the year, shortly after each promotion has ended.

Amounts relating to supplier rebates appear in a number of different balance sheet headings at the year end:

- Inventories: Where the rebate earned relates to inventories which are held by the Group at year end, the rebates are deducted from the cost of those inventories.
- Trade receivables: Billed supplier rebates outstanding at the period end where the Group has no legal right to offset against trade payables.
- Trade payables: Billed supplier rebates outstanding when the Group has a legal right to offset against payables.
- Prepayments and accrued income: amounts due from suppliers in relation to supplier rebates which has been recognised but not yet invoiced.
- Accruals and deferred income: amounts received in relation to supplier rebates that have not been earned at the year end.

Taxation

Tax expense included in the Income Statement comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity, or to the extent it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets (excluding goodwill) and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity. Deferred tax assets are only recognised to the extent that, following an assessment of the quantum and timing of future taxable profits, it is probable that future 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 the amount which is recognised is increased or reduced to the extent that it is then probable or no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

3. Segmental reporting

The Group has considered the principles of IFRS 8 as well as its internal reporting, management and operating structure. The Directors' conclusion is that the Group has a single reportable segment, that of wholesaling activities.

Other than the operation in India (which is immaterial), all of the Group's revenue originates from the UK. The functional currency of the Indian operation is Rupees.

The Group has no significant reliance on any individual customers.

4. Profit before tax

	2015 £m	2014 £m
This is stated after charging:		
Depreciation of property, plant and equipment (see note 10)	20.3	20.4
Amortisation of intangibles (see note 11)	0.9	0.7
Operating lease rentals – land and buildings	48.0	48.5
Operating lease rentals – plant and machinery	15.9	15.1
During the period the Group incurred the following costs for services provided by the Company's auditor:		
Audit fees for the Company and the consolidated financial statements	0.1	0.1
Audit of subsidiary companies	0.2	0.4
Taxation advisory services	–	0.1
Other services	–	0.1
	0.3	0.7

Exceptional items

	2015 £m	2014 £m
Included within administrative expenses:		
Gain on bargain purchase (see note 9)	–	(11.2)
Restructuring and integration costs	–	5.8
	–	(5.4)
Included within cost of sales:		
Stock writedowns following range rationalisation	–	2.0
Tax credit on exceptional costs	–	(3.4)
	–	0.7

5. Staff numbers and costs

The average number of persons employed by the Group during the period, was as follows:

	2015 Number	2014 Number
Business centre, distribution and selling	11,946	11,981
Administration	868	878
	12,814	12,859

The aggregate payroll costs of these persons were as follows:

	£m	£m
Wages and salaries	237.8	230.8
Social security costs	21.1	21.0
Equity settled share based payments	5.3	4.3
Other pension costs	5.3	5.0
	269.5	261.1

Details of Directors' remuneration are provided in the Remuneration Report.

6. Finance income and expense

	2015 £m	2014 £m
Bank interest receivable	0.5	0.4
Interest on bank loans and overdrafts	(0.7)	(0.6)
Unwinding of discount on provisions (see note 20)	(1.3)	(1.5)
Finance expense	(2.0)	(2.1)
Net financial expenses	(1.5)	(1.7)

7. Tax

i) Analysis of charge in the period

	2015 £m	2014 £m
Arising in respect of current period		
Current tax	26.2	19.0
Deferred tax	0.5	7.8
	26.7	26.8
Arising in respect of prior periods		
Overstatement in respect of prior period current tax	(5.3)	(9.8)
(Over)/understatement in respect of prior period deferred tax	(0.3)	0.6
	(5.6)	(9.2)
Total tax charge	21.1	17.6

UK corporation tax is calculated at 21% (2014: 23%) of the estimated assessable profit for the period. Taxation in other jurisdictions is calculated at the rates prevailing in respective jurisdictions.

ii) Reconciliation of effective tax rate

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2015 £m	2014 £m
Profit before exceptional items and tax	138.8	118.7
Tax using the current UK corporation tax rate of 21% (2014: 23%)	29.1	27.3
Non deductible expenses	1.7	2.2
(Over)/understatement of prior year deferred tax asset	(0.3)	0.6
Overstatement of prior year current tax	(2.8)	(2.5)
Utilisation of previously unrecognised advance corporation tax	(2.5)	(2.3)
Utilisation of previously unrecognised tax losses	(4.1)	–
Release of provision in respect of former overseas business	–	(5.0)
Tax relief arising on employee share option exercises	–	(4.0)
Impact of change in future tax rates	–	1.3
Total tax charge	21.1	17.6
Effective tax rate	15.2%	14.8%

In the prior period, a tax credit of £0.7m arose on the net exceptional credit of £3.4m, which is after taking account of a charge arising from the revaluation of Makro's deferred tax asset at the balance sheet date, following enactment on 2 July 2013 of reduced future rates of corporation tax.

iii) Tax in the statement of comprehensive income

	2015 £m	2014 £m
Deferred tax credit on:		
Pension scheme remeasurements	3.7	1.4

iv) Tax in the statement of changes in equity

	2015 £m	2014 £m
Deferred tax credit on share options granted	4.5	–
Current tax credit on share options exercised	1.7	–
	6.2	–

v) Factors that may affect future current and total tax charge

Reductions in the UK corporation tax rate from 26% to 24% (effective from 1 April 2012) and to 23% (effective 1 April 2013) were substantively enacted on 26 March 2012 and 3 July 2012 respectively. Further reductions to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013.

This will reduce the Group's future current tax charge accordingly and the deferred tax assets/liabilities at 27 March 2015 have been calculated based on the rate of 20% substantively enacted at the balance sheet date.

8. Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the owners of the Group by the weighted average number of ordinary shares outstanding during the period.

	2015 £m	2014 £m
Profit for the period attributable to the owners of the Group (£m)	117.7	105.2
Weighted average number of shares (m)	1,748.1	1,735.9
Basic earnings per share (pence)	6.73p	6.06p

b) Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue adjusted by dilutive outstanding share options and dilutive shares issuable under the Group's share plans. The number of shares included in the diluted EPS in relation to the SAYE and the share option schemes has been calculated in accordance with IAS 33 'Earnings per Share'.

	2015 £m	2014 £m
Profit for the period attributable to the owners of the Group (£m)	117.7	105.2
Weighted average number of shares (m) used in basic EPS	1,748.1	1,735.9
Effects of employee share options (m)	26.7	34.4
Weighted average number of shares (m) used in diluted EPS	1,774.8	1,770.3
Diluted earnings per share (pence)	6.63p	5.94p

The PSP 2014 and the SAYE 2014 options are potentially dilutive instruments but are not included in the calculation of diluted earnings per share because they were anti-dilutive.

9. Business combination

In July 2012, the Group acquired the entire share capital of Makro Holding Limited which had two subsidiaries: Makro Properties Limited and Makro Self Service Wholesalers Limited ('Makro'). The transaction was subject to Competition Commission approval. Full clearance to the acquisition of Makro was received on 19 April 2013 and Makro was consolidated from this date, being the date that control passed to the Group.

Through Booker and Makro coming together, the Group seeks to become the UK's leading wholesaler to caterers, retailers and small businesses by:

combining the best ranges from Makro and Booker to improve overall choice;

consolidating buying volumes to improve prices for customers;

improving service due to an increased capacity for delivery; and

improving availability by integrating the supply chain.

The acquisition had the following effect on the Group's assets and liabilities as at 19 April 2013:

	Book value £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	142.2	12.4	154.6
Inventories	67.8	–	67.8
Trade and other receivables	10.6	–	10.6
Trade and other payables	(81.2)	(3.0)	(84.2)
Bank overdraft	(7.9)	–	(7.9)
Deferred tax	–	15.2	15.2
Net fair value of identifiable assets and liabilities	131.5	24.6	156.1
Gain on bargain purchase (included in exceptional items)			11.2
Total consideration			144.9

The fair value adjustments made on acquisition have had the effect of:

- increasing the property valuations;
- providing for onerous contracts; and
- recognising a deferred tax asset in relation to accelerated capital allowances.

The fair value of the consideration is based upon the fair value of the investment held in Makro prior to the date of consolidation. The investment was measured at fair value in accordance with IAS39 as it was an available for sale financial asset. The fair value was initially determined by reference to the consideration transferred as set out below at completion, and the subsequent fair value was considered to be unchanged at both 29 March 2013 and 19 April 2013 and therefore there was no valuation gain or loss recorded in comprehensive income. The subsequent investment fair value was measured by reference to the performance of Makro compared to expectations and the underlying market value of the assets of the business, predominantly properties.

	£m
Consideration for purchase of investment comprised of:	
Issue of 156,621,525 new ordinary shares – determined by reference to the share price of Booker Group plc at the date of completion, taking into account a discount to reflect the restrictions preventing the shares from being sold for one year after the date of completion	124.2
Cash consideration	15.8
Cash paid to reflect a targeted cash and working capital position as at 30 June 2012	4.9
	144.9

The fair value of assets and liabilities acquired was higher than the fair value of consideration paid, resulting in a gain on bargain purchase' of £11.2m, which was included in exceptional items. The Directors considered whether this indicated inappropriate fair values underlying the acquisition accounting and concluded that all the fair values were reasonable.

In accordance with IFRS 3 'Business Combinations', the hindsight adjustment period for the acquisition of Makro Holding Limited and its subsidiaries ended on 19 April 2014. There have been no further changes to the fair value of the consideration or the net assets acquired.

10. Property, plant & equipment

	Freehold land and buildings £m	Leasehold improve-ments £m	Plant, equipment & vehicles £m	Total £m
Cost				
At 29 March 2013	0.3	66.0	264.1	330.4
Additions	0.6	3.9	11.0	15.5
Additions due to acquisition	123.2	6.0	25.4	154.6
Disposals	(14.9)	(0.5)	(28.2)	(43.6)
At 28 March 2014	109.2	75.4	272.3	456.9
Additions	1.3	6.4	15.9	23.6
Disposals	(0.5)	–	(1.3)	(1.8)
Reclassification	6.6	7.0	(0.4)	–
At 27 March 2015	103.4	88.8	286.5	478.7
Depreciation				
At 29 March 2013	–	36.5	222.0	258.5
Provided during the period	3.0	4.7	12.7	20.4
Disposals	–	(0.5)	(26.0)	(26.5)
At 28 March 2014	3.0	40.7	208.7	252.4
Provided during the period	3.7	5.3	11.3	20.3
Disposals	–	–	(1.1)	(1.1)
At 27 March 2015	6.7	46.0	218.9	271.6
Net book value				
At 27 March 2015	96.7	42.8	67.6	207.1
At 28 March 2014	106.2	34.7	63.6	204.5
At 29 March 2013	0.3	29.5	42.1	71.9

The cost of freehold land and buildings includes land of £47.0m (2014: £47.5m) on which depreciation is not provided.

11. Intangible assets

	Goodwill £m	Customer relationships £m	Know-how £m	Total £m
Cost				
At 29 March 2013	436.4	0.5	0.5	437.4
Additions	–	–	2.5	2.5
At 28 March 2014	436.4	0.5	3.0	439.9
Additions	–	–	2.0	2.0
At 27 March 2015	436.4	0.5	5.0	441.9
Amortisation				
At 29 March 2013	–	0.3	0.2	0.5
Charge for the period	–	0.1	0.6	0.7
At 28 March 2014	–	0.4	0.8	1.2
Charge for the period	–	0.1	0.8	0.9
At 27 March 2015	–	0.5	1.6	2.1
Net book value				
At 27 March 2015	436.4	–	3.4	439.8
At 28 March 2014	436.4	0.1	2.2	438.7
At 29 March 2013	436.4	0.2	0.3	436.9

During the period, the Group paid £1m, with a further £1m of contingent consideration payable, in accordance with the procurement agreement with Provenance Too Limited which holds the intellectual property in Provenance Limited. Provenance Too Limited has no other assets or liabilities and the entire consideration has been classified as know-how, since the Group has acquired expertise in the sourcing and supply of 'Fruit and vegetables'.

Goodwill arose in the Group from the following:

- the acquisition of the Big Food Group Limited by Giant Topco Limited in 2005; and
- the acquisition of Ritter-Courivaud Limited in 2010.

Under IAS 36 'Impairment of Assets', the Group is required to test its fixed assets for impairment at least annually, or more frequently if indicators of impairment exist. Impairment reviews compare the carrying value of goodwill, other intangible fixed assets and tangible fixed assets contained in each cash generating unit ('CGU') with its recoverable amount.

The recoverable amount of each CGU is considered to be its value in use, calculated by reference to the pre tax cash flow projections of each CGU based on the Group's approved budget for 2016 and plan for 2017. Cash flows beyond this period are extrapolated into perpetuity using an estimated growth rate of 2% (2014: 2%), being the Directors' estimated view of the long term compound growth in the economy. This is considered appropriate because the CGU is considered to be a long term business. The discount rate used reflects the market assumptions for the risk free rate and equity risk premium and also takes into account the cost of debt.

The main assumptions on which the forecast cash flows were based include the level of sales, gross margin and expenses within the business and have been set by the Directors based on their past experience of the business and its industry together with their expectations of the market. The level of sales depends upon the size of the markets in which the Group operates together with the Directors' estimations of its market share and competitive pressures. Gross margin is dependent upon the net costs to the business of purchasing products together with the level of supplier rebates and income to support sales activities. Expenses are based on the current cost base of the Group adjusted for variable costs and known plans for the business.

The Directors believe that three CGUs exist within the Group:

a) Ritter (intangible assets of £12.5m and tangible assets of £0.8m)

A pre tax discount rate of 9.7% (2014: 10.4%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

b) Makro (tangible assets of £130.3m)

A pre tax discount rate of 9.7% (2014: 10.4%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 5% increase in the pre tax discount rate, nor a decline in growth of 5% into perpetuity, would require an impairment to be made.

c) Remaining business (intangible assets of £427.3m and tangible assets of £75.5m)

A pre tax discount rate of 9.7% (2014: 10.5%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

The Directors believe that the assumptions on which the carrying value of intangible and tangible fixed assets is supported are reasonable and that no impairment to fixed assets is required.

12. Investment in joint venture

	2015 £m	2014 £m
At start of period	1.1	0.6
Addition	0.7	0.9
Share of loss for the period	(0.4)	(0.4)
At end of period	1.4	1.1

During the period the Group invested £0.7m in its joint venture, Booker Satnam Wholesale Private Limited. Whilst at the year end, the group owned 83% (2014: 78%) of the share capital, the Group has joint control through the contractually agreed sharing of control. The share of loss for the period has been included within administrative expenses and has not been disclosed separately on the face of the income statement in view of its materiality.

13. Other investments

	2015 £m	2014 £m
At start of period	–	144.9
Consolidated as a subsidiary from 19 April 2013 (see note 9)	–	(144.9)
At end of period	–	–

In July 2012, the Group acquired Makro Holding Limited from Metro AG in exchange for 156,621,525 new ordinary shares and a cash consideration of £15.8m. Makro Holding Limited had two subsidiaries; Makro Properties Limited and Makro Self Service Wholesalers Limited.

This was held as an investment at 29 March 2013, while the transaction was subject to Competition Commission approval and, whilst this process was in progress, the Group was required to hold Makro separate from the rest of Booker in accordance with undertakings given to the competition authorities in the normal way. As a result, the Group had neither control nor significant influence over Makro at the 2013 year end, and therefore it did not meet the requirements for consolidation as set out in IFRS3 (revised) 'Business Combinations' and IAS27 'Consolidated and Separate Financial Statements'. In accordance with IAS39 'Financial Instruments: Recognition and Measurement', the investment was initially held as an available for sale financial asset.

Full clearance to the transaction was received by the Competition Commission on 19 April 2013 and Makro was consolidated from this date, being the date that control passed to the Group.

14. Deferred tax assets and liabilities

Recognised deferred tax assets

The following are the major deferred tax assets recognised by the Group:

	Decelerated tax depreciation £m	Short term timing differences £m	Retirement benefit obligations IAS 19 £m	Property leases IAS17 £m	Trading losses £m	Share based payments IFRS 2 £m	Total £m
At 29 March 2013	2.6	0.6	1.6	3.5	3.2	2.0	13.5
On acquisition of Makro	15.2	–	–	–	–	–	15.2
(Over)/understatement in respect of prior year deferred tax	(0.1)	0.2	–	–	(0.5)	(0.2)	(0.6)
Credit/(charge) to the income statement	(4.4)	(0.1)	(2.3)	(0.4)	(0.7)	0.1	(7.8)
Exceptional tax charge	(1.6)	–	–	–	–	–	(1.6)
Credit to equity	–	–	1.4	–	–	–	1.4
At 28 March 2014	11.7	0.7	0.7	3.1	2.0	1.9	20.1
(Over)/understatement in respect of prior year deferred tax	–	1.0	–	–	(0.7)	–	0.3
Credit/(charge) to the income statement	(0.2)	0.2	(0.5)	–	(0.5)	0.5	(0.5)
Credit to equity	–	–	3.7	–	–	4.5	8.2
At 27 March 2015	11.5	1.9	3.9	3.1	0.8	6.9	28.1

IAS 12 'Income Taxes' requires the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

Unrecognised deferred tax assets

Based on an assessment of the quantum and timing of future taxable profits, deferred tax assets have not been recognised in respect of the following:

	2015 £m	2014 £m
Tax losses	16.7	19.6
Surplus ACT carried forward	25.2	27.7
	41.9	47.3

The Group has unrecognised deferred tax assets:

- unutilised tax trading losses from both UK and overseas operations of £76.9m, £16.7m cash benefit, (2014: £93.3m, £19.6m cash benefit);
- surplus ACT of £25.2m, £25.2m cash benefit (2014: £27.7m, £27.7m cash benefit).

These have not been recognised following a detailed assessment by the Group in accordance with the accounting policy set out in note 2.

The tax trading losses have various expiry dates the earliest of which, in respect of £1.2m of the losses, is 31 March 2018. There are no expiry dates attributed to the surplus ACT.

The Group does not have any unremitted overseas earnings.

15. Inventories

	2015 £m	2014 £m
Goods held for resale	328.1	327.6

16. Trade and other receivables

	2015 £m	2014 £m
Trade receivables	78.7	64.6
Allowance for doubtful debts	(4.3)	(4.3)
	74.4	60.3
Prepayments and accrued income	50.1	53.3
	124.5	113.6

Trade receivables of £74.4m (2014: £60.3m) comprise principally of amounts receivable from the sale of goods and are classified as loans and receivables in note 18. All amounts are expected to be received within twelve months.

The movement in the allowance for doubtful debts is as follows:

	2015 £m	2014 £m
At start of period	4.3	4.3
Utilised in the period	(1.0)	(0.7)
Charged to income statement	1.0	0.7
	4.3	4.3

17. Trade and other payables

	2015 £m	2014 £m
i) Current		
Trade payables	505.4	496.2
Other taxes and social security costs	30.1	28.8
Other payables	7.2	7.1
Accruals and deferred income	43.3	54.1
	586.0	586.2
ii) Non-Current		
Accruals and deferred income	26.9	27.5

£586.0m (2014: £586.2m) of trade and other payables are classified under financial liabilities in note 18.

The non-current accruals and deferred income relate to lease incentives and guaranteed minimum lease payments, which are accounted for on a straight line basis in accordance with the Group's accounting policy.

18. Financial instruments

Details of significant accounting policies and methods adopted, including the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

The book value and fair value of the financial instruments are as follows:

	Book value		Fair value	
	2015 £m	2014 £m	2015 £m	2014 £m
Financial assets				
Loans and other receivables	74.4	60.3	74.4	60.3
Cash and cash equivalent	147.0	149.6	147.0	149.6
	221.4	209.9	221.4	209.9
Financial liabilities				
Trade and other payables	(586.0)	(586.2)	(586.0)	(586.2)
Property guarantees	(5.0)	(5.0)	(5.0)	(5.0)
	(591.0)	(591.2)	(591.0)	(591.2)

Loans and other receivables represent amounts receivable from the sale of goods, together with amounts due from supplier rebates (see note 16) and are initially measured at fair value and then subsequently held at amortised cost.

Fair value of property guarantees have been estimated by discounting estimated future cash flows based on the terms and maturity and risk of each guarantee crystallising.

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2015				
Financial assets	–	221.4	–	221.4
Financial liabilities	–	(591.0)	–	(591.0)
2014				
Financial assets	–	209.9	–	209.9
Financial liabilities	–	(591.2)	–	(591.2)

There have been no transfers between categories during the period.

Liquidity risk

The Group will finance operations and growth from existing cash resources, finance leases and committed borrowing facilities to ensure the constant availability of an appropriate amount of reasonably priced funding to meet both current and future forecast requirements.

In July 2011, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. The revolving credit facility bears floating interest rates linked to LIBOR plus a margin of 1.25%. In the event of default of covenants on the bank facility, any drawn facility and any interest accrued are repayable on demand.

	2015 £m	2014 £m
Facility available	120.0	120.0
Bank guarantees	(7.0)	(7.0)
Undrawn facility available	113.0	113.0

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities:

	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	Over 4 years £m
2015					
Trade and other payables	591.0	–	–	–	–
2014					
Trade and other payables	591.2	–	–	–	–

It is not possible to quantify the timing of the cash flows relating to the property guarantees.

The undiscounted cash flows for borrowings differ from their carrying value in the balance sheet due to the inclusion of contractual interest payments and the adjustment for non cash items including unamortised borrowing costs. The undiscounted cash flows for financial instruments reflect the amounts payable on these instruments which differs from the fair value recorded on the balance sheet. There is no difference between the discounted and undiscounted cash flows associated with trade payables due to their short term nature.

Credit risk

The Group is predominantly a cash sales business with low levels of trade receivables in comparison to total sales for the year and has no significant concentration of credit risk, with exposure spread over a large number of customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has an accounting policy to provide for certain overdue trade receivables based on past experience, and believe that there are no significant unprovided overdue financial assets.

Interest rate risk

Interest rate risk is relatively small to the Group, as there are no fixed borrowings and the revolving credit facility is only partially drawn for a small part of the year. Therefore the Group has chosen not to hedge its borrowings.

Capital risk

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In assessing the level of capital all components of equity are taken into account (i.e. share capital and retained earnings). The Group has £147.0m of net cash as at 27 March 2015 and is not subject to externally imposed capital requirements. Management of capital therefore focuses around its ability to generate cash from its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to raise funds. The Group believes it is meeting its objectives for managing capital as funds are available for reinvestment where necessary as well as being in a position to make returns to shareholders where this is felt appropriate.

Foreign currency risk

Less than 1% of purchases are denominated in foreign currencies.

The majority of sales are denominated in sterling, with the exception of sales made from the Group's Indian operation which are denominated in rupees.

The Directors do not consider that the Group has significant exposure to movements in foreign exchange and the Group does not hold any foreign exchange contracts.

19. Post employment benefits

The Group operates a variety of post employment benefit arrangements, covering both funded defined benefit and funded defined contribution schemes to provide benefits to both full-time and part-time employees.

Defined contribution schemes

Pension contributions of £5.3m (2014: £5.0m) were charged to defined contribution schemes in the period. Included within accruals is £0.4m (2014: £0.4m) of outstanding pension contributions.

Defined benefit schemes

The Booker Pension Scheme ('the Scheme') is a funded pension arrangement based on final salary and was closed to new entrants in 2001 with benefits ceasing to accrue from 2002. However, active members' benefits retain a link to their final salaries. The assets of the scheme are held separately from those of the Group and are invested by independent fund managers appointed by the Trustees.

The benefit obligations as at 27 March 2015 have been calculated by an independent actuary on an IAS 19 basis using the results of the 31 March 2013 triennial actuarial valuation which has then been updated to 27 March 2015. The present value of the defined benefit obligation has been calculated using the projected unit credit method.

(a) Major assumptions used by the actuary

	2015 £m	2014 £m
Discount rate	3.40%	4.45%
RPI inflation	2.95%	3.20%
CPI inflation	1.95%	2.20%
Rate of increase in salaries	1.95%	3.20%
Pension increases in payment	2.90%	3.15%

For pension increases in payment, the most significant assumption is for increases which are linked to RPI inflation capped at 6% each year. This assumption is disclosed in the table above.

The average life expectancy in years of a member is as follows:

		2015 £m	2014 £m
Aged 65 retiring immediately (current pensioner)	Male	21.5	21.5
	Female	23.7	23.7
Aged 40 retiring at 65 (future pensioner)	Male	22.7	22.7
	Female	25.1	25.1

At 27 March 2015, the weighted average duration of the defined benefit obligation is approximately 16 years.

(b) The amounts recognised in the balance sheet

	2015 £m	2014 £m
Equities	110.4	285.2
Diversified growth funds	151.3	–
Bonds	328.5	280.6
Property	51.5	44.4
Cash	7.8	0.8
Fair value of scheme assets	649.5	611.0
Present value of defined benefit obligation	(669.2)	(614.6)
Net liability arising from defined benefit obligation	(19.7)	(3.6)

The bid value of the assets was provided by each of the various fund managers in which the Scheme is invested. All scheme assets have quoted prices. Based on the Scheme's current liability and membership profile, as well as the Company's objectives, the Trustee has chosen to retain a strategic allocation of approximately 48% to growth assets and 52% to matching assets until 2028.

The Scheme does not hold any of the Group's financial instruments or property as plan assets.

(c) Movement in the fair value of the scheme assets

	2015 £m	2014 £m
Opening fair value of scheme assets	611.0	608.7
Employer contributions	2.4	9.6
Interest income	26.3	25.9
Return on assets (less amount included in net interest expense)	49.8	(1.7)
Benefits paid	(40.0)	(31.5)
Closing fair value of scheme assets	649.5	611.0

(d) Movement in the present value of the defined benefit obligation

	2015 £m	2014 £m
Opening defined benefit obligation	(614.6)	(615.5)
Interest cost	(26.3)	(25.9)
Remeasurement gains/(losses):		
Actuarial (losses)/gains from changes in financial assumptions	(72.9)	14.1
Actuarial (losses)/gains from changes in demographic assumptions	–	(19.1)
Actuarial gains arising from experience adjustments	4.6	0.3
Benefits paid	40.0	31.5
Closing defined benefit obligation	(669.2)	(614.6)

(e) Movement in the net defined benefit liability

	2015 £m	2014 £m
Opening net defined benefit liability	(3.6)	(6.8)
Employer contributions	2.4	9.6
Net charge recognised in the income statement	–	–
Total remeasurements included in OCI	(18.5)	(6.4)
Closing net defined benefit liability	(19.7)	(3.6)

(f) Amounts recognised in the income statement

	2015 £m	2014 £m
Interest income on scheme assets	26.3	25.9
Interest cost on defined benefit obligation	(26.3)	(25.9)
Net interest expense on defined benefit obligation	–	–

(g) Sensitivities

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, RPI inflation, pension increases, and life expectancy. The sensitivity analysis below shows the impact on the defined benefit obligation at the end of the reporting period of reasonably possible changes in these assumptions, which have been determined in isolation whilst holding all other assumptions constant:

Life expectancy for current and future pensioners	+/- 1 year	Increase/decrease in liabilities by £22m
Discount rate	+/- 0.1%	Decrease/increase in liabilities by £10m

RPI inflation rate	+/- 0.1%	Increase/decrease in liabilities by £8m
Pension increases in payment	+/- 0.1%	Increase/decrease in liabilities by £5m

Changes in RPI inflation impact pension increases both before retirement and in payment.

(h) Contributions to be paid

The Trustees have completed their 31 March 2013 triennial valuation of the Scheme, at which time they assessed the funding position to be a shortfall of approximately £24m. This shortfall was expected to be recovered through Company deficit contributions (£9.6m paid into the Scheme in the year ending 31 March 2014 and £2.4m paid into the Scheme in the year ending 31 March 2015) and the returns achievable on the assets of the Scheme.

No further contributions to the Scheme are expected to be made until the funding position is reviewed following the next actuarial valuation of Scheme, which is scheduled for 31 March 2016.

20. Provisions

	Property provisions £m	Other £m	Total £m
At 28 March 2014	20.5	5.0	25.5
Unwinding of discount	1.3	–	1.3
Charged to income statement	1.9	–	1.9
Utilised	(3.3)	–	(3.3)
At 27 March 2015	20.4	5.0	25.4

The property provisions principally relate to:

- the onerous leases on property currently vacant or sublet for less than the cost of the underlying head lease;
- the expected future dilapidation cost on leasehold properties; and
- the expected future costs of removing asbestos from leasehold properties. Although not a health risk, the Group is legally required to undertake a programme of removal.

Property provisions are discounted at 7.0% (2014: 7.0%), being the long term expected yield for the Group's leased properties and are expected to be utilised over the terms of the leases, with approximately £3.0m expected to be utilised in the year to March 2016.

Other provisions relate to third party property guarantees, for which the timing and quantum of payments is uncertain. Payment could be made on demand and the provision represents management's current estimate of the future liability.

21. Share capital

	Number of shares	Share capital £m
Allotted, called up and fully paid		
At 28 March 2014	1,743,092,647	17.4
Share options exchanged (see note 24)	1,076,999	0.1
Share options exercised (see note 24)	10,845,043	0.1
At end of period	1,755,014,689	17.6

The total authorised number of ordinary shares is 2,000,000,000 (2014: 2,000,000,000) with a par value of £0.01 per share.

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company.

6,661,793 ordinary shares in the Company (representing 0.38% of total shares issued) are held in trust by Booker EBT Limited, the trustee of the Booker Employee Benefit Trust which was established in 2006 to hold shares on a discretionary basis for the benefit of employees of the Group from time to time. There has been no movement in the number of shares held in the trust during the year.

22. Share capital and reserves

For movements in share capital and reserves please refer to the Consolidated Statement of Changes in Equity.

The merger reserve represents the capital adjustment required to reserves to effect the reverse acquisition.

The capital redemption reserve relates to the redemption of B shares, as described in note 23.

The other reserve represents the premium over the nominal value of the shares issued in relation to acquisitions less any returns of capital.

The share option reserve comprises the fair value of outstanding share options charged to the profit and loss account.

23. Dividends and return of capital

Dividends charged to reserves

	2015 £m	2014 £m
Final dividend of 2.75 pence per share (2014: 2.25 pence per share) paid in respect of the prior period	47.8	38.8
Interim dividend of 0.52 pence per share (2014: 0.45 pence per share) paid in respect of the current period	9.1	7.8
	56.9	46.6

The Directors are proposing a final dividend of 3.14 pence per share, which will absorb £55m of distributable reserves. Subject to shareholder approval at the AGM, to be held on 8 July 2015, the dividend will be paid on 10 July 2015 to shareholders on the register at 12 June 2015. The shares will go ex-dividend on 11 June 2015.

Return of Capital

On 21 July 2014 the Company issued 1,743,934,763 B shares that were redeemable by the shareholder.

On 22 July 2014 the Company redeemed 1,740,934,613 B shares for 3.5 pence per share (a total of £60.9m) and the shares were cancelled.

The 3,000,150 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 30 April 2015 for 3.5 pence per share. Following the redemption, such B shares were cancelled.

The Board is proposing to implement another capital return to shareholders of 3.50 pence per ordinary share (at a cost of approximately £62m, based on the current issued share capital of the company). It is proposed that this is achieved by the issue of a new class of 'B' shares. The return of capital requires the approval of shareholders, which will be sought at the AGM on 8 July 2015.

24. Share based payments

The Group has a number of share schemes for employees. The total charge for the period relating to employee share-based payments was £5.3m (2014: £4.3m), all of which related to equity-settled share based payment transactions.

a) Sharesave schemes

The Sharesave scheme has been in operation since 2008 and all employees are eligible to participate once the necessary service requirements have been met. Options are offered at a discount of 20% to the average of the market value of a share on the three dealing days immediately preceding the offer. Options are exercisable three years after the commencement of the savings contract and not more than six months thereafter. The options granted have been fair valued using the Black Scholes option pricing model, using the following assumptions:

	SAYE 2014	SAYE 2013	SAYE 2012
Grant date	November 2014	November 2013	December 2012
Share price at grant date	144.60p	156.30p	97.60p
Exercise price	94.61p	112.21p	79.21p
Expected volatility	25%	24%	26%
Expected life	3.2 years	3.2 years	3.2 years
Risk free rate	1.07%	0.91%	0.54%
Expected dividend yield	3.02%	1.77%	2.39%
Fair value at grant date	46.0p	44.0p	23.0p

b) Performance Share Plans (PSP)

In 2008 a discretionary PSP for the benefit of certain employees was established by the Remuneration Committee. The awards are free share-based awards and normally vest three years after the grant date, provided relevant performance criteria have been met.

PSP 2012, 2013 and 2014

The options granted in November 2012 (6.0 million options), October 2013 (4.2 million options) and October 2014 (6.9 million options) to senior employees all had the same conditions. They will vest and become exercisable three years from the date of the award subject to continued employment and the performance conditions mentioned below being satisfied and will lapse if not exercised within ten years of the date of award. The awards are granted in two tranches:

i) Earnings Per Share (EPS) condition

50% of each award will be linked to an absolute EPS performance target with 25% of this element vesting for achieving growth of 6% per annum and rising on a straight line basis with full vesting requiring 12% growth per annum, as measured at the year end prior to the grant and then 3 years later.

ii) Total Shareholder Return (TSR) condition

50% of each award will be linked to an Absolute TSR performance target with 25% of this element vesting for achieving growth of 8% per annum and rising on a straight line basis with full vesting requiring 15% growth per annum, when measured over the 3 years from the grant date.

PSP 2011

The awards under the PSP 2011 have vested and 4.2 million remain to be exercised.

PSP 2010 (a)

The awards under the PSP 2010 (a) have vested and 5.2 million remain to be exercised.

PSP 2010 (b)

In connection with his appointment to the board, Guy Farrant was granted a special performance share award (in the form of a nil-cost option) over 3.9 million shares. The award has now vested and 2.5 million remain to be exercised.

PSP 2008

The awards under the PSP 2008 have vested and 1.8 million remain to be exercised.

The options granted have been fair valued using the Monte Carlo option pricing model, using the following assumptions:

	PSP 2014	PSP 2013	PSP 2012	PSP 2011	PSP 2010[(a)]	PSP 2010[(b)]	PSP 2008
Grant date	Oct 14	Oct 13	Nov 12	Nov 11	Oct 10	Oct 10	Jul 08
Share price at grant date	121.40p	141.90p	99.30p	78.95p	53.75p	53.75p	23.75p
Expected volatility	25%	24%	26%	27%	30%	30%	25%
Expected life	3 years	3 years	3 years	3 years	3 years	1–3 years	2–3 years
Risk free rate	0.95%	0.89%	0.44%	0.7%	1.1%	1.1%	5.0%
Expected dividend yield	3.59%	1.90%	2.35%	2.2%	2.4%	2.4%	2.5%
Fair value of TSR component	32.0p	51.0p	33.0p	29.0p	23.5pc	31.8p	8.4p
Fair value of EPS component	109.0p	134.0p	93.0p	n/a	n/a	n/a	n/a

The terms and conditions of the outstanding share based payments are as follows:

		Grant date	Number (m)	Vesting period	Expiry date	Exercise price
SAYE 2014	SAYE to all staff	November 2014	7.9	3.2 year service	January 2018	94.61p
PSP 2014	Option granted to senior employees	October 2014	6.9	3 year service	October 2024	nil
SAYE 2013	SAYE to all staff	November 2013	5.9	3.2 year service	January 2017	112.21p
PSP 2013	Option granted to senior employees	October 2013	4.9	3 year service	October 2023	Nil
PSP 2012	Option granted to senior employees	November 2012	6.0	3 year service	November 2022	Nil
SAYE 2012	SAYE to all staff	December 2012	3.1	3.2 year service	February 2016	79.21p
PSP 2011	Option granted to senior employees	November 2011	4.2	Vested	November 2021	Nil
PSP 2010[(a)]	Option granted to senior employees	October 2010	5.2	Vested	October 2020	Nil
PSP 2010[(b)]	Option granted to senior employee	October 2010	2.5	Vested	October 2020	Nil
PSP 2008	Option granted to senior employees	July 2008 – July 2009	1.8	Vested	July 2018 – July 2019	Nil
			48.4			

The number and weighted average exercise price of options is as follows:

	2015		2014	
	Number of share options Million	Weighted average exercise price Pence	Number of share options Million	Weighted average exercise price Pence
Outstanding at beginning of period	49.4	33.0	52.2	16.0
Granted	14.9	51.2	12.7	64.2
Lapsed	(4.6)	69.7	(0.4)	34.8
Forfeited	(0.5)	–	(1.8)	–
Exercised	(10.8)	38.7	(13.3)	0.2
Outstanding at end of period	48.4	34.3	49.4	33.0
Exercisable at end of period	13.7		10.6	

Under the rules of the PSP 2010-2014 schemes, tax approved Company Share Option Plan ('CSOP') options were also granted with an exercise price equal to the market value of the shares at the time of grant.

During the period, employees forfeited 0.5m (2014: 1.8m) PSP options for 1.1m (2014: 2.7m) CSOP options, which were immediately exercised at a cost equal to the share price at the date the original PSP was granted.

25. Operating leases

The Group leases a number of trading properties under operating leases. The leases are typically of 5 to 15 years duration, although some have lessee only break clauses. Lease payments are reviewed as contracted and increases applied accordingly. The Group also leases certain items of plant and equipment.

Operating lease payments represent rents payable by the Group for certain of its wholesale, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, escalation charges and renewal rights.

At the balance sheet date, the Group had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Others	
	2015 £m	2014 £m	2015 £m	2014 £m
Within one year	52.0	51.6	10.3	9.3
Within two to five years	186.4	185.7	15.1	12.2
After five years	237.6	285.0	–	–
	476.0	522.3	25.4	21.5

The Group subleases various wholesale, distribution and office properties under non-cancellable operating leases. The total minimum operating sublease receipts expected to be received are as follows:

	2015 £m	2014 £m
Within one year	1.2	0.8
Within two to five years	1.0	1.5
After five years	1.6	1.7
	3.8	4.0

26. Capital commitments

The outstanding commitments at 27 March 2015 in respect of contracted capital expenditure not provided for amounted to approximately £2.1m (2014: £1.9m).

27. Related party transactions

Only members of the Board are key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group. Board compensation is disclosed in the Remuneration Report.

During the year, there were no transactions or balances between the Group and its key management personnel or members of their close family apart from:

- the Group purchases stock from:
  - Molson Coors Brewing Co (UK) Ltd – Lord Bilimoria is the Chairman of the Cobra Beer Partnership Ltd, a joint venture with Molson Coors Brewing Co (UK) Ltd;
  - C&C Group plc, of which Stewart Gilliland is a Non-Executive Director;
  - Tulip Ltd, of which Stewart Gilliland is a Non-Executive Director;
  - Boparan Holdings Ltd, of which Andrew Cripps is a Non-Executive Director.
- and the Group sells stock to:
  - Mitchells & Butlers plc, of which Stewart Gilliland is a Non-Executive Director;
  - Food & Fuel Ltd, of which Karen Jones is the Chairman.

All transactions with related parties involve the normal supply of goods and are priced on an arm's length basis.

28. Post balance sheet events

On 20 May 2015, the Group signed a sale and purchase agreement to acquire the entire issued share capital of Musgrave Retail Partners GB Ltd for £40m, to be satisfied in cash. Completion of the acquisition is conditional on the approval of the Competition and Markets Authority.

Independent auditor's report

To the members of Booker Group plc only

Opinions and conclusions arising from our audit

OUR OPINION ON THE FINANCIAL STATEMENTS IS UNMODIFIED

We have audited the financial statements of Booker Group plc for the period ended 27 March 2015 set out on pages 58 to 92. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 27 March 2015 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

OUR ASSESSMENT OF RISKS OF MATERIAL MISSTATEMENT

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit were as follows:

Valuation of the defined benefit pension scheme

Refer to page 27 (Audit Committee Report), page 65 (accounting policy) and page 82 (financial disclosures).

The risk – Significant estimates are made in valuing the Group's post-retirement defined benefit scheme, including in particular the discount rate used to discount the retirement benefit obligation, the inflation assumptions adopted and the assumptions in respect of mortality. Small changes in the assumptions used in the valuation of the Group's net pension deficit could have a significant effect on the results and financial position of the Group.

Our response – In this area our audit procedures included testing of the controls over the maintenance of the scheme's membership data, as well as sample testing from that data to the source documentation establishing the obligation to members, and vice versa. With the support of our own actuarial specialists, we then challenged the key assumptions applied to that data to determine the Group's net deficit. This included a comparison of these key assumptions against external market data, where appropriate, such as bond yield curves of comparable duration to the Group's scheme. In addition, we developed an expectation for the amount of benefits paid in the year and compared that with the amount actually paid.

We also considered the adequacy of the Group's disclosures in relation to the pension scheme.

Measurement of onerous lease provisions

Refer to page 27 (Audit Committee Report), page 68 (accounting policy) and page 84 (financial disclosures).

The risk – The Group has recorded provisions at the year end in respect of onerous leases for vacant properties. The estimation of these provisions at each period end requires a significant degree of judgement and the application of certain assumptions, including the expected cash flows associated with the properties over the remaining lease term, the expected utilisation of the properties, and the rate used to discount future cash flows to account for the time value of money. As such there is a risk that the provision, and associated charges or credits in the statement of comprehensive income, are materially misstated through the use of inappropriate assumptions.

Our response – Our procedures included, for a sample of properties, critically evaluating the underlying assumptions applied by the Directors. In doing so we compared the underlying assumptions described above to the Group's supporting information, including the individual circumstances relevant to each property and the Directors' expectations going forward. We read Board minutes to compare the assumptions in relation to the proposed usage of the properties with the documented plans noted in those minutes, where available. We held enquiries with the Group's internal qualified property specialists in relation to the key assumptions within the calculations, including the discount rate and the forecasts for sublet income within the calculations where the Directors' are expecting to sublet vacant properties to third parties. We critically evaluated the discount rate used to discount forecast cash flows associated with the properties, through the utilisation of our valuation specialist, and by evaluating the sensitivity of the provisions to changes in the rate used. We performed additional sensitivity analysis to understand the impact of changes to other key assumptions within the calculation of the provisions, including forecast cash outflow and inflow assumptions and property utilisation rates. We also re-performed the calculation of the provisions to ensure that they had been calculated correctly and that the discounting of the cash flows had been correctly performed.

OUR APPLICATION OF MATERIALITY AND AN OVERVIEW OF THE SCOPE OF OUR AUDIT

The materiality for the Group financial statements as a whole was set at £7.1m, determined with reference to a benchmark of Group profit before tax of £138.8m, of which it represents 5.1%.

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m, in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's seven reporting components, we subjected three to audits for Group reporting purposes and the remaining four to reviews (including enquiry) of financial information. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but provided us with additional audit coverage. Our work covered 100% of the Group's profit before tax, revenues and total assets.

The Group audit team carried out the work on all the components at the Group's offices in Wellingborough, Deeside and Eccles. Component materialities ranged between £5m and £6m.

OUR OPINION ON OTHER MATTERS PRESCRIBED BY THE COMPANIES ACT 2006 IS UNMODIFIED

In our opinion:

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

WE HAVE NOTHING TO REPORT IN RESPECT OF THE MATTERS ON WHICH WE ARE REQUIRED TO REPORT BY EXCEPTION

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they 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 performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 17, in relation to going concern; and
- the part of the Corporate Governance Statement on page 20 relating to the Company's compliance with the ten provisions of the 2012 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 55, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Nicola Quayle (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE
20 May 2015

SECTION B: HISTORICAL FINANCIAL INFORMATION RELATED TO BOOKER GROUP FOR THE 52 WEEKS ENDED 25 MARCH 2016

Consolidated Income Statement

For the 52 weeks ended 25 March 2016

		52 weeks ended 25 March 2016			52 weeks ended 27 March 2015
	Note	Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	Total £m
Revenue		4,991.5	–	4,991.5	4,753.0
Cost of sales		(4,737.9)	–	(4,737.9)	(4,524.8)
Gross profit		253.6	–	253.6	228.2
Administrative expenses		(98.5)	(2.3)	(100.8)	(87.9)
Operating profit		155.1	(2.3)	152.8	140.3
Finance costs	6	(2.6)	–	(2.6)	(2.0)
Finance income	6	0.6	–	0.6	0.5
Profit before tax	4	153.1	(2.3)	150.8	138.8
Tax	7	(23.0)	–	(23.0)	(21.1)
Profit for the period attributable to the owners of the Group		130.1	(2.3)	127.8	117.7
Earnings per share (Pence)					
Basic	8			7.24p	6.73p
Diluted	8			7.15p	6.63p

All of the Group's operations during the period shown above represent continuing operations.

There were no exceptional items in the period ended 27 March 2015.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 25 March 2016

	Note	52 weeks ended 25 March 2016 £m	52 weeks ended 27 March 2015 £m
Profit for the period		127.8	117.7
Items that will not be reclassified to profit or loss			
Remeasurements of the pension scheme	18	(23.0)	(18.5)
Tax on pension scheme remeasurements	7, 13	3.1	3.7
Total other comprehensive expense		(19.9)	(14.8)
Total comprehensive income for the period attributable to the owners of the Company		107.9	102.9

Consolidated Balance Sheet

As at 25 March 2016

	Note	52 weeks ended 25 March 2016 £m	52 weeks ended 27 March 2015 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	229.8	207.1
Intangible assets	11	466.7	439.8
Investment in joint venture	12	1.5	1.4
Deferred tax asset	13	25.3	28.1
		723.3	676.4
Current assets			
Inventories	14	354.1	328.1
Trade and other receivables	15	180.9	124.5
Cash and cash equivalents		127.4	147.0
		662.4	599.6
Total assets		1,385.7	1,276.0
LIABILITIES			
Current liabilities			
Trade and other payables	16	(677.9)	(586.0)
Current tax		(21.2)	(19.9)
		(699.1)	(605.9)
Non-current liabilities			
Other payables	16	(26.0)	(26.9)
Retirement benefit liabilities	18	(29.6)	(19.7)
Provisions	19	(40.8)	(25.4)
		(96.4)	(72.0)
Total liabilities		(795.5)	(677.9)
Net assets		590.2	598.1
EQUITY			
Share capital	20	17.7	17.6
Share premium		44.0	41.2
Merger reserve		260.8	260.8
Capital redemption reserve		122.8	60.9
Other reserves		14.0	75.8
Share option reserve		12.4	11.2
Retained earnings		118.5	130.6
Total equity attributable to the owners of the Company		590.2	598.1

These financial statements were approved by the Board of Directors on 18 May 2016 and were signed on its behalf by:

Charles Wilson Director

Jonathan Prentis Director

Consolidated Cash Flow Statement

For the 52 weeks ended 25 March 2016

	Note	52 weeks ended 25 March 2016 £m	52 weeks ended 27 March 2015 £m
Cash flows from operating activities			
Profit before tax		150.8	138.8
Depreciation	10	23.5	20.3
Amortisation	11	1.2	0.9
Net finance costs		2.0	1.5
Loss on disposal of property, plant and equipment		0.1	0.2
Equity settled share based payments		6.9	5.3
Decrease/(increase) in inventories		4.0	(0.5)
Increase in debtors		(7.7)	(10.9)
Increase/(decrease) in creditors		19.8	(1.9)
Contributions to pension scheme	18	(0.8)	(2.4)
Decrease in provisions	19	(5.7)	(1.4)
Net cash flow from operating activities		194.1	149.9
Net interest paid		(0.2)	(0.2)
Tax paid		(18.8)	(15.1)
Cash generated from operating activities		175.1	134.6
Cash flows from investing activities			
Acquisition of property, plant and equipment		(25.2)	(23.6)
Acquisition of subsidiary, net of cash acquired	9	(44.5)	–
Acquisition of intangible asset		(1.0)	(1.0)
Investment in joint venture		(0.1)	(0.3)
Sale of property, plant and equipment		0.3	0.5
Net cash outflow from investing activities		(70.5)	(24.4)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		2.9	5.0
Redemption of B shares	22	(61.9)	(60.9)
Dividends paid	22	(65.2)	(56.9)
Net cash outflow from financing activities		(124.2)	(112.8)
Net decrease in cash and cash equivalents		(19.6)	(2.6)
Cash and cash equivalents at the start of the period		147.0	149.6
Cash and cash equivalents at the end of the period		127.4	147.0

Reconciliation of net cash flow to movement in net cash in the period

	£m	£m
Net decrease in cash and cash equivalents	(19.6)	(2.6)
Opening net cash	147.0	149.6
Net cash at the end of the period	127.4	147.0

Consolidated Statement of Changes in Equity

52 weeks ended 25 March 2016

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 27 March 2015		17.6	41.2	260.8	60.9	75.8	11.2	130.6	598.1
Profit for the period		–	–	–	–	–	–	127.8	127.8
Remeasurements of the pension scheme	18	–	–	–	–	–	–	(23.0)	(23.0)
Tax on pension scheme remeasurements	7, 13	–	–	–	–	–	–	3.1	3.1
Total comprehensive income for the period		–	–	–	–	–	–	107.9	107.9
Transactions with owners:									
Dividends to shareholders	22	–	–	–	–	–	–	(65.2)	(65.2)
Issue B shares	22	–	–	–	–	(61.8)	–	–	(61.8)
Redemption of B shares	22	–	–	–	61.9	–	–	(61.9)	–
Share options exercised		0.1	2.8	–	–	–	(5.7)	5.7	2.9
Share based payments	23	–	–	–	–	–	6.9	–	6.9
Tax on share schemes	7	–	–	–	–	–	–	1.4	1.4
Total transactions with owners		0.1	2.8	–	61.9	(61.8)	1.2	(120.0)	(115.8)
At 25 March 2016		17.7	44.0	260.8	122.8	14.0	12.4	118.5	590.2

52 weeks ended 27 March 2015

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 28 March 2014		17.4	36.4	260.8	–	136.8	8.5	136.7	596.6
Profit for the period		–	–	–	–	–	–	117.7	117.7
Remeasurements of the pension scheme	18	–	–	–	–	–	–	(18.5)	(18.5)
Tax on pension scheme remeasurements	7, 13	–	–	–	–	–	–	3.7	3.7
Total comprehensive income for the period		–	–	–	–	–	–	102.9	102.9
Transactions with owners:									
Dividends to shareholders	22	–	–	–	–	–	–	(56.9)	(56.9)
Issue B shares	22	–	–	–	–	(61.0)	–	–	(61.0)
Redemption of B shares	22	–	–	–	60.9	–	–	(60.9)	–
Share options exercised		0.2	4.8	–	–	–	(2.6)	2.6	5.0
Share based payments	23	–	–	–	–	–	5.3	–	5.3
Tax on share schemes	7	–	–	–	–	–	–	6.2	6.2
Total transactions with owners		0.2	4.8	–	60.9	(61.0)	2.7	(109.0)	(101.4)
At 27 March 2015		17.6	41.2	260.8	60.9	75.8	11.2	130.6	598.1

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. General information

a) Overview

Booker Group plc is a public limited company incorporated in the United Kingdom (Registration number 05145685). The Company is domiciled in the United Kingdom and its registered address is Equity House, Irthlingborough Road, Wellingborough, Northamptonshire, NN8 1LT. The nature of the Group's operations and its principal activities are set out in the Strategic and Directors' Reports.

b) Basis of accounting

In accordance with EU law (IAS Regulation EC 1606/2002), the group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') adopted for use in the EU as at 25 March 2016 ('adopted IFRS'), International Financial Reporting Interpretations Committee ('IFRIC') interpretations and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The Company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ('UK GAAP') including FRS101 'Reduced Disclosure Framework'.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group').

The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements are presented in Sterling and rounded to the nearest hundred thousand.

The financial statements for the current period have been prepared for a 52 week period to reflect internal management reporting.

c) Basis of consolidation

On 4 June 2007 the Company, then named Blueheath Holdings plc, became the legal parent company of Giant Topco Limited in a share-for-share transaction. Due to the relative values of the companies, the former Giant Topco Limited shareholders became the majority shareholders with 90.36% of the enlarged share capital. As part of the business combination Blueheath Holdings plc changed its name to Booker Group plc and changed its accounting reference date to 31 March. Following the transaction, the Company's continuing operations and executive management were predominantly those of Booker Wholesale Holdings Limited. IFRS3 'Business Combinations' defines the acquirer in a business combination as the entity that obtains control. Accordingly, the combination was accounted as a reverse acquisition i.e. as if Giant Topco Limited had acquired Blueheath Holdings plc in return for consideration equal to the fair value of the shares issued.

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power to direct the relevant activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

d) Accounting standards adopted in the period

The following Adopted IFRSs have been issued and applied by the Group in these financial statements for the first time. Their adoption does not have a material effect on the financial statements unless otherwise indicated:

New standards: None

Amendments and interpretations:

- Amendments to IAS19 'Defined benefit plans: Employee contributions'
- Annual Improvements to IFRSs 2010-12 cycle
- Annual Improvements to IFRSs 2011-13 cycle

Their adoption does not have a material effect on the financial statements.

e) New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period but have not yet been endorsed by the European Union as follows:

	Effective for accounting periods starting on or after
IFRS14 'Regulatory Deferral Accounts'	1 January 2016
Amendments to IFRS10, IFRS12 and IAS28 'Investment Entities: Applying the Consolidation Exception'	1 January 2016
Amendments to IAS16 and IAS28 'Clarification of Acceptable Methods of Depreciation and Amortisation'	1 January 2016
Amendments to IFRS11 'Accounting for Acquisitions of Interests in Joint Operations'	1 January 2016
IFRS15 'Revenue from Contracts with Customers'	1 January 2018
IFRS9 'Financial Instruments'	1 January 2018
IFRS16 'Leases'	1 January 2019

The application of these standards and interpretations is not anticipated to have a material effect on the Group's financial statements, other than IFRS16 'Leases' which is currently being assessed.

f) Going concern

The risks noted in the Strategic Report are those known to the Directors at the date of this Report which the Directors consider to be material to the Group, but these do not necessarily comprise all the risks to which the Group is exposed. In particular, the Group's performance could be adversely affected by poor economic conditions. Additional risks and uncertainties currently unknown to the Directors, or which the Directors currently believe are immaterial, may also have a material adverse effect on the business, financial condition or prospects of the Group.

In August 2015, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. At the period end, the Group had net cash of £127.4m. In addition, the Group complied with all its covenants during the year. The Group's forecasts and projections, taking account of possible changes in trading performance and considering the risks identified, show that the Group should be able to operate within the level of its bank facility.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Group and Company financial statements.

g) Use of assumptions and estimates

The preparation of accounts in accordance with generally accepted accounting principles requires the Directors 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 considered to be reasonable under the circumstances, the results of which form the basis of making the estimates about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Some of these policies require a high level of judgement and the Directors believe that the most critical accounting policies and significant areas of judgement and estimation arise from the accounting for:

- IAS37 'Provisions, contingent liabilities and contingent assets'. The Group is party to a number of leases on properties that are no longer required for trading. Judgement is applied in determining whether leases are onerous. Whilst every effort is made to profitably sub-let these properties, it is not always possible to do so. Where a lease is onerous to the Group, a provision is established for the difference between amounts contractually payable to the landlord and amounts contractually receivable from the tenant (if any). In addition, provisions exist for the expected future dilapidation cost on leasehold properties and the expected future costs of removing asbestos from leasehold properties. The Directors consider that their estimates, which are based upon the advice of an in-house property department who monitor the UK property market, are appropriate.

- IFRS3 'Business Combinations'. Following the acquisition of Booker Retail Partners (GB) Limited and its subsidiaries, the Directors are required to fair value the assets and liabilities at the date of acquisition. There is an exercise of judgement involved in identifying and valuing the assets acquired. A summary of the assets and liabilities and the fair value adjustments are disclosed in note 9.

- IAS19 'Employee benefits'. Defined benefit schemes are accounted for in accordance with the advice of an independent qualified actuary but significant estimates are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and mortality that underpin their valuations. Sensitivities in relation to key assumptions are disclosed in note 18.

- IAS36 'Impairment of assets'. In testing for impairment of goodwill and other assets, the Directors make judgements in determining the cash generating units ('CGUs') within the Group and allocating goodwill to these CGUs. They then make assumptions concerning the future development of the CGUs that are consistent with its annual budget and forecast into perpetuity. Should these assumptions regarding the discount rate or growth in the profitability be unfounded then it is possible that goodwill included in the balance sheet could be impaired. At 25 March 2016, the Directors do not consider that any reasonably likely changes in key assumptions would cause the carrying value of the goodwill to become impaired. Sensitivities in relation to key assumptions are disclosed in note 11.

- IAS12 'Income Taxes'. In applying the Group's accounting policy in relation to deferred tax, as set out below, the Directors are required to make assumptions regarding the Group's ability to utilise historical tax assets following an assessment of the likely quantum and timing of future taxable profits. A deferred tax asset is recognised to the extent that the Directors are confident that the Group's future profits will utilise historical tax assets. Similarly, the Directors are required to make an assessment of the quantum and timing of any future utilisation of Advanced Corporation Tax ('ACT') and will only recognise ACT when they are certain that it can be utilised.

2. Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Intangible assets

a) Business combinations and goodwill

Subject to the transitional relief in IFRS1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 April 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is capitalised and is subject to an impairment review, both annually and when there are indications that its carrying value may not be recoverable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

b) Other intangibles

Customer relationships and know-how are capitalised and amortised on a straight-line basis over 5 years, which is considered to be the useful economic life, and charged to administrative expenses.

Revenue

Revenue is recognised when goods are received by the customer and the risks and rewards of ownership have passed to them. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods net of discounts, volume rebates and value added tax. Discounts are accounted for in the period they are earned. Provision is made for expected customer returns.

Cost of sales

Cost of sales represents all costs incurred, net of supplier rebates (see below), up to the point of sale including the operating expenses of the trading outlets.

Supplier rebates

A number of different types of rebate are negotiated with suppliers in connection with the purchase of goods for resale.

Such rebates are only recognised when earned by the Group, which occurs when all obligations conditional for earning the rebate have been discharged, and the rebate can be measured reliably based on the terms of the contract. These rebates are recognised as a credit within cost of sales and, to the extent that the rebate relates to unsold stock purchases, as a reduction in the cost of inventory.

There are two main types of supplier rebates:

a) Terms, which are generally annual agreements (not always coterminous with the Group's year end), are signed by the Group and the supplier. Rebates are determined relative to volumes purchased or by other conditional arrangements as follows:

- Volume based rebates include overriders, advertising allowances and targeted income. Rebates are accrued based on the Group's purchasing volumes and the current agreement with the supplier. Amounts are recognised once confirmation of agreement to that rebate has been received from the supplier
- Non-volume based rebates include marketing support, range promotion and product development. Amounts are recognised when the rebate is earned through the completion of any required obligations and confirmed by suppliers
- Invoices are issued to suppliers periodically, quarterly or annually, depending on the terms of the agreement.

b) Promotional funding, which relates to price investments by suppliers through promotional activity. The calculation of funding is mechanical and based on a formula agreed in advance of each promotion with the supplier. Funding is recognised in the Income Statement as units are sold and is invoiced throughout the year, shortly after each promotion has ended.

Amounts relating to supplier rebates appear in a number of different balance sheet headings at the year end:

- Inventories: Where the rebate earned relates to inventories which are held by the Group at year end, the rebates are deducted from the cost of those inventories
- Trade receivables: Billed supplier rebates outstanding at the period end where the Group has no legal right to offset against trade payables
- Trade payables: Billed supplier rebates outstanding when the Group has a legal right to offset against payables
- Prepayments and accrued income: amounts due from suppliers in relation to supplier rebates which has been recognised but not yet invoiced
- Accruals and deferred income: amounts received in relation to supplier rebates that have not been earned at the year end

Employee benefits

a) Share based payments

The Group has issued equity settled share based payments to certain employees in exchange for services rendered by them. The fair value is measured using an option valuation model at the date of grant and is recognised as an employee expense over the period in which the employees become unconditionally entitled to the options, with a corresponding increase in equity, shown in a separate share option reserve. This valuation is based on estimates of the number of options that will eventually vest, based on related service and non-market vesting conditions that are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

b) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

c) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The defined benefit obligation calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses were recognised as at 1 April 2006, the date of transition to Adopted IFRSs. In respect of actuarial gains and losses that arise subsequent to 1 April 2006 the Group recognises them in the period they occur directly in other comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Under IAS 19 (2011), the Group determines the net interest expense/(income) for the period on the net defined benefit liability/asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contributions and benefit payments.

d) Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Exceptional items

As permitted by IAS1 'Presentation of financial statements', an item is disclosed separately if it is considered unusual by its nature and scale, and is of such significance that separate disclosure is required for the financial statements to be properly understood. Such items are referred to as exceptional items.

Financial instruments

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, available for sale financial assets, cash and cash equivalents, loans and borrowings, and trade and other payables.

a) Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

b) Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits repayable on demand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

d) Interest-bearing borrowings

Interest bearing borrowings are recognised in the balance sheet at amortised cost. Costs associated with extending the bank facility have been recognised in the income statement. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Guarantees

Third party property guarantees are initially recognised as a financial liability under IAS37 'Provisions, Contingent Liabilities and Contingent Assets'. These are measured and recognised at fair value. These property guarantees are included within 'Provisions' on the balance sheet.

Impairment

The carrying values of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any impairment. In performing the impairment reviews, the asset's recoverable amount is estimated and compared to the carrying amount.

An impairment loss is recognised to the extent that the carrying value of an asset exceeds its recoverable amount and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on either the weighted average principle or the FIFO basis and includes certain warehousing and distribution costs incurred in bringing the inventory to their existing location and condition less attributable supplier volume rebates (see above). Net realisable value is the estimated selling price less the estimated costs of disposal.

Investment in joint ventures

The Group conducts its joint venture arrangements through jointly controlled entities and accounts for them using the equity method of accounting. The Group records its share of the joint controlled entities' post tax profit or loss within the income statement and its share of the net assets within investments. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Where a lease has a minimum fixed increase, the total minimum lease payments are spread over the lease term. The total amount payable over the life of the lease remains unchanged but the timing of the income statement charge relative to the lease payments change. The excess of the rent charged over the cash payment in any period will be held on the balance sheet within 'Accruals and deferred income'.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Operating segments

IFRS8 'Operating Segments' requires that segments should be reported on the same basis as the internal reporting information that is provided to the Chief Operating Decision Maker ('CODM'). The CODM has been identified as the CEO. In accordance with IFRS8, the Group may aggregate operating segments into one reportable segment to the extent that the criteria for aggregation in IFRS8 are met. These criteria include consideration of whether the operating segments have similar economic characteristics; similar nature of products and services; similar type or class of customers; similar methods used to distribute products or provide services; and similar regulatory environments.

The CODM receives turnover information analysed in a number of different ways (for example by customer and product types, by delivery channels and between Wholesale, Booker Direct, Chef Direct, and Ritter-Courivaud). However, none of these 'possible' segments have a unique management structure, products share the same supply chain and distribution channels, and there are a large amount of supplier rebates, expenses and assets/(liabilities) that are not specific. It is therefore not possible to analyse, and the CODM does not receive, information in respect of profitability or balance sheets in the same way in which turnover is analysed. Internal reports reviewed regularly by the CODM focus on the operations of the Group as a whole and report the results and financial position on an IFRS basis.

As a result, the Group has not disclosed discrete financial information about any of the 'possible segments', which in any event would meet the criteria for aggregation under IFRS8, separately in these financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Labour and associated costs that have been incurred specifically on the 'Extra' business centre conversions have been capitalised in leasehold improvements and are being depreciated over the lesser of 10 years or the number of years remaining on the lease.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Freehold buildings — 30 years
- Leasehold improvements — lesser of the unexpired term of the lease and 50 years
- Plant and equipment — 3–20 years
- Motor vehicles — 4 years

Freehold land is not depreciated.

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administrative expenses.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax rate that reflects the time value of money and the risks specific to the liability.

Taxation

Tax expense included in the Income Statement comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity, or to the extent it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets (excluding goodwill) and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity. Deferred tax assets are only recognised to the extent that, following an assessment of the quantum and timing of future taxable profits, it is probable that future 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 the amount which is recognised is increased or reduced to the extent that it is then probable or no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

3. Segmental reporting

The Group has considered the principles of IFRS8 as well as its internal reporting, management and operating structure. The Directors' conclusion is that the Group has a single reportable segment, that of wholesaling activities.

Other than the operation in India (which is immaterial), all of the Group's revenue originates from the UK. The functional currency of the Indian operation is Rupees.

The Group has no significant reliance on any individual customers.

4. Profit before tax

This is stated after charging:

	2016 £m	2015 £m
Depreciation of property, plant and equipment (see note 10)	23.5	20.3
Amortisation of intangibles (see note 11)	1.2	0.9
Operating lease rentals – land and buildings	55.0	48.0
Operating lease rentals – plant and machinery	20.4	15.9
During the period, the Group incurred the following costs for services provided by the Company's auditor:		
Audit fees for the Company and the consolidated financial statements	0.1	0.1
Audit of subsidiary companies	0.4	0.2
Total audit fees	0.5	0.3
Taxation advisory services	0.1	–
Corporate finance and transaction services	0.2	–
	0.8	0.3

Exceptional items

	2016 £m	2015 £m
Included within administrative expenses:		
Restructuring costs	4.0	–
Acquisition costs	2.3	–
Release of other provisions (see note 19)	(4.0)	–
	2.3	–

Restructuring costs of £4.0m relate primarily to redundancy costs to align staffing levels across the branch network. Acquisition costs were incurred during the acquisition of BRP (see note 9) and were, in the main, fees in relation to legal and professional services. The £4.0m release of other provisions stems from a reassessment of the likelihood of crystallisation of certain liabilities reserved for many years ago.

5. Staff numbers and costs

The average number of persons employed by the Group during the period (including Booker Retail Partners (GB) Limited from 14 September 2015), was as follows:

	2016 Number	2015 Number
Business centre, distribution and selling	12,042	11,946
Administration	1,102	868
	13,144	12,814

The aggregate payroll costs of these persons (including Booker Retail Partners (GB) Limited from 14 September 2015) were as follows:

	£m	£m
Wages and salaries	261.3	237.8
Social security costs	21.3	21.1
Equity settled share based payments	6.9	5.3
Other pension costs	6.4	5.3
	295.9	269.5

Details of Directors' remuneration are provided in the Remuneration Report.

6. Finance costs and income

	2016 £m	2015 £m
Interest on bank loans and overdrafts	(0.8)	(0.7)
Interest on pension scheme liabilities	(0.5)	–
Unwinding of discount on property provisions (see note 19)	(1.3)	(1.3)
Finance costs	(2.6)	(2.0)
Bank interest receivable	0.6	0.5
Finance income	0.6	0.5
Net finance costs	(2.0)	(1.5)

7. Tax

i) Analysis of charge in the period

	2016 £m	2015 £m
Arising in respect of current period		
Current tax	27.7	26.2
Deferred tax	(1.7)	0.5
	26.0	26.7
Arising in respect of prior periods		
Overstatement in respect of prior period current tax	(3.6)	(5.3)
Over/(understatement) in respect of prior period deferred tax asset	0.6	(0.3)
	(3.0)	(5.6)
Total tax charge	23.0	21.1

UK corporation tax is calculated at 20% (2015: 21%) of the estimated assessable profit for the period. Taxation in other jurisdictions is calculated at the rates prevailing in respective jurisdictions.

ii) Reconciliation of effective tax rate

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2016 £m	2015 £m
Profit after exceptional items and tax	150.8	138.8
Tax using the current UK corporation tax rate of 20% (2015: 21%)	30.2	29.1
Non-deductible expenses	0.6	1.7
Over/(understatement) of prior year deferred tax asset	0.6	(0.3)
Overstatement of prior year current tax	(2.1)	(2.8)
Overstatement of prior year current tax – ACT utilisation	(1.5)	(2.5)
Recognition/utilisation of previously unrecognised tax losses	(6.1)	(4.1)
Impact of change in future tax rates	1.3	–
Total tax charge	23.0	21.1
Effective tax rate	15.3%	15.2%

iii) Tax in the statement of comprehensive income

	2016 £m	2015 £m
Deferred tax credit on:		
Pension scheme remeasurements	3.1	3.7

iv) Tax in the statement of changes in equity

	2016 £m	2015 £m
Deferred tax credit on share options granted	(2.6)	4.5
Current tax credit on share options exercised	4.0	1.7
	1.4	6.2

v) Factors that may affect future current and total tax charge

Reductions in the UK corporation tax rate from 23% to 21% (effective from 1 April 2014) and 20% (effective from 1 April 2015) were substantively enacted on 2 July 2013. Further reductions to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015. The deferred tax asset at 25 March 2016 has been calculated based on these rates.

An additional reduction to 17% (effective from 1 April 2020) was announced in the Budget on 16 March 2016. This, if enacted, will reduce the group's future current tax charge and the value of its deferred tax asset accordingly.

8. Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the owners of the Group by the weighted average number of ordinary shares outstanding during the period.

	2016	2015
Profit for the period attributable to the owners of the Group (£m)	127.8	117.7
Weighted average number of shares (m)	1,765.2	1,748.1
Basic earnings per share (pence)	7.24p	6.73p

b) Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue adjusted by dilutive outstanding share options and dilutive shares issuable under the Group's share plans. The number of shares included in the diluted EPS in relation to the SAYE and the share option schemes has been calculated in accordance with IAS33 'Earnings per Share'.

	2016	2015
Profit for the period attributable to the owners of the Group (£m)	127.8	117.7
Weighted average number of shares (m) used in basic EPS	1,765.2	1,748.1
Effects of employee share options (m)	22.4	26.7
Weighted average number of shares (m) used in diluted EPS	1,787.6	1,774.8
Diluted earnings per share (pence)	7.15p	6.63p

9. Business combination

On 14 September 2015, the Group acquired the entire share capital of Musgrave Retail Partners GB Limited and its subsidiaries ('Budgens and Londis') for £40m on a cash/debt free basis with a normalised working capital level. This resulted in overall consideration of £110.9m being the sum of £40.0m plus net cash acquired of £66.4m and a working capital adjustment of £4.5m. Originally, it was acquired by Booker Group plc, but this was subsequently transferred to Booker Wholesale Holdings Ltd.

Through Booker, Budgens and Londis coming together, the Group seeks to become the UK's leading wholesaler to independent retailers by:

- combining the best ranges from Booker, Budgens and Londis to improve the overall choice;
- consolidating buying volumes to improve prices for customers; and
- better utilisation of the supply chain network to reduce costs.

The acquisition had the following effect on the Group's assets and liabilities:

	Book value £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	18.6	2.8	21.4
Inventories	30.9	(0.9)	30.0
Trade and other receivables	53.2	(4.5)	48.7
Cash & cash equivalents	66.4	–	66.4
Trade and other payables	(71.7)	(0.6)	(72.3)
Provisions	(15.8)	(4.0)	(19.8)
Retirement benefit asset	2.3	10.5	12.8
Deferred tax liability	–	(4.4)	(4.4)
Net fair value of identifiable assets and liabilities	83.9	(1.1)	82.8
Goodwill			28.1
Cash consideration			110.9

The fair value adjustments made on acquisition have primarily had the effect of:

- increasing the property valuations;
- increasing the pension surplus to reflect valuations of the schemes in accordance with IAS19;
- increasing provisions in respect of rents that are not in line with the market rent; and
- providing for deferred tax liabilities in respect of the above adjustments.

The goodwill is underpinned by the synergies that the Group is expected to obtain from improved cost prices from suppliers and logistics efficiencies. None of the goodwill recognised will be deductible for tax purposes.

In the 28 weeks to 25 March 2016, BRP contributed turnover of £340.9m and, a loss (before synergies and accounting policy alignment) before interest, tax and exceptional items of £7.5m.

Turnover for the 52 weeks to 25 March 2016 was £680.0m with a loss (before synergies and accounting policy alignment) before interest, tax and exceptional items of £9.7m.

10. Property, plant & equipment

	Freehold land and buildings £m	Leasehold improve-ments £m	Plant, equipment & vehicles £m	Total £m
Cost				
At 28 March 2014	109.2	75.4	272.3	456.9
Additions	1.3	6.4	15.9	23.6
Disposals	(0.5)	–	(1.3)	(1.8)
Reclassification	(6.6)	7.0	(0.4)	–
At 27 March 2015	103.4	88.8	286.5	478.7
Additions	0.5	8.4	16.3	25.2
Disposals	(1.8)	(0.2)	(3.1)	(5.1)
Reclassification	–	0.5	(0.5)	–
Acquired	10.0	2.8	8.6	21.4
At 25 March 2016	**112.1**	**100.3**	**307.8**	**520.2**
Depreciation				
At 28 March 2014	3.0	40.7	208.7	252.4
Charge for the period	3.7	5.3	11.3	20.3
Disposals	–	–	(1.1)	(1.1)
At 27 March 2015	6.7	46.0	218.9	271.6
Charge for the period	2.5	6.9	14.1	23.5
Disposals	(1.7)	(0.1)	(2.9)	(4.7)
At 25 March 2016	**7.5**	**52.8**	**230.1**	**290.4**
Net book value				
At 25 March 2016	**104.6**	**47.5**	**77.7**	**229.8**
At 27 March 2015	96.7	42.8	67.6	207.1
At 28 March 2014	106.2	34.7	63.6	204.5

The cost of freehold land and buildings includes land of £49.0m (2015: £47.0m) on which depreciation is not provided.

11. Intangible assets

	Goodwill £m	Customer relationships £m	Know-how £m	Total £m
Cost				
At 28 March 2014	436.4	0.5	3.0	439.9
Additions	–	–	2.0	2.0
At 27 March 2015	436.4	0.5	5.0	441.9
Additions	28.1	–	–	28.1
At 25 March 2016	**464.5**	**0.5**	**5.0**	**470.0**
Amortisation				
At 28 March 2014	–	0.4	0.8	1.2
Charge for the period	–	0.1	0.8	0.9
At 27 March 2015	–	0.5	1.6	2.1
Charge for the period	–	–	1.2	1.2
At 25 March 2016	**–**	**0.5**	**2.8**	**3.3**
Net book value				
At 25 March 2016	**464.5**	**–**	**2.2**	**466.7**
At 27 March 2015	436.4	–	3.4	439.8
At 28 March 2014	436.4	0.1	2.2	438.7

Goodwill arose in the Group from the following:

- the acquisition of Budgens and Londis in September 2015 (see note 9);
- the acquisition of the Big Food Group Limited by Giant Topco Limited in February 2005; and
- the acquisition of Ritter-Courivaud Limited in October 2010.

During the prior period, the Group paid £1m, with a further £1m of contingent consideration payable in accordance with the procurement agreement with Provenance Too Limited which holds the intellectual property in Provenance Limited. Provenance Too Limited has no other assets or liabilities and the entire consideration has been classified as know-how, since the Group has acquired expertise in the sourcing and supply of 'Fruit and vegetables'.

Under IAS36 'Impairment of Assets', the Group is required to test goodwill for impairment at least annually, or more frequently if indicators of impairment exist. Impairment reviews compare the carrying value of goodwill, other intangible fixed assets and net operating assets contained in each cash generating unit ('CGU') with its recoverable amount.

The recoverable amount of each CGU is considered to be its value in use, calculated by reference to the pre-tax cash flow projections of each CGU based on the Group's approved budget for 2017 and three year plan to 2019. Cash flows beyond this period are extrapolated into perpetuity using an estimated growth rate of 2% (2015: 2%), being the Directors' estimated view of the long term compound growth in the economy. This is considered appropriate because the CGU is considered to be a long term business. The discount rate used reflects the market assumptions for the risk free rate and equity risk premium and also takes into account the cost of debt.

The main assumptions on which the forecast cash flows were based include the level of sales, gross margin and expenses within the business and have been set by the Directors based on their past experience of the business and its industry together with their expectations of the market. The level of sales depends upon the size of the markets in which the Group operates together with the Directors' estimations of its market share and competitive pressures. Gross margin is dependent upon the net costs to the business of purchasing products together with the level of supplier rebates and income to support sales activities. Expenses are based on the current cost base of the Group adjusted for variable costs and known plans for the business.

The Directors believe that three CGUs exist within the Group:

a) Ritter – goodwill allocated £12.5m (2015: £12.5m)

A pre tax discount rate of 9.4% (2015: 9.7%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

b) Budgens and Londis – goodwill allocated £3.1m (2015: n/a)

A pre tax discount rate of 12.0% has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

c) Remaining business – goodwill allocated £448.9m (2015: £423.9m)

A pre tax discount rate of 9.5% (2015: 9.7%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

Last year, the Directors identified Makro as a CGU. Over the last 12 months this business has been fully integrated into the Booker network, with customers being moved between branches to ensure the most efficient result for the Group and the customer. It is therefore no longer considered to be a CGU as it does not generate independent cash inflows.

The Directors believe that the assumptions on which the carrying value of intangible and net operating assets is supported are reasonable and that no impairment is required.

12. Investment in joint venture

	2016 £m	2015 £m
At start of period	1.4	1.1
Addition	0.5	0.7
Share of loss for the period	(0.4)	(0.4)
At end of period	1.5	1.4

During the period the Group invested £0.5m in its joint venture Booker Satnam Wholesale Private Limited. Whilst at the year end, the Group owned 85% (2015: 83%) of the share capital, the Group has joint control through the contractually agreed sharing of control. The share of loss for the period has been included within administrative expenses and has not been disclosed separately on the face of the income statement in view of its materiality.

13. Deferred tax assets and liabilities

a) Recognised deferred tax assets

The following are the major deferred tax assets recognised by the Group:

	Decelerated tax depreciation £m	Other items £m	Retirement benefit obligations IAS 19 £m	Property leases IAS17 £m	Trading losses £m	Share based payments IFRS 2 £m	Total £m
At 28 March 2014	11.7	0.7	0.7	3.1	2.0	1.9	20.1
(Over)/understatement in respect of prior year deferred tax......	–	1.0	–	–	(0.7)	–	0.3
Credit/(charge) to the income statement	(0.2)	0.2	(0.5)	–	(0.5)	0.5	(0.5)
Exceptional tax charge							
Credit to equity	–	–	3.7	–	–	4.5	8.2
At 27 March 2015..........	11.5	1.9	3.9	3.1	0.8	6.9	28.1
On acquisition of Budgens & Londis	–	0.1	(4.5)	–	–	–	(4.4)
Over/(understatement) in respect of prior year deferred tax......	–	–	–	–	(0.6)	–	(0.6)
Credit/(charge) to the income statement	(1.1)	(0.6)	0.1	(3.1)	6.3	0.1	1.7
Credit to equity	–	–	3.1	–	–	(2.6)	0.5
At 25 March 2016.........	**10.4**	**1.4**	**2.6**	**–**	**6.5**	**4.4**	**25.3**

IAS12 'Income Taxes' requires the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

b) Unrecognised deferred tax assets

Based on an assessment of the quantum and timing of future taxable profits, deferred tax assets have not been recognised in respect of the following:

	2016 £m	2015 £m
Tax losses	16.0	16.7
Surplus ACT carried forward	23.7	25.2
Surplus capital allowances	7.9	–
	47.6	41.9

The Group has unrecognised deferred tax assets:

- unutilised tax trading losses from both UK and overseas operations of £77.2m, £16.0m cash benefit, (2015: £76.9m, £16.7m cash benefit) which includes £29m, £5.2m cash benefit, acquired during the year;
- surplus ACT of £23.7m, £23.7m cash benefit (2015: £25.2m, £25.2m cash benefit); and
- surplus capital allowances over accounting depreciation charged of £44.0m, cash benefit £7.9m which were acquired during the year.

These have not been recognised following a detailed assessment by the Group in accordance with the accounting policy set out in note 2.

The tax trading losses have various expiry dates the earliest of which, in respect of £1.2m of the losses, is 31 March 2018. There are no expiry dates attributed to the surplus ACT nor in respect of £59.8m of the tax losses.

The Group does not have any unremitted overseas earnings.

14. Inventories

	2016 £m	2015 £m
Goods held for resale	354.1	328.1

15. Trade and other receivables

	2016 £m	2015 £m
Trade receivables	132.2	78.7
Allowance for doubtful debts	(10.6)	(4.3)
	121.6	74.4
Prepayments and accrued income	59.3	50.1
	180.9	124.5

Trade receivables of £121.6m (2015: £74.4m) comprise principally of amounts receivable from the sale of goods and are classified as loans and receivables in note 17. All amounts are expected to be received within twelve months.

The movement in the allowance for doubtful debts is as follows:

	2016 £m	2015 £m
At start of period	4.3	4.3
Acquired	6.4	–
Utilised in the period	(0.8)	(1.0)
Charged to income statement	0.7	1.0
	10.6	4.3

16. Trade and other payables

	2016 £m	2015 £m
i) Current		
Trade payables	573.3	505.4
Other taxes and social security costs	36.7	30.1
Other payables	6.6	7.2
Accruals and deferred income	61.3	43.3
	677.9	586.0
ii) Non-Current		
Accruals and deferred income	26.0	26.9

£616.6m (2015: £542.7m) of trade and other payables are classified under financial liabilities in note 17.

The non-current accruals and deferred income relate to lease incentives and guaranteed minimum lease payments, which are accounted for on a straight line basis in accordance with the Group's accounting policy.

17. Financial instruments

Details of significant accounting policies and methods adopted, including the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

The book value and fair value of the financial instruments are as follows:

	Book value		Fair value	
	2016 £m	2015 £m	2016 £m	2015 £m
Financial assets				
Loans and other receivables	121.6	74.4	121.6	74.4
Cash and cash equivalents	127.4	147.0	127.4	147.0
	249.0	221.4	249.0	221.4
Financial liabilities				
Trade and other payables	(616.6)	(542.7)	(616.6)	(542.7)
Property guarantees	(1.0)	(5.0)	(1.0)	(5.0)
	(617.6)	(547.7)	(617.6)	(547.7)

Loans and other receivables represent amounts receivable from the sale of goods, together with amounts due from supplier rebates (see note 15) and are initially measured at fair value and then subsequently held at amortised cost.

Fair value of property guarantees have been estimated by discounting estimated future cash flows based on the terms and maturity and risk of each guarantee crystallising.

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs)

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2016				
Financial assets	–	249.0	–	249.0
Financial liabilities	–	(617.6)	–	(617.6)
2015				
Financial assets	–	221.4	–	221.4
Financial liabilities	–	(547.7)	–	(547.7)

There have been no transfers between categories during the period.

Liquidity risk

The Group will finance operations and growth from existing cash resources, finance leases and committed borrowing facilities to ensure the constant availability of an appropriate amount of reasonably priced funding to meet both current and future forecast requirements.

In August 2015, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. The revolving credit facility bears floating interest rates linked to LIBOR plus a margin of 0.8%. In the event of default of covenants on the bank facility, any drawn facility and any interest accrued are repayable on demand.

	2015 £m	2014 £m
Facility available	120.0	120.0
Bank guarantees	–	(7.0)
Undrawn facility available	120.0	113.0

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities:

	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	Over 4 years £m
2016					
Trade and other payables	616.6	–	–	–	–
2015					
Trade and other payables	542.7	–	–	–	–

It is not possible to quantify the timing of the cash flows relating to the property guarantees.

The undiscounted cash flows for borrowings differ from their carrying value in the balance sheet due to the inclusion of contractual interest payments and the adjustment for non-cash items including unamortised borrowing costs. The undiscounted cash flows for financial instruments reflect the amounts payable on these instruments which differs from the fair value recorded on the balance sheet. There is no difference between the discounted and undiscounted cash flows associated with trade payables due to their short term nature.

Credit risk

The Group is predominantly a cash sales business with low levels of trade receivables in comparison to total sales for the year and has no significant concentration of credit risk, with exposure spread over a large number of customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has an accounting policy to provide for certain overdue trade receivables based on past experience, and believe that there are no significant unprovided overdue financial assets.

Interest rate risk

Interest rate risk is relatively small to the Group, as there are no fixed borrowings and the revolving credit facility is only partially drawn for a small part of the year. Therefore the Group has chosen not to hedge its borrowings.

Capital risk

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders; and
- to provide an adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In assessing the level of capital all components of equity are taken into account (i.e. share capital and retained earnings). The Group has £127.4m of net cash as at 25 March 2016 and is not subject to externally imposed capital requirements. Management of capital therefore focuses around its ability to generate cash from its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to raise funds. The Group believes it is meeting its objectives for managing capital as funds are available for reinvestment where necessary as well as being in a position to make returns to shareholders where this is felt appropriate.

Foreign currency risk

Less than 1% of purchases are denominated in foreign currencies.

The majority of sales are denominated in sterling, with the exception of sales made from the Group's Indian operation which are denominated in rupees.

The Directors do not consider that the Group has significant exposure to movements in foreign exchange and the Group does not hold any foreign exchange contracts.

18. Post employment benefits

The Group operates a variety of post employment benefit arrangements, covering both funded defined benefit and funded defined contribution schemes to provide benefits to both full-time and part-time employees.

Defined contribution schemes

Pension contributions of £6.4m (2015: £5.3m) were charged to defined contribution schemes in the period. Included within accruals is £0.5m (2015: £0.4m) of outstanding pension contributions.

Defined benefit schemes

The Group operates a number of defined benefit pension schemes, the assets of which are held in separate trustee-administered funds to meet future benefit payments.

The main Group pension scheme is the Booker Pension Scheme ('the Booker Scheme'), a funded defined benefit pension arrangement based on final salary and which was closed to new entrants in 2001 with benefits ceasing to accrue from 2002. However, active members' benefits retain a link to their final salaries.

On 14 September 2015 the Group acquired Musgrave Retail Partners GB Limited, which operates the Budgens Pension Scheme ('the Budgens Scheme') and the Londis Pension Scheme ('the Londis Scheme'), both trust based occupational defined benefit pension schemes. The Londis Scheme was closed to new entrants in 1991 and future benefit accrual in 2009. The Budgens Scheme closed to both new entrants and future accrual in 2010, albeit active member's benefits retain a link to their final salaries.

The benefit obligations as at 25 March 2016 have been calculated by an independent actuary on an IAS19 basis, by rolling forward from the results of the latest actuarial funding valuation, which is 31 March 2013, 31 March 2015 and 1 April 2014 for the Booker Scheme, the Budgens Scheme and the Londis Scheme respectively.

The present value of the defined benefit obligation has been calculated using the projected unit credit method.

(a) Major assumptions used by the actuary – weighted average

	2016	2015
Discount rate	3.50%	3.40%
RPI inflation	3.00%	2.95%
CPI inflation	2.00%	1.95%
Rate of increase in salaries	2.00%	1.95%
Pension increases in payment	2.95%	2.90%

The average life expectancy in years of a member is as follows:

		2016	2015
Aged 65 retiring immediately (current pensioner)	Male	21.6	21.5
	Female	23.9	23.7
Aged 40 retiring at 65 (future pensioner)	Male	23.4	22.7
	Female	25.8	25.1

At 25 March 2016, the weighted average duration of the defined benefit obligation is approximately 16 years.

(b) The amounts recognised in the balance sheet

	Booker £m	Budgens & Londis £m	2016 £m	2015 £m
Equities	99.8	27.2	127.0	110.4
Diversified growth funds	143.7	8.3	152.0	151.3
Bonds	303.1	54.6	357.7	328.5
Property	44.6	–	44.6	51.5
Cash	3.8	0.1	3.9	7.8
Fair value of scheme assets	595.0	90.2	685.2	649.5
Present value of defined benefit obligation	(640.2)	(74.6)	(714.8)	(669.2)
Net (liability)/asset	(45.2)	15.6	(29.6)	(19.7)

The bid value of the assets was provided by each of the various fund managers in which the schemes are invested. All scheme assets have quoted prices in active markets.

The schemes do not hold any of the Group's financial instruments or property as plan assets.

(c) Movement in the fair value of the scheme assets

	2016 £m	2015 £m
Opening fair value of scheme assets	649.5	611.0
Employer contributions	0.8	2.4
Interest income	23.1	26.3
Return on assets (less amount included in net interest expense)	(35.0)	49.8
Benefits paid	(40.4)	(40.0)
Assets acquired on business combination	87.2	–
Closing fair value of scheme assets	685.2	649.5

(d) Movement in the present value of the defined benefit obligation

	2016 £m	2015 £m
Opening defined benefit obligation	(669.2)	(614.6)
Interest cost	(23.6)	(26.3)
Remeasurement gains/(losses):		
Actuarial gains/(losses) from changes in financial assumptions	3.9	(72.9)
Actuarial losses from changes in demographic assumptions	(1.1)	–
Actuarial gains arising from experience adjustments	9.2	4.6
Benefits paid	40.4	40.0
Liabilities acquired on business combination	(74.4)	–
Closing defined benefit obligation	(714.8)	(669.2)

(e) Movement in the net defined benefit liability

	2016 £m	2015 £m
Opening defined benefit obligation	(19.7)	(3.6)
Employer contributions	0.8	2.4
Net asset acquired on business combination	12.8	–
Net charge recognised in the income statement	(0.5)	–
Total remeasurements included in OCI	(23.0)	(18.5)
Closing net defined benefit liability	(29.6)	(19.7)

(f) Amounts recognised in the income statement

	2016 £m	2015 £m
Interest income on scheme assets	23.1	26.3
Interest cost on defined benefit obligation	(23.6)	(26.3)
Net interest expense on defined benefit obligation	(0.5)	–

(g) Sensitivities

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, RPI inflation, salary increases, pension increases, and life expectancy. The sensitivity analysis below shows the impact on the defined benefit obligation at the end of the reporting period of reasonably possible changes in these assumptions, which have been determined in isolation whilst holding all other assumptions constant:

Discount rate	+/- 0.1%	Decrease/increase in liabilities by £11m
RPI inflation rate	+/- 0.1%	Increase/decrease in liabilities by £9m
Rate of increases in salaries	+/- 0.1%	Increase/decrease in liabilities by £0.4m
Pension increases in payment	+/- 0.1%	Increase/decrease in liabilities by £5m
Life expectancy for current and future pensioners	+/- 1 year	Increase/decrease in liabilities by £24m

Changes in RPI inflation impact CPI inflation and pension increases both before retirement and in payment.

(h) Contributions to be paid

- **Booker Scheme** – the last actuarial funding valuation was carried out at 31 March 2013, which revealed a shortfall of approximately £24m. This shortfall was expected to be recovered through Company deficit contributions (£9.6m paid in the year ending 31 March 2014 and £2.4m paid in the year ending 31 March 2015) and the returns achievable on the assets of the Scheme. No contributions have been paid over this period. The contribution schedule will be reviewed following next actuarial valuation of the Booker Scheme, which is scheduled for 31 March 2016.

- **Budgens Scheme** – the last actuarial funding valuation was carried out at 31 March 2015, which revealed a nil shortfall at this date.

- **Londis Scheme** – the last actuarial funding valuation was carried out at 1 April 2014, which revealed a shortfall of £0.5 million at this date. This shortfall is expected to be recovered through returns on the scheme assets, and no contributions are required.

19. Provisions

	Property provisions £m	Other £m	Total £m
At 27 March 2015	20.4	5.0	25.4
Acquired	19.8	–	19.8
Unwinding of discount	1.3	–	1.3
Credited to income statement – exceptionals	–	(4.0)	(4.0)
Credited to income statement	(0.3)	–	(0.3)
Utilised	(1.4)	–	(1.4)
At 25 March 2016	**39.8**	**1.0**	**40.8**

The property provisions principally relate to:

- the onerous leases on property currently vacant or sublet for less than the cost of the underlying head lease;

- the expected future dilapidation cost on leasehold properties; and

- the expected future costs of removing asbestos from leasehold properties. Although not a health risk, the Group is legally required to undertake a programme of removal.

Certain onerous lease provisions relating to vacant properties have been adjusted during the year, following a reassessment of the length of time those properties would remain vacant. Additionally, following the acquisition of Booker Retail Partners (GB)Limited, a review has been made of the future dilapidation costs on leasehold properties. All of these provision movements result in a net £nil charge to the Income Statement.

Approximately £4m is expected to be utilised in the year to March 2017.

Other provisions relate to third party property guarantees, for which the timing and quantum of payments is uncertain. Payment could be made on demand and the provision represents management's current estimate of the future liability.

20. Share capital

	Number of shares	Share capital £m
Allotted, called up and fully paid (£0.01 ordinary shares)		
At 27 March 2015	1,755,014,689	17.6
Share options exchanged (see note 23)	1,088,547	–
Share options exercised (see note 23)	16,733,834	0.1
At 25 March 2016	**1,772,837,070**	**17.7**

The total authorised number of ordinary shares is 2,000,000,000 (2015: 2,000,000,000) with a par value of £0.01 per share.

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company.

The Company also has in issue 1,520,361 B shares that were redeemed by the shareholders on 29 April 2016 for 3.5 pence per share (see note 22b for more details).

6,661,793 ordinary shares in the Company (representing 0.38% of total shares issued) are held by the Booker Employee Benefit Trust which was established in 2006 to hold shares on a discretionary basis for the benefit of employees of the Group from time to time. There has been no movement in the number of shares held in the trust during the year.

21. Share capital and reserves

For movements in share capital and reserves please refer to the Consolidated Statement of Changes in Equity.

The merger reserve represents the capital adjustment required to reserves to effect the reverse acquisition.

The capital redemption reserve relates to the redemption of B shares, as described in note 22.

The other reserve represents the premium over the nominal value of the shares issued in relation to acquisitions less any returns of capital.

The share option reserve comprises the fair value of outstanding share options charged to the profit and loss account.

22. Dividends and return of capital

a) Dividends charged to reserves

	2016 £m	2015 £m
Final dividend of 3.14 pence per share (2015: 2.75 pence per share) paid in respect of the prior period	55.2	47.8
Interim dividend of 0.57 pence per share (2015: 0.52 pence per share) paid in respect of the current period	10.0	9.1
	65.2	56.9

The Directors are proposing a final dividend of 4.03 pence per share, which will absorb approximately £72m of distributable reserves.

b) Return of Capital

On 21 July 2014 the Company issued 1,743,934,763 B shares that were redeemable by the shareholder. On 22 July 2014 the Company redeemed 1,740,934,613 B shares for 3.5 pence per share (a total of £60.9m) and the shares were cancelled. The 3,000,150 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 30 April 2015 for 3.5 pence per share. Following the redemption, such B shares were cancelled.

On 20 July 2015 the Company issued 1,766,091,414 B shares that were redeemable by the shareholder. On 21 July 2015 the Company redeemed 1,764,571,053 B shares for 3.5 pence per share (a total of £61.8m) and the shares were cancelled. The 1,520,361 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 29 April 2016 for 3.5 pence per share. Following the redemption, such B shares were cancelled.

The Board is proposing to implement another capital return to shareholders of 3.20 pence per ordinary share (at a cost of approximately £57m, based on the current issued share capital of the company). It is proposed that this is achieved by the issue of a new class of 'B' shares. The return of capital requires the approval of shareholders, which will be sought at the AGM on 6 July 2016.

23. Share based payments

The Group has a number of share schemes for employees. The total charge for the period relating to employee share-based payments was £6.9m (2015: £5.3m), all of which related to equity-settled share based payment transactions.

a) Sharesave schemes

The Sharesave scheme has been in operation since 2008 and all employees are eligible to participate once the necessary service requirements have been met. Options are offered at a discount of 20% to the average of the market value of a share on the three dealing days immediately preceding the offer. Options are exercisable three years after the commencement of the savings contract and not more than six months thereafter. The options granted have been fair valued using the Black Scholes option pricing model, using the following assumptions:

	SAYE 2015	SAYE 2014	SAYE 2013	SAYE 2012
Grant date	**November 2015**	**November 2014**	**November 2013**	**December 2012**
Share price at grant date	185.90p	144.60p	152.30p	97.60p
Exercise price	146.99p	94.61p	112.21p	79.21p
Expected volatility	24%	25%	24%	26%
Expected life	3.2 years	3.2 years	3.2 years	3.2 years
Risk free rate	1.01%	1.07%	0.91%	0.54%
Expected dividend yield	2.59%	3.02%	1.77%	2.39%
Fair value at grant date	43.0p	46.0p	44.0p	23.0p

b) Performance Share Plans (PSP)

In 2008 a discretionary PSP for the benefit of certain employees was established by the Remuneration Committee. The awards are free share-based awards and normally vest three years after the grant date, provided relevant performance criteria have been met.

PSP 2012, 2013, 2014 and 2015

The options granted in November 2012 (6.0 million options), October 2013 (4.2 million options), October 2014 (6.9 million options) and October 2015 (5.1 million options) to senior employees all had the same conditions. They will vest and become exercisable three years from the date of the award, subject to continued employment and the performance conditions mentioned below being satisfied and will lapse if not exercised within ten years of the date of award. The awards are granted in two tranches:

i) Earnings Per Share (EPS) condition

50% of each award will be linked to an absolute EPS performance target with 25% of this element vesting for achieving growth of 6% per annum and rising on a straight line basis with full vesting requiring 12% growth per annum, as measured at the year end prior to the grant and then 3 years later.

ii) Total Shareholder Return (TSR) condition

50% of each award will be linked to an Absolute TSR performance target with 25% of this element vesting for achieving growth of 8% per annum and rising on a straight line basis with full vesting requiring 15% growth per annum, when measured over the 3 years from the grant date.

PSP 2008-2012

The awards under these 4 schemes have all vested and 4.7 million remain to be exercised.

The options granted have been fair valued using the Monte Carlo option pricing model, using the following assumptions:

	PSP 2015	PSP 2014	PSP 2013	PSP 2012	PSP 2011	PSP 2010	PSP 2008
Grant date	**Nov 15**	**Oct 14**	**Oct 13**	**Nov 12**	**Nov 11**	**Oct 10**	**Jul 08**
Share price at grant date	179.00p	121.40p	141.90p	99.30p	78.95p	53.75p	23.75p
Expected volatility	25%	25%	24%	26%	27%	30%	25%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	2-3 years
Risk free rate	0.85%	0.95%	0.89%	0.44%	0.70%	1.10%	5.00%
Expected dividend yield	2.68%	3.59%	1.90%	2.35%	2.2%	2.4%	2.5%
Fair value of TSR component	52.0p	32.0p	51.0p	33.0p	29.0p	23.5p	8.4p
Fair value of EPS component	165.0p	109.0p	134.0p	93.0p	n/a	n/a	n/a

The terms and conditions of the outstanding share based payments are as follows:

		Grant date	Number (m)	Vesting period	Expiry date	Exercise price
SAYE 2015	SAYE to all staff	November 2015	5.6	3.2 year service	June 2019	146.99p
PSP 2015	Option granted to senior employees	November 2015	5.1	3 year service	November 2025	nil
SAYE 2014	SAYE to all staff	November 2014	6.8	3.2 year service	June 2018	94.61p
PSP 2014	Option granted to senior employees	October 2014	5.8	3 year service	October 2024	nil
SAYE 2013	SAYE to all staff	November 2013	5.2	3.2 year service	June 2017	112.21p
PSP 2013	Option granted to senior employees	October 2013	4.3	3 year service	October 2023	nil
PSP 2012	Option granted to senior employees	November 2012	2.5	Vested	November 2022	nil
SAYE 2012	SAYE to all staff	December	0.6	Vested	July 2016	79.21p
PSP 2011	Option granted to senior employees	November 2011	0.4	Vested	November 2021	nil
PSP 2010	Option granted to senior employees	October 2010	0.3	Vested	October 2020	nil
PSP 2008	Option granted to senior employees	July 2008 – July 2009	1.5	Vested	July 2018 – July 2019	nil
Total options outstanding			**38.1**			

The number and weighted average exercise price of options is as follows:

	2016		2015	
	Number of share options Million	Weighted average exercise price Pence	Number of share options Million	Weighted average exercise price Pence
Outstanding at beginning of period..	48.4	34.3	49.4	33.0
Granted	10.9	78.1	14.9	51.2
Lapsed..	(3.8)	55.0	(4.6)	69.7
Forfeited.......................................	(0.7)	–	(0.5)	–
Exercised	(16.7)	12.2	(10.8)	38.7
Outstanding at end of period	38.1	55.1	48.4	34.3
Exercisable at end of period...........	5.3		13.7	

Under the rules of the PSP 2010-2015 schemes, tax approved Company Share Option Plan ('CSOP') options were also granted with an exercise price equal to the market value of the shares at the time of grant.

During the period, employees forfeited 0.7m (2015: 0.5m) PSP options for 1.1m (2015: 1.1m) CSOP options, which were immediately exercised at a cost equal to the share price at the date the original PSP was granted.

24. Operating leases

The Group leases a number of trading properties under operating leases. The leases are typically of 5 to 15 years duration, although some have lessee only break clauses. Lease payments are reviewed as contracted and increases applied accordingly. The Group also leases certain items of plant and equipment.

Operating lease payments represent rents payable by the Group for certain of its wholesale, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, escalation charges and renewal rights.

At the balance sheet date, the Group (including Booker Retail Partners (GB) Limited) had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Others	
	2016 £m	2015 £m	2016 £m	2015 £m
Within one year.............................	65.3	52.0	15.0	10.3
Within two to five years..................	234.3	186.4	29.7	15.1
After five years	277.5	237.6	3.7	–
	577.1	476.0	48.4	25.4

The Group subleases various wholesale, distribution and office properties under non-cancellable operating leases. The total minimum operating sublease receipts expected to be received are as follows:

	2016 £m	2015 £m
Within one year	7.2	1.2
Within two to five years	20.4	1.0
After five years	26.1	1.6
	53.7	3.8

25. Capital commitments

The outstanding commitments at 25 March 2016 in respect of contracted capital expenditure not provided for amounted to approximately £2.7m (2015: £2.1m).

26. Related party transactions

Only members of the Board are considered to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group. Board compensation is disclosed in the Remuneration Report.

INDEPENDENT AUDITOR'S REPORT

To the members of Booker Group plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Booker Group plc for the period ended 25 March 2016 set out on pages 66 to 104. In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 25 March 2016 and of the Group's and the parent company's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the Group financial statements, Article 4 of the IAS Regulation.

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

Valuation of the defined benefit pension schemes £29.6m (2015: £19.7m) Risk vs 2015:

Refer to page 30 (Audit Committee Report), page 74 (accounting policy) and page 89 (financial disclosures).

The risk – Significant assumptions are made in valuing the Group's defined benefit pension schemes obligations, including in particular the discount rate, inflation rates and the average life expectancy as explained in note 19. Small changes in the assumptions used could have a significant effect on the results and financial position of the Group.

Our response – Our audit procedures included testing of the controls over the maintenance of the schemes' membership data, sample testing from that data to the source documentation establishing the obligation to members. With the support of our own actuarial specialists, we then challenged the key assumptions applied by the Group to that data to determine the net defined benefit obligations. We critically assessed the inflation rates and life expectancy assumptions by comparing them against external market data and industry benchmarks. We also compared the discount and inflation rates used in the valuation of the defined benefit pension schemes against our internally developed benchmarks and with other companies reporting as at March 2016 to ensure that they are consistent with our expectations. In addition, we considered the adequacy of the Group's disclosures in relation to the defined benefit pension schemes.

Property provisions £39.8m (2015: £20.4m) Risk vs 2015:

Refer to page 30 (Audit Committee Report), page 77 (accounting policy) and page 92 (financial disclosures).

The risk – The Group has recorded provisions on its leasehold properties as explained in note 20. The estimation of these provisions requires a significant degree of judgement and the use of assumptions, including the expected cash flows associated with the properties over the remaining lease term, the expected utilisation of the properties, expected costs related to dilapidations and to removing asbestos and the rates used to discount future cash flows to account for risk and the time value of money. As such there is a risk that the provisions, and associated charges or credits in the statement of comprehensive income, are materially misstated through the use of inappropriate assumptions and judgement.

Our response – Our procedures included obtaining the financial models used to assess the property provisions and comparing the methodology used to our interpretation of the requirements of the relevant accounting standards. We agreed the data input for a sample of properties, such as lease costs and expiry dates to the original signed lease agreements and expected sub-let income to existing sub-lease income agreements, third party valuation reports or where neither of those were available to the assumptions made by the in-house property specialist. We critically evaluated the discount rates used to discount forecast cash flows associated with the provisions by comparing the specific rates used to market data relevant to those cash flows. We critically evaluated the expected costs included in the models against the historical trend of charges incurred in respect of dilapidations and removing asbestos. We assessed the accuracy of the models by re-performing the calculation of the provisions. We performed sensitivity analysis on the key drivers within the financial models, including discount rates, forecast cash outflow and inflow and property utilisation rates to ascertain the extent of change in those assumptions would be required for the provisions to be further increased or decreased. We also considered the likelihood of such movements in those key assumptions arising. We also considered the adequacy of the Group's disclosures in relation to the property provisions in accordance with the relevant accounting standards.

Acquisition accounting in respect of Booker Retail Partners (GB) Limited ('BRP') £82.8m- net assets (New risk)

Refer to page 30 (Audit Committee Report), page 72 (accounting policy) and page 81 (financial disclosures).

The risk – In September 2015 the Group acquired Booker Retail Partners (GB) Limited, formerly Musgrave Retail Partners GB Limited, from Musgrave Group Plc. Accounting for this acquisition has involved significant judgement in respect of the identification of intangible assets such as brands and customers relationships. It has also included assessing the fair value of the net assets acquired in particular in respect of acquired properties, lease contracts and other property liabilities, working capital, and the calculation of amounts related to defined benefit pension schemes and taxation.

Our response – Our audit procedures included challenging the Directors' assessment of the fair value of the assets acquired and liabilities assumed with reference to evidence provided by third parties (such as property surveyors and actuaries). We critically evaluated the external valuers engaged by the Directors involved in assessing the fair value of properties and amounts related to defined benefit pension schemes. We also used our own specialists to challenge the acquisition accounting including the amounts related to defined benefit pension schemes and taxation, and the identification of intangible assets. We have also considered the adequacy of the Group's disclosures in respect of the acquisition of BRP.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £7.6m (2015: £7.1m), determined with reference to a benchmark of Group profit before tax of £150.8m (2015: £138.8m), of which it represents 5.0% (2015: 5.1%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.35m (2015: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

Of the Group's seven reporting components, we subjected four to audits for Group reporting purposes and the remaining three to reviews (including enquiry) of financial information. The latter were not individually financially significant enough to require an audit for Group reporting purposes, but provided us with additional audit coverage. Our work covered 100% of the Group's profit before tax, revenues and total assets (2015: 100%).

The Group audit team carried out the work on all the components at the Group's offices in Wellingborough, Deeside, Uxbridge and Eccles. Component materialities ranged between £1.1m and £6m (2015: between £5m and £6m).

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Strategic Report on pages 1 to 17, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 2019; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if:

- we have identified material inconsistencies between the knowledge we acquired during our audit and the Directors' statement that they 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 position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the Audit Committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or

- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the Directors' statement, set out on page 17, in relation to going concern and longer term viability; and
- the part of the Corporate Governance Statement on page 22 relating to the Company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 63, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP, Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

18 May 2016

SECTION C: HISTORICAL FINANCIAL INFORMATION RELATED TO BOOKER GROUP FOR THE 52 WEEKS ENDED 24 MARCH 2017

Consolidated Income Statement

For the 52 weeks ended 24 March 2017

		52 weeks ended 24 March 2017	52 weeks ended 25 March 2016		
	Note	Total £m	Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Revenue		5,327.9	4,991.5	–	4,991.5
Cost of sales		(5,036.0)	(4,737.9)	–	(4,737.9)
Gross profit		291.9	253.6	–	253.6
Administrative expenses		(115.8)	(98.5)	(2.3)	(100.8)
Operating profit		176.1	155.1	(2.3)	152.8
Finance costs	6	(2.5)	(2.6)	–	(2.6)
Finance income	6	0.4	0.6	–	0.6
Profit before tax	4	174.0	153.1	(2.3)	150.8
Tax	7	(20.2)	(23.0)	–	(23.0)
Profit for the period attributable to the owners of the Company		153.8	130.1	(2.3)	127.8
Earnings per share (Pence)					
Basic	8	8.66p			7.24p
Diluted	8	8.58p			7.15p

All of the Group's operations during the period shown above represent continuing operations.

There were no exceptional items in the period ended 24 March 2017.

Consolidated Statement of Comprehensive Income

For the 52 weeks ended 24 March 2017

	Note	52 weeks ended 24 March 2017 £m	52 weeks ended 25 March 2016 £m
Profit for the period		153.8	127.8
Items that will not be reclassified to profit or loss			
Remeasurements of the pension scheme	18	(16.3)	(23.0)
Tax on pension scheme remeasurements	7, 13	1.7	3.1
Items that may be reclassified to profit or loss			
Currency translation differences		1.0	–
Other comprehensive expense for the period, net of tax		(13.6)	(19.9)
Total comprehensive income for the period attributable to the owners of the Company		140.2	107.9

Consolidated Balance Sheet

As at 24 March 2017

	Note	24 March 2017 £m	25 March 2016 £m
ASSETS			
Non-current assets			
Property, plant and equipment	10	216.4	229.8
Intangible assets	11	465.6	466.7
Investment in joint venture	12	1.6	1.5
Deferred tax asset	13	27.4	25.3
		711.0	723.3
Current assets			
Inventories	14	397.0	354.1
Trade and other receivables	15	167.8	180.9
Cash and cash equivalents		160.7	127.4
		725.5	662.4
Total assets		1,436.5	1,385.7
LIABILITIES			
Current liabilities			
Trade and other payables	16	(699.8)	(677.9)
Current tax		(21.3)	(21.2)
		(721.1)	(699.1)
Non-current liabilities			
Other payables	16	(25.0)	(26.0)
Retirement benefit liabilities	18	(46.9)	(29.6)
Provisions	19	(37.9)	(40.8)
		(109.8)	(96.4)
Total liabilities		(830.9)	(795.5)
Net assets		605.6	590.2
EQUITY			
Share capital	20	17.8	17.7
Share premium		7.6	44.0
Merger reserve		260.8	260.8
Capital redemption reserve		179.5	122.8
Other reserves		–	14.0
Share option reserve		13.1	12.4
Retained earnings		126.8	118.5
Total equity attributable to the owners of the Company		605.6	590.2

These financial statements were approved by the Board of Directors on 17 May 2017 and were signed on its behalf by:

Charles Wilson	Jonathan Prentis
Chief Executive	Group Finance Director

Consolidated Cash Flow Statement

For the 52 weeks ended 24 March 2017

	Note	52 weeks ended 27 March 2017 £m	52 weeks ended 28 March 2016 £m
Cash flows from operating activities			
Profit before tax		174.0	150.8
Adjustments for:			
Depreciation	10	25.1	23.5
Amortisation	11	1.1	1.2
Net finance costs		2.1	2.0
(Profit)/loss on disposal of property, plant and equipment		(0.6)	0.1
Equity settled share based payments		5.8	6.9
(Increase)/decrease in inventories		(42.9)	4.0
Decrease/(increase) in debtors		13.1	(7.7)
Increase in creditors		21.9	19.8
Contributions to pension scheme	18	–	(0.8)
Decrease in provisions	19	(3.9)	(5.7)
Net cash flow from operating activities		195.7	194.1
Tax paid		(18.2)	(18.8)
Cash generated from operating activities		177.5	175.3
Cash flows from investing activities			
Acquisition of property, plant and equipment		(27.0)	(25.2)
Acquisition of subsidiary, net of cash acquired	9	–	(44.5)
Acquisition of intangible asset		–	(1.0)
Investment in joint venture		(0.1)	(0.1)
Sale of property, plant and equipment		15.9	0.3
Net cash outflow from investing activities		(11.2)	(70.5)
Cash flows from financing activities			
Proceeds from issue of ordinary shares		6.4	2.9
Redemption of B shares	22	(56.7)	(61.9)
Dividends paid	22	(82.6)	(65.2)
Net interest paid		(0.1)	(0.2)
Net cash outflow from financing activities		(133.0)	(124.4)
Net increase/(decrease) in cash and cash equivalents		33.3	(19.6)
Cash and cash equivalents at the start of the period		127.4	147.0
Cash and cash equivalents at the end of the period		160.7	127.4

Reconciliation of net cash flow to movement in net cash in the period

	£m	£m
Net increase/(decrease) in cash and cash equivalents	33.3	(19.6)
Opening net cash	127.4	147.0
Net cash at the end of the period	160.7	127.4

Consolidated Statement of Changes in Equity

52 weeks ended 24 March 2017

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 25 March 2016		17.7	44.0	260.8	122.8	14.0	12.4	118.5	590.2
Profit for the period		–	–	–	–	–	–	153.8	153.8
Remeasurements of the pension scheme	18	–	–	–	–	–	–	(16.3)	(16.3)
Tax on pension scheme remeasurements	7,13	–	–	–	–	–	–	1.7	1.7
Currency translation differences		–	–	–	–	–	–	1.0	1.0
Total comprehensive income for the period		–	–	–	–	–	–	140.2	140.2
Transactions with owners recorded directly in equity:									
Dividends to shareholders	22	–	–	–	–	–	–	(82.6)	(82.6)
Issue B shares	22	–	(42.7)	–	–	(14.0)	–	–	(56.7)
Redemption of B shares	22	–	–	–	56.7	–	–	(56.7)	–
Share options exercised		0.1	6.3	–	–	–	(5.1)	5.1	6.4
Share based payments	23	–	–	–	–	–	5.8	–	5.8
Tax on share schemes	7	–	–	–	–	–	–	2.3	2.3
Total transactions with owners		0.1	(36.4)	–	56.7	(14.0)	0.7	(131.9)	(124.8)
At 24 March 2017		17.8	7.6	260.8	179.5	–	13.1	126.8	605.6

52 weeks ended 25 March 2016

	Note	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 27 March 2015		17.6	41.2	260.8	60.9	75.8	11.2	130.6	598.1
Profit for the period		–	–	–	–	–	–	127.8	127.8
Remeasurements of the pension scheme	18	–	–	–	–	–	–	(23.0)	(23.0)
Tax on pension scheme remeasurements	7,13	–	–	–	–	–	–	3.1	3.1
Total comprehensive income for the period		–	–	–	–	–	–	107.9	107.9
Transactions with owners recorded directly in equity:									
Dividends to shareholders	22	–	–	–	–	–	–	(65.2)	(65.2)
Issue B shares	22	–	–	–	–	(61.8)	–	–	(61.8)
Redemption of B shares	22	–	–	–	61.9	–	–	(61.9)	–
Share options exercised		0.1	2.8	–	–	–	(5.7)	5.7	2.9
Share based payments	23	–	–	–	–	–	6.9	–	6.9
Tax on share schemes	7	–	–	–	–	–	–	1.4	1.4
Total transactions with owners		0.1	2.8	–	61.9	(61.8)	1.2	(120.0)	(115.8)
At 25 March 2016		17.7	44.0	260.8	122.8	14.0	12.4	118.5	590.2

NOTES TO THE GROUP FINANCIAL STATEMENTS

1. General information

a) Overview

Booker Group plc is a public limited company incorporated in the United Kingdom (Registration number 05145685). The Company is domiciled in the United Kingdom and its registered address is Equity House, Irthlingborough Road, Wellingborough, Northamptonshire, NN8 1LT. The nature of the Group's operations and its principal activities are set out in the Strategic and Directors' Reports.

b) Basis of accounting

The group financial statements have been prepared and approved by the directors in accordance with International Financial Reporting Standards as adopted by the EU ('adopted IFRS'). The Company has elected to prepare its parent company accounts in accordance with UK Generally Accepted Accounting Principles ('UK GAAP') including FRS101 'Reduced Disclosure Framework'.

The group financial statements consolidate those of the Company and its subsidiaries (together referred to as the 'Group'). The parent Company financial statements present information about the Company as a separate entity and not about its Group.

The financial statements are presented in Sterling and rounded to the nearest hundred thousand.

The financial statements for the current period have been prepared for a 52 week period to reflect internal management reporting.

c) Basis of consolidation

On 4 June 2007 the Company, then named Blueheath Holdings plc, became the legal parent company of Giant Topco Limited in a share-for-share transaction. Due to the relative values of the companies, the former Giant Topco Limited shareholders became the majority shareholders with 90.36% of the enlarged share capital. As part of the business combination Blueheath Holdings plc changed its name to Booker Group plc and changed its accounting reference date to 31 March. Following the transaction, the Company's continuing operations and executive management were predominantly those of Booker Wholesale Holdings Limited. IFRS3 'Business Combinations' defines the acquirer in a business combination as the entity that obtains control. Accordingly, the combination was accounted as a reverse acquisition i.e. as if Giant Topco Limited had acquired Blueheath Holdings plc in return for consideration equal to the fair value of the shares issued.

Subsidiaries are entities controlled by the Group. Control exists when the Group is exposed to, or has rights to, variable returns from its involvement with an entity and has the ability to affect those returns through its power to direct the relevant activities. In assessing control, potential voting rights that are currently exercisable or convertible are taken into account. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

d) Accounting standards adopted in the period

The following Adopted IFRSs have been issued and applied by the Group in these financial statements for the first time.

New standards: None

Amendments and interpretations:

- Disclosure Initiative – Amendments to IAS1
- Annual Improvements to IFRSs 2012 – 2014 Cycle
- Amendments to IAS16 and IAS28 'Clarification of Acceptable Methods of Depreciation and Amortisation'
- Amendments to IFRS11 'Accounting for Acquisitions of Interests in Joint Operations'
- Amendments to IFRS10, IFRS12 and IAS28 'Investment Entities: Applying the Consolidation Exception'

Their adoption does not have a material effect on the financial statements.

e) New IFRS and amendments to IAS and interpretations

There are a number of standards and interpretations issued by the International Accounting Standards Board that are effective for financial statements after this reporting period but have not yet been endorsed by the European Union as follows:

	Effective for accounting periods starting on or after
Amendments to IAS12 'Recognition of Deferred Tax Assets for Unrealised Losses'	1 January 2017
Disclosure Initiative – Amendments to IAS7	1 January 2017
Amendments to IFRS2 'Classification and Measurement of Share-based Payment Transactions'	1 January 2018
IFRS15 'Revenue from Contracts with Customers'	1 January 2018
IFRS9 'Financial Instruments'	1 January 2018
IFRS16 'Leases'	1 January 2019

IFRS15 'Revenue from Contracts with Customer' – The standard was endorsed on 22 September 2016 and applies to an entity's first annual statements beginning on or after 1 January 2018. The standard will replace IAS18 Revenue and IFRIC13 Customer Loyalty Programmes. The standard introduces a new revenue recognition model that recognises revenue either at a point in time or over time. The model features a contract-based five-step analysis of transactions to determine whether, how much and when revenue is recognised. The cumulative impact on adoption of this standard is not expected to be significant.

IFRS9 'Financial instruments' – The standard was endorsed on 22 November 2016 and applies to an entity's first annual statements beginning on or after 1 January 2018. The revised standard replaces IAS39 Financial Instruments: Recognition and Measurement and introduces new guidance for classification and measurement, impairment of financial instruments, and hedge accounting. The cumulative impact on adoption of this standard is not expected to be significant.

IFRS16 'Leases' – In January 2016, the IASB issued IFRS16 and it is expected to apply to an entity's first annual statements beginning on or after 1 January 2019. IFRS16 changes fundamentally the accounting for leases by lessees. It eliminates the current IAS17 dual accounting model, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases and, instead, introduces a single, on-balance sheet accounting model that is similar to current finance lease accounting. In preparation for the adoption of IFRS16, in the financial statements for the year ending March 2020, management are in the process of assessing the potential impact.

f) Going concern

The risks noted in the Strategic Report are those known to the Directors at the date of this Report which the Directors consider to be material to the Group, but these do not necessarily comprise all the risks to which the Group is exposed. In particular, the Group's performance could be adversely affected by poor economic conditions. Additional risks and uncertainties currently unknown to the Directors, or which the Directors currently believe are immaterial, may also have a material adverse effect on the business, financial condition or prospects of the Group.

In August 2015, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. At the period end, the Group had net cash of £160.7m. In addition, the Group complied with all its covenants during the year. The Group's forecasts and projections, taking account of possible changes in trading performance and considering the risks identified, show that the Group should be able to operate within the level of its bank facility.

After making enquiries, the Directors have a reasonable expectation that the Group has adequate resources to continue in operational existence for at least twelve months from the date of this report. Accordingly, they continue to adopt the going concern basis in preparing the Group and Company financial statements.

g) Use of assumptions and estimates

The preparation of accounts in accordance with generally accepted accounting principles requires the Directors 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 considered to be reasonable under the circumstances, the results of which form the basis of making the estimates about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

These estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Some of these policies require a high level of judgement and the Directors believe that the most critical accounting policies and significant areas of judgement and estimation arise from the accounting for:

- IAS19 'Employee benefits'. Defined benefit schemes are accounted for in accordance with the advice of an independent qualified actuary but significant estimates are required in relation to the assumptions for future salary and pension increases, inflation, investment returns and mortality that underpin their valuations. Sensitivities in relation to key assumptions are disclosed in note 18.

- IAS37 'Provisions, contingent liabilities and contingent assets'. The Group is party to a number of leases on properties that are no longer required for trading. Judgement is applied in determining whether leases are onerous. Whilst every effort is made to profitably sub-let these properties, it is not always possible to do so. Where a lease is onerous to the Group, a provision is established for the difference between amounts contractually payable to the landlord and forecast amounts receivable from the tenants.

In addition, provisions exist for the expected future dilapidation cost on leasehold properties and the expected future costs of removing asbestos from leasehold properties. The Directors consider that their estimates, which are based upon the advice of an in-house property department who monitor the UK property market, are appropriate.

2. Accounting policies

The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

Intangible assets

a) Business combinations and goodwill

Subject to the transitional relief in IFRS1, all business combinations are accounted for by applying the purchase method. Goodwill represents amounts arising on acquisition of subsidiaries. In respect of business acquisitions that have occurred since 1 April 2006, goodwill represents the difference between the cost of the acquisition and the fair value of the net identifiable assets and liabilities acquired. Identifiable intangibles are those which can be sold separately or which arise from legal rights regardless of whether those rights are separable.

Goodwill is capitalised and is subject to an impairment review, both annually and when there are indications that its carrying value may not be recoverable.

For acquisitions on or after 1 January 2010, the Group measures goodwill at the acquisition date as:

- the fair value of the consideration transferred; plus
- the recognised amount of any non-controlling interests in the acquiree; plus
- the fair value of the existing equity interest in the acquiree; less
- the net recognised amount (generally fair value) of the identifiable assets acquired and liabilities assumed.

When the excess is negative, a bargain purchase gain is recognised immediately in the income statement. Costs related to the acquisition, other than those associated with the issue of debt or equity securities, are expensed as incurred. Any contingent consideration payable is recognised at fair value at the acquisition date. If the contingent consideration is classified as equity, it is not remeasured and settlement is accounted for within equity. Otherwise, subsequent changes to the fair value of the contingent consideration are recognised in profit or loss.

b) Other intangibles

Customer relationships and know-how are capitalised and amortised on a straight-line basis over 5 years, which is considered to be the useful economic life, and charged to administrative expenses.

Revenue

Revenue is recognised when goods are received by the customer and the risks and rewards of ownership have passed to them. Revenue is measured at the fair value of consideration received or receivable and represents amounts receivable for goods net of discounts, volume rebates and value added tax. Discounts are accounted for in the period they are earned. Provision is made for expected customer returns.

Cost of sales

Cost of sales represents all costs incurred, net of supplier rebates (see below), up to the point of sale including the operating expenses of the trading outlets.

Supplier rebates

A number of different types of rebate are negotiated with suppliers in connection with the purchase of goods for resale. Such rebates are only recognised when earned by the Group, which occurs when all obligations conditional for earning the rebate have been discharged, and the rebate can be measured reliably based on the terms of the contract. These rebates are recognised as a credit within cost of sales and, to the extent that the rebate relates to unsold stock purchases, as a reduction in the cost of inventory.

There are two main types of supplier rebates:

a) Terms, which are generally annual agreements (not always coterminous with the Group's year end), are signed by the Group and the supplier. Rebates are determined relative to volumes purchased or by other conditional arrangements as follows:

- Volume based rebates include guaranteed and targeted income. Rebates are accrued based on the Group's purchasing volumes and the current agreement with the supplier.
- Non-volume based rebates include marketing support, range promotion and product development. Amounts are recognised when the rebate is earned through the completion of any required obligations and confirmed by suppliers.
- Invoices are issued to suppliers periodically, quarterly or annually, depending on the terms of the agreement.

b) Promotional funding, which relates to price investments by suppliers through promotional activity. The calculation of funding is mechanical and based on a formula agreed in advance of each promotion with the supplier. Funding is recognised in the Income Statement as units are sold and is invoiced throughout the year, shortly after each promotion has ended.

Amounts relating to supplier rebates appear in a number of different balance sheet headings at the year end:

- Inventories: Where the rebate earned relates to inventories which are held by the Group at year end, the rebates are deducted from the cost of those inventories
- Trade receivables: Billed supplier rebates outstanding at the period end where the Group has no legal right to offset against trade payables
- Trade payables: Billed supplier rebates outstanding when the Group has a legal right to offset against payables
- Prepayments and accrued income: amounts due from suppliers in relation to supplier rebates which have been recognised but not yet invoiced
- Accruals and deferred income: amounts received in relation to supplier rebates that have not been earned at the year end

Employee benefits

a) Share based payments

The Group has issued equity settled share based payments to certain employees in exchange for services rendered by them. The fair value is measured using an option valuation model at the date of grant and is recognised as an employee expense over the period in which the employees become unconditionally entitled to the options, with a corresponding increase in equity, shown in a separate share option reserve. This valuation is based on estimates of the number of options that will eventually vest, based on related service and non-market vesting conditions that are expected to be met, such that the amount ultimately recognised as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

The dilutive effect of outstanding options is reflected as additional share dilution in the computation of earnings per share.

b) Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the income statement as incurred.

c) Defined benefit plans

The Group's net obligation in respect of defined benefit pension plans is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets (at bid price) is deducted. The discount rate is the yield at the balance sheet date on AA credit rated bonds that have maturity dates approximating to the terms of the Group's obligations. The defined benefit obligation calculation is performed by a qualified actuary using the projected unit credit method.

All actuarial gains and losses were recognised as at 1 April 2006, the date of transition to Adopted IFRSs. In respect of actuarial gains and losses that arise subsequent to 1 April 2006 the Group recognises them in the period they occur directly in other comprehensive income.

Where the calculation results in a benefit to the Group, the asset recognised is limited to the present value of any future refunds from the plan or reductions in future contributions to the plan.

Under IAS19, the Group determines the net interest expense/(income) for the period on the net defined benefit liability/asset by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability/asset at the beginning of the period, taking into account any changes in the net defined benefit liability/asset during the period as a result of contributions and benefit payments.

d) Short-term benefits

Short-term employee benefit obligations are expensed as the related service is provided. An accrual is recognised for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

Exceptional items

As required by IAS1 'Presentation of financial statements', an item is disclosed separately if it is considered unusual by its nature and scale, and is of such significance that separate disclosure is required for the financial statements to be properly understood. Such items are referred to by the Group as exceptional items.

Financial instruments

Financial instruments issued by the Group are treated as equity only to the extent that they meet the following two conditions:

(a) they include no contractual obligations upon the Group to deliver cash or other financial assets or to exchange financial assets or financial liabilities with another party under conditions that are potentially unfavourable to the Group; and

(b) where the instrument will or may be settled in the Company's own equity instruments, it is either a non-derivative that includes no obligation to deliver a variable number of the Company's own equity instruments or is a derivative that will be settled by the Company's exchanging a fixed amount of cash or other financial assets for a fixed number of its own equity instruments.

To the extent that this definition is not met, the proceeds of issue are classified as a financial liability. Where the instrument so classified takes the legal form of the Company's own shares, the amounts presented in these financial statements for called up share capital and share premium account exclude amounts in relation to those shares.

Finance payments associated with financial liabilities are dealt with as part of finance expenses. Finance payments associated with financial instruments that are classified in equity are treated as distributions and are recorded directly in equity.

Non-derivative financial instruments

Non-derivative financial instruments comprise trade and other receivables, available for sale financial assets, cash and cash equivalents, loans and borrowings, and trade and other payables.

a) Trade and other receivables

Trade and other receivables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method, less any impairment losses.

b) Trade and other payables

Trade and other payables are recognised initially at fair value. Subsequent to initial recognition they are measured at amortised cost using the effective interest method.

c) Cash and cash equivalents

Cash and cash equivalents comprise cash balances and deposits repayable on demand. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are included as a component of cash and cash equivalents for the purpose only of the statement of cash flows.

d) Interest-bearing borrowings

Interest bearing borrowings are recognised in the balance sheet at amortised cost. Costs associated with extending the bank facility have been recognised in the income statement. All other borrowing costs are recognised in the income statement in the period in which they are incurred.

Foreign currency

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the balance sheet date are translated at the foreign exchange rate ruling at that date. Foreign exchange differences arising on translation are recognised in the income statement. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction.

Guarantees

Third party property guarantees are initially recognised as a financial liability under IAS37 'Provisions, Contingent Liabilities and Contingent Assets'. These are measured and recognised at fair value. These property guarantees are included within 'Provisions' on the balance sheet.

Impairment

The carrying values of the Group's assets, other than inventories and deferred tax assets, are reviewed at each balance sheet date to determine whether there is any impairment. In performing the impairment reviews, the asset's recoverable amount is estimated and compared to the carrying amount.

An impairment loss is recognised to the extent that the carrying value of an asset exceeds its recoverable amount and is recognised in the income statement.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is based on either the weighted average principle or the FIFO basis and includes certain warehousing and distribution costs incurred in bringing the inventory to their existing location and condition less attributable supplier volume rebates (see above). Net realisable value is the estimated selling price less the estimated costs of disposal.

Investment in joint ventures

The Group conducts its joint venture arrangements through jointly controlled entities and accounts for them using the equity method of accounting. The Group records its share of the joint controlled entities' post tax profit or loss within the income statement and its share of the net assets within investments. Where the Group transacts with its jointly controlled entities, unrealised profits and losses are eliminated to the extent of the Group's interest in the joint venture.

Leases

Payments made under operating leases are recognised in the income statement on a straight-line basis over the term of the lease. Where a lease has a minimum fixed increase, the total minimum lease payments are spread over the lease term. The total amount payable over the life of the lease remains unchanged but the timing of the income statement charge relative to the lease payments change. The excess of the rent charged over the cash payment in any period will be held on the balance sheet within 'Accruals and deferred income'.

Lease incentives received are recognised in the income statement as an integral part of the total lease expense.

Net financing costs

Interest income and interest payable is recognised in profit or loss as it accrues, using the effective interest method.

Operating segments

IFRS8 'Operating Segments' requires that segments should be reported on the same basis as the internal reporting information that is provided to the Chief Operating Decision Maker

('CODM'). The CODM has been identified as the CEO. In accordance with IFRS8, the Group may aggregate operating segments into one reportable segment to the extent that the criteria for aggregation in IFRS8 are met. These criteria include consideration of whether the operating segments have similar economic characteristics; similar nature of products and services; similar type or class of customers; similar methods used to distribute products or provide services; and similar regulatory environments.

The CODM receives turnover information analysed in a number of different ways (for example by customer and product types, by delivery channels and between Wholesale, Booker Direct, Chef Direct, and Ritter-Courivaud). However, none of these 'possible' segments have a unique management structure, products share the same supply chain and distribution channels, and there are a large amount of supplier rebates, expenses and assets/(liabilities) that are not specific. It is therefore not possible to analyse, and the CODM does not receive, information in respect of profitability or balance sheets in the same way in which turnover is analysed. Internal reports reviewed regularly by the CODM focus on the operations of the Group as a whole and report the results and financial position on an IFRS basis.

As a result, the Group has not disclosed discrete financial information about any of the 'possible segments', which in any event would meet the criteria for aggregation under IFRS8, separately in these financial statements.

Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment. Labour and associated costs that have been incurred specifically on the 'Extra' business centre conversions have been capitalised in leasehold improvements and are being depreciated over the lesser of 10 years or the number of years remaining on the lease.

Leases in which the Group assumes substantially all the risks and rewards of ownership of the leased asset are classified as finance leases. Where land and buildings are held under leases the accounting treatment of the land is considered separately from that of the buildings. Leased assets acquired by way of finance lease are stated at an amount equal to the lower of their fair value and the present value of the minimum lease payments at inception of the lease, less accumulated depreciation and impairment losses.

Depreciation is charged to the income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives are as follows:

- Freehold buildings — 30 years
- Leasehold improvements — lesser of the unexpired term of the lease and 50 years
- Plant and equipment — 3–20 years
- Motor vehicles — 4 years

Freehold land is not depreciated.

Depreciation expense is primarily charged in cost of sales with an immaterial amount in administrative expenses.

Provisions

A provision is recognised in the balance sheet when the Group has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected, risk adjusted, future cash flows at a pre-tax rate that reflects the time value of money and the risks specific to the liability.

Taxation

Tax expense included in the Income Statement comprises current and deferred tax.

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the balance sheet date, and any adjustment to tax payable in respect of previous periods.

Tax is recognised in the income statement except to the extent it relates to items recognised directly in equity, in which case it is recognised in equity, or to the extent it relates to items recognised in other comprehensive income, in which case it is recognised in other comprehensive income.

Deferred tax is provided using the Balance Sheet liability method, providing for temporary differences between the carrying amounts of assets (excluding goodwill) and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: the initial recognition of goodwill and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit other than in a business combination, to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date. Deferred tax is charged or credited in the Income Statement, except when it relates to items charged or credited directly to equity, in which case deferred tax is also dealt with in equity. Deferred tax assets are only recognised to the extent that, following an assessment of the quantum and timing of future taxable profits, it is probable that future 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 the amount which is recognised is increased or reduced to the extent that it is then probable or no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered. Deferred tax assets and liabilities are offset against each other when they relate to income taxes levied by the same tax jurisdiction and when the Group intends to settle its current tax assets and liabilities on a net basis.

3. Segmental reporting

The Group has considered the principles of IFRS8 as well as its internal reporting, management and operating structure. The Directors' conclusion is that the Group has a single reportable segment, that of wholesaling activities.

Other than the operation in India (which is immaterial), all of the Group's revenue originates from the UK. The functional currency of the Indian operation is Rupees.

The Group has no significant reliance on any individual customers.

4. Profit before tax

This is stated after charging/(crediting)

	2017 £m	2016 £m
Depreciation of property, plant and equipment (see note 10)	25.1	23.5
(Profit)/loss on disposal of property, plant and equipment	(0.6)	0.1
Amortisation of intangibles (see note 11)	1.1	1.2
Operating lease rentals – land and buildings	57.3	55.0
Operating lease rentals – plant and machinery	22.4	20.4
During the period, the Group incurred the following costs for services provided by the Company's auditor:		
Audit fees for the Company and the consolidated financial statements	0.1	0.1
Audit of subsidiary companies	0.4	0.4
Total audit fees	0.5	0.5
Taxation advisory services	0.1	0.1
Corporate finance and transaction services	0.3	0.2
	0.9	0.8

Amounts paid to the company's auditor and its associates in respect of services to the company, other than the audit of the company's financial statements, have not been disclosed as the information is required instead to be disclosed on a consolidated basis.

Exceptional items

	2017 £m	2016 £m
Included within administrative expenses:		
Restructuring costs	–	4.0
Acquisition costs	–	2.3
Release of other provisions	–	(4.0)
	–	2.3

No exceptional items were recorded in the current year. In the prior year, £2.3m of exceptional costs were charged consisting of:

- restructuring costs of £4.0m relate primarily to redundancy costs to align staffing levels across the branch network;
- acquisition costs of £2.3m were incurred during the acquisition of BRP (see note 9) and were, in the main, fees in relation to legal and professional services; and
- a £4.0m release of other provisions stems from a reassessment of the likelihood of crystallisation of certain liabilities reserved for many years ago.

5. Staff numbers and costs

The average number of persons employed by the Group during the period was as follows:

	2017 Number	2016 Number
Business centre, distribution and selling	12,200	12,042
Administration	1,333	1,102
	13,533	13,144

The aggregate payroll costs of these persons were as follows:

	£m	£m
Wages and salaries	287.4	261.3
Social security costs	25.4	21.3
Equity settled share based payments	5.8	6.9
Other pension costs	8.3	6.4
	326.9	295.9

The prior period included Booker Retail Partners (GB) Limited from 14 September 2015.

Details of Directors' remuneration are provided in the Remuneration Report.

6. Finance costs and income

	2017 £m	2016 £m
Interest on bank loans and overdrafts	(0.5)	(0.8)
Interest on pension scheme liabilities	(1.0)	(0.5)
Unwinding of discount on property provisions (see note 19)	(1.0)	(1.3)
Finance costs	(2.5)	(2.6)
Bank interest receivable	0.4	0.6
Finance income	0.4	0.6
Net finance costs	(2.1)	(2.0)

7. Tax

i) Analysis of charge in the period

	2017 £m	2016 £m
Arising in respect of current period		
Current tax	29.9	27.7
Deferred tax	0.1	(1.7)
	30.0	26.0
Arising in respect of prior periods		
Overstatement in respect of prior period current tax	(10.5)	(3.6)
Overstatement in respect of prior period deferred tax asset	0.7	0.6
	(9.8)	(3.0)
Total tax charge	20.2	23.0

UK corporation tax is calculated at 20% (2016: 20%) of the estimated assessable profit for the period. Taxation in other jurisdictions is calculated at the rates prevailing in respective jurisdictions.

ii) Reconciliation of effective tax rate

The differences between the total tax charge shown above and the amount calculated by applying the standard rate of UK corporation tax to the profit before tax is as follows:

	2017 £m	2016 £m
Profit before tax	174.0	150.8
Tax using the current UK corporation tax rate of 20% (2016: 20%)	34.8	30.2
Non-deductible expenses	2.3	0.6
Overstatement of prior year deferred tax asset	0.7	0.6
Overstatement of prior year current tax	(2.7)	(2.1)
Recognition of previously unrecognised tax assets	(15.1)	(7.6)
Impact of change in future tax rates	–	1.3
Difference arising on taxation of disposal of assets	0.2	–
Total tax charge	20.2	23.0
Effective tax rate	11.6%	15.3%

iii) Tax in the statement of comprehensive income

	2017 £m	2016 £m
Deferred tax credit on:		
Pension scheme remeasurements	1.7	3.1

iv) Tax in the statement of changes in equity

	2017 £m	2016 £m
Deferred tax credit/(charge) on share options granted	1.2	(2.6)
Current tax credit on share options exercised	1.1	4.0
	2.3	1.4

v) Factors that may affect future current and total tax charge

Reductions in the UK corporation tax rate from 20% to 19% (effective from 1 April 2017) and to 18% (effective 1 April 2020) were substantively enacted on 26 October 2015, and an additional reduction to 17% (effective 1 April 2020) was substantively enacted on 6 September 2016. This will reduce the company's future current tax charge accordingly. The deferred tax assets and liabilities as at 24 March 2017 have been calculated based on these rates.

8. Earnings per share

a) Basic earnings per share

Basic earnings per share is calculated by dividing the profit for the period attributable to the owners of the Group by the weighted average number of ordinary shares outstanding during the period.

	2017	2016
Profit for the period attributable to the owners of the Group (£m)	153.8	127.8
Weighted average number of shares (m)	1,775.7	1,765.2
Basic earnings per share (pence)	8.66p	7.24p

b) Diluted earnings per share

Diluted earnings per share is based on the weighted average number of ordinary shares in issue adjusted by dilutive outstanding share options and dilutive shares issuable under the Group's share plans. The number of shares included in the diluted EPS in relation to the SAYE and the share option schemes has been calculated in accordance with IAS33 'Earnings per Share'.

	2017	2016
Profit for the period attributable to the owners of the Group (£m)	153.8	127.8
Weighted average number of shares (m) used in basic EPS	1,775.7	1,765.2
Effects of employee share options (m)	16.1	22.4
Weighted average number of shares (m) used in diluted EPS	1,791.8	1,787.6
Diluted earnings per share (pence)	8.58p	7.15p

9. Business combination

During the prior period, the Group acquired the entire share capital of Musgrave Retail Partners GB Limited and its' subsidiaries ('Budgens and Londis') for £40.0m on a cash/debt free basis with a normalised working capital level. This resulted in overall consideration of £110.9m being the sum of £40.0m plus net cash acquired of £66.4m and a working capital adjustment of £4.5m. Originally, it was acquired by Booker Group plc, but this was subsequently transferred to Booker Wholesale Holdings Ltd.

Through Booker, Budgens and Londis coming together, the Group seeks to become the UK's leading wholesaler to independent retailers by:

- combining the best ranges from Booker, Budgens and Londis to improve the overall choice;
- consolidating buying volumes to improve prices for customers; and
- better utilisation of the supply chain network to reduce costs.

The acquisition had the following effect on the Group's assets and liabilities:

	Book value £m	Fair value adjustments £m	Fair value £m
Property, plant and equipment	18.6	2.8	21.4
Inventories	30.9	(0.9)	30.0
Trade and other receivables	53.2	(4.5)	48.7
Cash & cash equivalents	66.4	–	66.4
Trade and other payables	(71.7)	(0.6)	(72.3)
Provisions	(15.8)	(4.0)	(19.8)
Retirement benefit asset	2.3	10.5	12.8
Deferred tax liability	–	(4.4)	(4.4)
Net fair value of identifiable assets and liabilities	83.9	(1.1)	82.8
Goodwill			28.1
Cash consideration			110.9

The fair value adjustments made on acquisition have primarily had the effect of:

- increasing the property valuations;
- increasing the pension surplus to reflect valuations of the schemes in accordance with IAS19;

- increasing provisions in respect of rents that are not in line with the market rent; and
- providing for deferred tax liabilities in respect of the above adjustments.

The goodwill is underpinned by the synergies that the Group is expected to obtain from improved cost prices from suppliers and logistics efficiencies. None of the goodwill recognised will be deductible for tax purposes.

In accordance with IFRS3 'Business Combinations', the hindsight adjustment period for the acquisition ended on 14 September 2016. There have been no further changes to the fair value of net assets acquired.

10. Property, plant & equipment

	Freehold land and buildings £m	Leasehold improve-ments £m	Plant, equipment & vehicles £m	Total £m
Cost				
At 27 March 2015	103.4	88.8	286.5	478.7
Additions	0.5	8.4	16.3	25.2
Disposals	(1.8)	(0.2)	(3.1)	(5.1)
Reclassification	–	0.5	(0.5)	–
Acquired	10.0	2.8	8.6	21.4
At 25 March 2016	112.1	100.3	307.8	520.2
Additions	0.1	10.9	16.0	27.0
Disposals	(8.8)	(3.1)	(5.2)	(17.1)
At 24 March 2017	103.4	108.1	318.6	530.1
Depreciation				
At 27 March 2015	6.7	46.0	218.9	271.6
Charge for the period	2.5	6.9	14.1	23.5
Disposals	(1.7)	(0.1)	(2.9)	(4.7)
At 25 March 2016	7.5	52.8	230.1	290.4
Charge for the period	2.5	8.0	14.6	25.1
Disposals	–	(0.3)	(1.5)	(1.8)
At 24 March 2017	10.0	60.5	243.2	313.7
Net book value				
At 24 March 2017	93.4	47.6	75.4	216.4
At 25 March 2016	104.6	47.5	77.7	229.8
At 27 March 2015	96.7	42.8	67.6	207.1

The cost of freehold land and buildings includes land of £47.4m (2016: £49.0m) on which depreciation is not provided.

11. Intangible assets

	Goodwill £m	Customer relationships £m	Know-how £m	Total £m
Cost				
At 27 March 2015	436.4	0.5	5.0	441.9
Additions	28.1	–	–	28.1
At 25 March 2016	464.5	0.5	5.0	470.0
Additions	–	–	–	–
At 24 March 2017	464.5	0.5	5.0	470.0
Amortisation				
At 27 March 2015	–	0.5	1.6	2.1
Charge for the period	–	–	1.2	1.2
At 25 March 2016	–	0.5	2.8	3.3
Charge for the period	–	–	1.1	1.1
At 24 March 2017	–	0.5	3.9	4.4
Net book value				
At 24 March 2017	464.5	–	1.1	465.6
At 25 March 2016	464.5	–	2.2	466.7
At 27 March 2015	436.4	–	3.4	439.8

Goodwill arose in the Group from the following:

- the acquisition of Budgens and Londis in September 2015 (see note 9);
- the acquisition of the Big Food Group Limited by Giant Topco Limited in February 2005; and
- the acquisition of Ritter-Courivaud Limited in October 2010.

Under IAS36 'Impairment of Assets', the Group is required to test goodwill for impairment at least annually, or more frequently if indicators of impairment exist. Impairment reviews compare the carrying value of goodwill, other intangible fixed assets and net operating assets contained in each cash generating unit ('CGU') with its recoverable amount.

The recoverable amount of each CGU is considered to be its value in use, calculated by reference to the pre-tax cash flow projections of each CGU based on the Group's approved budget for 2018 and three year plan to 2020. Cash flows beyond this period are extrapolated into perpetuity using an estimated growth rate of 2% (2016: 2%), being the Directors' estimated view of the long term compound growth in the economy. This is considered appropriate because the CGU is considered to be a long term business. Risk adjusted pre-tax discount rates are applied to the cash flow forecasts to calculate the value in use of each CGU.

The main assumptions on which the forecast cash flows are based include the level of sales, gross margin and expenses within the business and have been set by the Directors based on their past experience of the business and its industry together with their expectations of the market. The level of sales depends upon the size of the markets in which the Group operates together with the Directors' estimations of its market share and competitive pressures. Gross margin is dependent upon the net costs to the business of purchasing products together with the level of supplier rebates and income to support sales activities. Expenses are based on the current cost base of the Group adjusted for variable costs and known plans for the business.

The Directors believe that three CGUs exist within the Group:

a) Ritter – goodwill allocated £12.5m (2016: £12.5m)

A pre tax discount rate of 9.5% (2016: 9.4%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

b) Budgens and Londis – goodwill allocated £3.1m (2016: £3.1m)

A pre tax discount rate of 12.0% (2016: 12.0%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

c) Remaining business – goodwill allocated £448.9m (2016: £448.9m)

A pre tax discount rate of 9.5% (2016: 9.5%) has been applied to the projected cash flows.

A sensitivity analysis has been performed in order to review the impact of changes in key assumptions. With all other assumptions held constant, neither a 10% increase in the pre-tax discount rate, nor a decline in growth of 10% into perpetuity, would require an impairment to be made.

The Directors consider that the assumptions used in the value in use calculations are reasonable and that no impairment is required.

12. Investment in joint venture

	2017 £m	2016 £m
At start of period	1.5	1.4
Addition	0.5	0.5
Share of loss for the period	(0.4)	(0.4)
At end of period	1.6	1.5

During the period the Group invested £0.5m in its joint venture Booker Satnam Wholesale Private Limited, which is incorporated in India. Whilst at the year end, the Group owned 87% (2016: 85%) of the ordinary share capital, the Group has joint control through the contractually agreed sharing of control. The share of loss for the period has been included within administrative expenses and has not been disclosed separately on the face of the income statement in view of its materiality.

13. Deferred tax assets and liabilities

a) Recognised deferred tax assets

The following are the major deferred tax assets recognised by the Group:

	Decelerated tax depreciation £m	Share based payments IFRS2 £m	Retirement benefit obligations IAS19 £m	Property leases IAS17 £m	Trading losses £m	Other £m	Total £m
At 27 March 2015	11.5	6.9	3.9	3.1	0.8	1.9	28.1
Acquired (see note 9)	–	–	(4.5)	–	–	0.1	(4.4)
Overstatement in respect of prior year	–	–	–	–	(0.6)	–	(0.6)
Credit/(charge) to the income statement	(1.1)	0.1	0.1	(3.1)	6.3	(0.6)	1.7
Credit to equity	–	(2.6)	3.1	–	–	–	0.5
At 25 March 2016	10.4	4.4	2.6	–	6.5	1.4	25.3
Over/(understatement) in respect of prior year	2.5	–	–	2.0	(5.2)	–	(0.7)
Credit/(charge) to the income statement	(0.3)	0.2	0.2	(0.2)	(0.8)	0.8	(0.1)
Credit to equity	–	1.2	1.7	–	–	–	2.9
At 24 March 2017	12.6	5.8	4.5	1.8	0.5	2.2	27.4

IAS12 'Income Taxes' requires the offsetting of balances within the same tax jurisdiction. All of the deferred tax assets were available for offset against deferred tax liabilities.

b) Unrecognised deferred tax assets

Deferred tax assets have not been recognised in respect of the following:

	2017 £m	2016 £m
Tax losses	14.5	16.0
Surplus ACT carried forward	15.9	23.7
Surplus capital allowances	5.2	7.9
	35.6	47.6

The Group has unrecognised deferred tax assets:

- unutilised tax trading losses from both UK and overseas operations of £62.4m, £14.5m cash benefit (2016: £77.2m, £16.0m cash benefit);
- surplus ACT of £15.9m, £15.9m cash benefit (2016: £23.7m, £23.7m cash benefit); and
- surplus capital allowances over accounting depreciation charged of £30.0m, cash benefit £5.2m (2016: £44.0m, £7.9m cash benefit).

These have not been recognised following a detailed assessment by the Group in accordance with the accounting policy set out in note 2.

The tax trading losses have various expiry dates the earliest of which, in respect of £1.2m of the losses, is 31 March 2018. There are no expiry dates in respect of £41.0m (£7.0m cash benefit) of the tax losses and £30.0m (£5.2m cash benefit) of surplus capital allowances inherited as a result of the acquisition of Budgens and Londis. There are also no expiry dates pertaining to the ACT.

The Group does not have any unremitted overseas earnings.

14. Inventories

	2017 £m	2016 £m
Goods held for resale	397.0	354.1

15. Trade and other receivables

	2017 £m	2016 £m
Trade receivables	123.8	132.2
Allowance for doubtful debts	(8.6)	(10.6)
	115.2	121.6
Prepayments and accrued income	52.6	59.3
	167.8	180.9

Trade receivables of £115.2m (2016: £121.6m) comprise principally of amounts receivable from the sale of goods and are classified as loans and receivables in note 17. All amounts are expected to be received within twelve months.

The movement in the allowance for doubtful debts is as follows:

	2017 £m	2016 £m
At start of period	10.6	4.3
Acquired	–	6.4
Utilised in the period	(2.0)	(0.8)
Charged to income statement	–	0.7
	8.6	10.6

16. Trade and other payables

	2017 £m	2016 £m
i) Current		
Trade payables	606.9	573.3
Other taxes and social security costs	29.3	36.7
Other payables	9.1	6.6
Accruals and deferred income	54.5	61.3
	699.8	677.9
ii) Non-Current		
Accruals and deferred income	25.0	26.0

£645.3m (2016: £616.6m) of trade and other payables are classified under financial liabilities in note 17.

The non-current accruals and deferred income relate to lease incentives and guaranteed minimum lease payments, which are accounted for on a straight line basis in accordance with the Group's accounting policy.

17. Financial instruments

Details of significant accounting policies and methods adopted, including the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 2.

The book value and fair value of the financial instruments are as follows:

	Book value		Fair value	
	2017 £m	2016 £m	2017 £m	2016 £m
Financial assets				
Trade and other receivables	115.2	121.6	115.2	121.6
Cash and cash equivalents	160.7	127.4	160.7	127.4
	275.9	249.0	275.9	249.0
Financial liabilities				
Trade and other payables	(645.3)	(616.6)	(645.3)	(616.6)
Property guarantees	(1.0)	(1.0)	(1.0)	(1.0)
	(646.3)	(617.6)	(646.3)	(617.6)

Trade and other receivables represent amounts receivable from the sale of goods, together with amounts due from supplier rebates (see note 15) and are initially measured at fair value and then subsequently held at amortised cost.

Fair value of property guarantees have been estimated by discounting estimated future cash flows based on the terms and maturity and risk of each guarantee crystallising.

Fair value hierarchy

The table below analyses financial instruments measured at fair value, into a fair value hierarchy based on the valuation technique used to determine fair value:

Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices)

Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
2017				
Financial assets	–	275.9	–	275.9
Financial liabilities	–	(646.3)	–	(646.3)
2016				
Financial assets	–	249.0	–	249.0
Financial liabilities	–	(617.6)	–	(617.6)

There have been no transfers between categories during the period.

Liquidity risk

The Group will finance operations and growth from existing cash resources, finance leases and committed borrowing facilities to ensure the constant availability of an appropriate amount of reasonably priced funding to meet both current and future forecast requirements.

In August 2015, the Group negotiated an unsecured bank facility of £120m for a period of 5 years. The revolving credit facility bears floating interest rates linked to LIBOR plus a margin of 0.8%. In the event of default of covenants on the bank facility, any drawn facility and any interest accrued are repayable on demand.

	2017 £m	2016 £m
Facility available	120.0	120.0
Bank guarantees	–	–
Undrawn facility available	120.0	120.0

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities:

	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	Over 4 years £m
2017					
Trade and other payables	645.3	–	–	–	–
2016					
Trade and other payables	616.6	–	–	–	–

It is not possible to quantify the timing of the cash flows relating to the property guarantees.

The undiscounted cash flows for borrowings differ from their carrying value in the balance sheet due to the inclusion of contractual interest payments and the adjustment for non-cash items including unamortised borrowing costs. The undiscounted cash flows for financial instruments reflect the amounts payable on these instruments which differs from the fair value recorded on the balance sheet. There is no difference between the discounted and undiscounted cash flows associated with trade payables due to their short term nature.

Credit risk

The Group is predominantly a cash sales business with low levels of trade receivables in comparison to total sales for the year and has no significant concentration of credit risk, with exposure spread over a large number of customers. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. The Group has an accounting policy to provide for certain overdue trade receivables based on past experience, and believe that there are no significant unprovided overdue financial assets.

Interest rate risk

Interest rate risk is relatively small to the Group, as there are no fixed borrowings and the revolving credit facility was not drawn during the year. Therefore the Group has chosen not to hedge its borrowings.

Capital risk

The Group's objectives when managing capital are:

- to safeguard the entity's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other *stakeholders; and*

- *to provide an* adequate return to shareholders by pricing products and services commensurately with the level of risk.

The Group sets the amount of capital in proportion to risk. The Group manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In assessing the level of capital all components of equity are taken into account (i.e. share capital and retained earnings). The Group has £160.7m of net cash as at 24 March 2017 and is not subject to externally imposed capital requirements. Management of capital therefore focuses around its ability to generate cash from its operations.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares, or sell assets to raise funds. The Group believes it is meeting its objectives for managing capital as funds are available for reinvestment where necessary as well as being in a position to make returns to shareholders where this is felt appropriate.

Foreign currency risk

Less than 1% of purchases are denominated in foreign currencies. At the year end, there were no outstanding foreign exchange contracts.

The majority of sales are denominated in sterling, with the exception of sales made from the Group's Indian operation which are denominated in rupees.

18. Post employment benefits

The Group operates a variety of post employment benefit arrangements, covering both funded defined benefit and funded defined contribution schemes to provide benefits to both full-time and part-time employees.

Defined contribution schemes

Pension contributions of £8.3m (2016: £6.4m) were charged to defined contribution schemes in the period. Included within accruals is £0.5m (2016: £0.5m) of outstanding pension contributions.

Defined benefit schemes

The Group operates a number of defined benefit pension schemes, the assets of which are held in separate trustee-administered funds to meet future benefit payments. The schemes are established under trust law and comply with all relevant UK legislation. The Trustees are responsible for running the schemes in line with the Trust Deed and Rules and for complying with UK pension legislation. They are required to oversee the administration of the schemes, arrange timely and correct payment of benefits and manage the scheme's funding and investments.

The main Group pension scheme is the Booker Pension Scheme ('the Booker Scheme'), a funded defined benefit pension arrangement based on final salary and which was closed to new entrants in 2001 with benefits ceasing to accrue from 2002. However, active members' benefits retain a link to their final salaries.

On 14 September 2015 the Group acquired Musgrave Retail Partners GB Limited, which operates the Budgens Pension Scheme ('the Budgens Scheme') and the Londis Pension Scheme ('the Londis Scheme'), both trust based occupational defined benefit pension schemes. The Londis Scheme was closed to new entrants in 1991 and future benefit accrual in 2009. The Budgens Scheme closed to both new entrants and future accrual in 2010, albeit active member's benefits retain a link to their final salaries.

The benefit obligations as at 24 March 2017 have been calculated by an independent actuary on an IAS19 basis, by rolling forward from the results of the latest actuarial funding valuation, which is 31 March 2016, 31 March 2015 and 1 April 2014 for the Booker Scheme, the Budgens Scheme and the Londis Scheme respectively.

The present value of the defined benefit obligation has been calculated using the projected unit credit method.

(a) Major assumptions used by the actuary – weighted average

	2017 £m	2016 £m
Discount rate	2.70%	3.50%
RPI inflation	3.20%	3.00%
CPI inflation	2.20%	2.00%
Rate of increase in salaries	2.20%	2.00%
Pension increases in payment	3.20%	2.95%

The average life expectancy in years of a member is as follows:

		2017	2016
Aged 65 retiring immediately (current pensioner)	Male	21.6	21.6
	Female	23.8	23.9
Aged 40 retiring at 65 (future pensioner)	Male	23.0	23.4
	Female	25.4	25.8

At 24 March 2017, the weighted average duration of the defined benefit obligation is approximately 17 years.

(b) The amounts recognised in the balance sheet

	Booker £m	Budgens & Londis £m	2017 £m	Booker £m	Budgens & Londis £m	2016 £m
Equities	116.3	26.4	142.7	99.8	27.2	127.0
Other growth assets	152.8	12.1	164.9	143.7	8.3	152.0
Bonds	327.4	66.4	393.8	303.1	54.6	357.7
Property	44.6	–	44.6	44.6	–	44.6
Cash	3.9	1.1	5.0	3.8	0.1	3.9
Fair value of scheme assets	645.0	106.0	751.0	595.0	90.2	685.2
Present value of defined benefit obligation	(712.4)	(85.5)	(797.9)	(640.2)	(74.6)	(714.8)
Net (liability)/asset	(67.4)	20.5	(46.9)	(45.2)	15.6	(29.6)

Based on the rules of schemes, the sponsoring employers have an unconditional right to a refund of surplus once all the liabilities have run off. Therefore the provisions of IFRIC14 relating to an asset ceiling do not apply. Accordingly, the surpluses under both the Budgens Scheme and Londis Scheme have not been restricted and no additional liability has been recognised for the Booker Scheme.

The bid value of the assets was provided by each of the various fund managers in which the schemes are invested. All scheme assets have quoted prices in active markets. Around £91m of the Booker Scheme equity allocation relates to an equity liability driven investment. This provides a long term expected return in line with equities but with asset value movements which respond to changes to bond yields and inflation expectations – this helps smooth the funding level compared to holding a traditional equity investment.

The schemes do not hold any of the Group's financial instruments or property as plan assets.

The defined benefit obligation at 24 March 2017 can be approximately attributed to the scheme members as follows: active members 8%, deferred members 46% and pensioner members 46%.

(c) Movement in the fair value of the scheme assets

	2017 £m	2016 £m
Opening fair value of scheme assets	685.2	649.5
Employer contributions	–	0.8
Interest income	23.4	23.1
Return on assets (less amount included in net interest expense)	77.9	(35.0)
Benefits paid	(35.5)	(40.4)
Assets acquired on business combination	–	87.2
Closing fair value of scheme assets	751.0	685.2

(d) Movement in the present value of the defined benefit obligation

	2017 £m	2016 £m
Opening defined benefit obligation	(714.8)	(669.2)
Interest cost	(24.4)	(23.6)
Remeasurement gains/(losses):		
Actuarial gains/(losses) from changes in financial assumptions	(108.9)	3.9
Actuarial losses from changes in demographic assumptions	4.0	(1.1)
Actuarial gains arising from experience adjustments	10.7	9.2
Benefits paid	35.5	40.4
Liabilities acquired on business combination	–	(74.4)
Closing defined benefit obligation	(797.9)	(714.8)

(e) Movement in the net defined benefit liability

	2017 £m	2016 £m
Opening net defined benefit liability	(29.6)	(19.7)
Employer contributions	–	0.8
Net asset acquired on business combination	–	12.8
Net charge recognised in the income statement	(1.0)	(0.5)
Total remeasurements included in OCI	(16.3)	(23.0)
Closing net defined benefit liability	(46.9)	(29.6)

(f) Amounts recognised in the income statement

	2017 £m	2016 £m
Interest income on scheme assets	23.4	23.1
Interest cost on defined benefit obligation	(24.4)	(23.6)
Net interest expense on defined benefit obligation	(1.0)	(0.5)

(g) Risks associated with defined benefit pension schemes

The list below summarises the principal risks associated with the Group's defined benefit pension arrangements. The Group is not exposed to any unusual, entity specific or scheme specific risks.

Investment Risk: The present value of defined benefit liabilities is calculated using a discount rate set by reference to high quality corporate bond yields. To the extent that the return on plan assets is lower than the discount rate, the pension deficit may increase.

Interest Rate Risk: A fall in bond yields would increase the value of the liabilities. This would be partially offset by an increase in the value of bond investments held.

Inflation Risk: An increase in inflation would increase the value of pension liabilities. This would be partially offset by an increase in the value of index-linked bond investments held.

Longevity Risk: The present value of the defined benefit liabilities is calculated having regards to a best estimate of the mortality of scheme members. If members actually live longer than assumed, this will increase the liabilities.

(h) Sensitivities

Significant actuarial assumptions for the determination of the defined benefit obligation are the discount rate, RPI inflation, salary increases, pension increases, and life expectancy. The sensitivity analysis below shows the impact on the defined benefit obligation at the end of the reporting period of reasonably possible changes in these assumptions.

Consistent with the sensitivities disclosed last year, when calculating the sensitivity of the defined benefit obligations in the scheme to significant assumptions, the same method has been applied as when calculating the pension liability recognised within the balance sheet.

These impacts have been determined in isolation whilst holding all other assumptions constant:

Discount rate	+/- 0.1%	Decrease/increase in liabilities by £12m
RPI inflation rate	+/- 0.1%	Increase/decrease in liabilities by £9m
Rate of increases in salaries	+/- 0.1%	Increase/decrease in liabilities by £0.4m
Pension increases in payment	+/- 0.1%	Increase/decrease in liabilities by £5m
Life expectancy for current and future pensioners	+/- 1 year	Increase/decrease in liabilities by £25m

Changes in RPI inflation impact CPI inflation and pension increases both before retirement and in payment.

(i) Contributions to be paid

- **Booker Scheme** – the last actuarial funding valuation was carried out at 31 March 2016, which revealed a shortfall of £41.1m at this date. This shortfall is expected to be recovered through Company deficit contributions of £5.4m per annum payable for six years, with effect from 1 April 2017 and the returns achievable on the assets of the Scheme.

- **Budgens Scheme** – the last actuarial funding valuation was carried out at 31 March 2015, which revealed a nil shortfall at this date.

- **Londis Scheme** – the last actuarial funding valuation was carried out at 1 April 2014, which revealed a shortfall of £0.5 million at this date. This shortfall is expected to be recovered through returns on the scheme assets, and no contributions are required.

19. Provisions

	Property provisions £m	Other £m	Total £m
At 25 March 2016	39.8	1.0	40.8
Unwinding of discount	1.0	–	1.0
Utilised	(3.9)	–	(3.9)
At 24 March 2017	36.9	1.0	37.9

The property provisions principally relate to:

- the onerous leases on property currently vacant or sublet for less than the cost of the underlying head lease;
- the expected future dilapidation cost on leasehold properties; and
- the expected future costs of removing asbestos from leasehold properties. Although not a health risk, the Group is legally required to undertake a programme of removal.

The sensitivity below shows the impact on the property provisions at the end of the reporting period of reasonably possible changes in these assumptions, which have been determined in isolation whilst holding all other assumptions constant:

- a 1% reduction in the discount rate would increase the provisions by £2.9m
- a 10% reduction in the quantum of the cash flows in relation to distribution centre dilapidations would reduce the provisions by £1.3m
- a 10% increase in the quantum of the cash flows in relation to branch dilapidations would increase the provision by £1.0m
- a 10% increase in the cash flows in respect of onerous and potentially onerous leases would lead to an increase in the provision of £3.7m.

Approximately £4m is expected to be utilised in the year to March 2018.

Other provisions relate to third party property guarantees, for which the timing and quantum of payments is uncertain. Payment could be made on demand and the provision represents management's current estimate of the future liability.

20. Share capital

	Number of shares	Share capital £m
Allotted, called up and fully paid (£0.01 ordinary shares)		
At 25 March 2016	1,772,837,070	17.7
Share options exchanged (see note 23)	738,365	–
Share options exercised (see note 23)	8,385,198	0.1
At 24 March 2017	1,781,960,633	17.8

The total authorised number of ordinary shares is 2,000,000,000 (2016: 2,000,000,000) with a par value of £0.01 per share.

The holders of ordinary shares are entitled to receive dividends and are entitled to one vote per share at meetings of the Company.

The Company also has in issue 4,135,800 B shares that were redeemed by the shareholders on 27 April 2017 for 3.2 pence per share (see note 22b for more details).

6,661,793 ordinary shares in the Company (representing 0.37% of total shares issued) are held by the Booker Employee Benefit Trust which was established in 2006 to hold shares on a discretionary basis for the benefit of employees of the Group from time to time. There has been no movement in the number of shares held in the trust during the year.

21. Share capital and reserves

For movements in share capital and reserves please refer to the Consolidated Statement of Changes in Equity.

The merger reserve represents the capital adjustment required to reserves to effect the reverse acquisition.

The capital redemption reserve relates to the redemption of B shares, as described in note 22.

The other reserve represents the premium over the nominal value of the shares issued in relation to acquisitions less any returns of capital.

The share option reserve comprises the fair value of outstanding share options charged to the profit and loss account.

22. Dividends and return of capital

a) Dividends charged to reserves

	2017 £m	2016 £m
Final dividend of 4.03 pence per share (2016: 3.14 pence per share) paid in respect of the prior period	71.5	55.2
Interim dividend of 0.63 pence per share (2016: 0.57 pence per share) paid in respect of the current period	11.1	10.0
	82.6	65.2

The Board is proposing a final dividend of 4.97 pence per share, which will absorb approximately £89m of distributable reserves.

b) Return of Capital

On 21 July 2014 the Company issued 1,743,934,763 B shares that were redeemable by the shareholder. On 22 July 2014 the Company redeemed 1,740,934,613 B shares for 3.5 pence per share (a total of £60.9m) and the shares were cancelled. The 3,000,150 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 30 April 2015 for 3.5 pence per share. Following the redemption, such B shares were cancelled.

On 20 July 2015 the Company issued 1,766,091,414 B shares that were redeemable by the shareholder. On 21 July 2015 the Company redeemed 1,764,571,053 B shares for 3.5 pence per share (a total of £61.8m) and the shares were cancelled. The 1,520,361 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 29 April 2016 for 3.5 pence per share. Following the redemption, such B shares were cancelled.

On 18 July 2016 the Company issued 1,773,369,892 B shares that were redeemable by the shareholder. On 19 July 2016 the Company redeemed 1,769,234,092 B shares for 3.2 pence per share (a total of £56.7m) and the shares were cancelled. The 4,135,800 remaining B shares (a total of £0.1m) have been classified as a financial liability in accruals and deferred income, and were redeemed on 27 April 2017 for 3.2 pence per share. Following the redemption, such B shares were cancelled.

c) Special dividend

The Board is proposing a special dividend of 3.02 pence per share, which will absorb approximately £54m of distributable reserves.

23. Share based payments

The Group has a number of share schemes for employees. The total charge for the period relating to employee share-based payments was £5.8m (2016: £6.9m), all of which related to equity-settled share based payment transactions.

a) Sharesave schemes

The Sharesave scheme has been in operation since 2008 and all employees are eligible to participate once the necessary service requirements have been met. Options are offered at a discount of 20% to the average of the market value of a share on the three dealing days immediately preceding the offer. Options are exercisable three years after the commencement of the savings contract and not more than six months thereafter. The options granted have been fair valued using the Black Scholes option pricing model, using the following assumptions:

	SAYE 2016	SAYE 2015	SAYE 2014	SAYE 2013
Grant date	November 2016	November 2015	November 2014	November 2013
Share price at grant date	172.50p	185.90p	144.60p	152.30p
Exercise price	147.33p	146.99p	94.61p	112.21p
Expected volatility	26%	24%	25%	24%
Expected life	3.2 years	3.2 years	3.2 years	3.2 years
Risk free rate	0.40%	1.01%	1.07%	0.91%
Expected dividend yield	4.51%	2.59%	3.02%	1.77%
Fair value at grant date	27.5p	43.0p	46.0p	44.0p

b) Performance Share Plans (PSP)

In 2008 a discretionary PSP for the benefit of certain employees was established by the Remuneration Committee. The awards are free share-based awards and normally vest three years after the grant date, provided relevant performance criteria have been met.

PSP 2012–2016

The options granted to senior employees all had the same conditions. They will vest and become exercisable three years from the date of the award, subject to continued employment and the performance conditions mentioned below being satisfied and will lapse if not exercised within ten years of the date of award. The awards are granted in two tranches:

i) Earnings Per Share (EPS) condition

50% of each award will be linked to an absolute EPS performance target with 25% of this element vesting for achieving growth of 6% per annum and rising on a straight line basis with full vesting requiring 12% growth per annum, as measured at the year end prior to the grant and then 3 years later.

ii) Total Shareholder Return (TSR) condition

50% of each award will be linked to an Absolute TSR performance target with 25% of this element vesting for achieving growth of 8% per annum and rising on a straight line basis with full vesting requiring 15% growth per annum, when measured over the 3 years from the grant date.

PSP 2008–2013

The awards under these 5 schemes have all vested and 5.2 million remain to be exercised.

The options granted have been fair valued using the Monte Carlo option pricing model, using the following assumptions:

	PSP 2016	PSP 2015	PSP 2014	PSP 2013	PSP 2012	PSP 2011	PSP 2010	PSP 2008
Grant date	Oct 16	Nov 15	Oct 14	Oct 13	Nov 12	Nov 11	Oct 10	Jul 08
Share price at grant date	186.40p	179.00p	121.40p	141.90p	99.30p	78.95p	53.75p	23.75p
Expected volatility	26%	25%	25%	24%	26%	27%	30%	25%
Expected life	3 years	3 years	3 years	3 years	3 years	3 years	3 years	2–3 years
Risk free rate	0.27%	0.85%	0.95%	0.89%	0.44%	0.70%	1.10%	5.00%
Expected dividend yield	4.17%	2.68%	3.59%	1.90%	2.35%	2.2%	2.4%	2.5%
Fair value of TSR component	61.5p	52.0p	32.0p	51.0p	33.0p	29.0p	23.5p	8.4p
Fair value of EPS component	164.5p	165.0p	109.0p	134.0p	93.0p	n/a	n/a	n/a

The terms and conditions of the outstanding share based payments are as follows:

		Grant date	Number (m)	Vesting period	Expiry date	Exercise price
SAYE 2016	SAYE to all staff	November 2016	5.1	3.2 year service	June 2020	147.33p
PSP 2016	Option granted to senior employees	October 2016	5.6	3 year service	October 2026	nil
SAYE 2015	SAYE to all staff	November 2015	4.7	3.2 year service	June 2019	146.99p
PSP 2015	Option granted to senior employees	November 2015	5.0	3 year service	November 2025	nil
SAYE 2014	SAYE to all staff	November 2014	6.1	3.2 year service	June 2018	94.61p
PSP 2014	Option granted to senior employees	October 2014	5.6 5.6	3 year service	October 2024	nil
SAYE 2013	SAYE to all staff	November 2013	0.5	Vested	June 2017	112.21p
PSP 2013	Option granted to senior employees	October 2013	1.5 1.5	Vested Vested	October 2023	nil
PSP 2012	Option granted to senior employees	November 2012	1.7	Vested	November 2022	nil
PSP 2011	Option granted to senior employees	November 2011	0.3	Vested	November 2021	nil
PSP 2010	Option granted to senior employees	October 2010	0.2	Vested	October 2020	ni
PSP 2008	Option granted to senior employees	July 2008 – July 2009	1.5	Vested	July 2018 – July 2019	nil
Total options outstanding			37.8			

The number and weighted average exercise price of options is as follows:

	2017		2016	
	Number of share options Million	Weighted average exercise price Pence	Number of share options Million	Weighted average exercise price Pence
Outstanding at beginning of period	38.1	55.1	48.4	34.3
Granted	10.8	70.6	10.9	78.1
Lapsed	(2.5)	97.4	(3.8)	55.0
Forfeited	(0.2)	–	(0.7)	–
Exercised	(8.4)	65.2	(16.7)	12.2
Outstanding at end of period	37.8	54.8	38.1	55.1
Exercisable at end of period	5.7		5.3	

Under the rules of the PSP 2010-2016 schemes, tax approved Company Share Option Plan ('CSOP') options were also granted with an exercise price equal to the market value of the shares at the time of grant.

During the period, employees forfeited 0.2m (2016: 0.7m) PSP options for 0.7m (2016: 1.1m) CSOP options, which were immediately exercised at a cost equal to the share price at the date the original PSP was granted.

24. Operating leases

The Group leases a number of trading properties under operating leases. The leases are typically of 5 to 15 years duration, although some have lessee only break clauses. Lease payments are reviewed as contracted and increases applied accordingly. The Group also leases certain items of plant and equipment.

Operating lease payments represent rents payable by the Group for certain of its wholesale, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, escalation charges and renewal rights.

At the balance sheet date, the Group (including Booker Retail Partners (GB) Limited) had outstanding commitments for future minimum lease payments under non-cancellable operating leases, which fall due as follows:

	Land and buildings		Others	
	2017 £m	2016 £m	2017 £m	2016 £m
Within one year	64.4	65.3	14.4	15.0
Within two to five years	226.6	234.3	30.8	29.7
After five years	226.7	277.5	2.5	3.7
	517.7	577.1	47.7	48.4

The Group subleases various wholesale, distribution and office properties under non-cancellable operating leases. The total minimum operating sublease receipts expected to be received are as follows:

	2017 £m	2016 £m
Within one year	6.4	7.2
Within two to five years	18.1	20.4
After five years	17.8	26.1
	42.3	53.7

25. Capital commitments

The outstanding commitments at 24 March 2017 in respect of contracted capital expenditure not provided for amounted to approximately £2.2m (2016: £2.7m).

26. Related party transactions

Only members of the Board are considered to be key management personnel. It is the Board who have responsibility for planning, directing and controlling the activities of the Group. Board compensation is disclosed in the Remuneration Report.

INDEPENDENT AUDITOR'S REPORT

to the members of Booker Group plc only

Opinions and conclusions arising from our audit

1. Our opinion on the financial statements is unmodified

We have audited the financial statements of Booker Group plc for the period ended 24 March 2017 set out on pages 58 to 92. In our opinion:

- the financial statements give a true and fair view of the state of the group's and of the parent company's affairs as at 24 March 2017 and of the group's profit for the period then ended;
- the group financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with UK Accounting Standards, including FRS 101 *Reduced Disclosure Framework*; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006; and, as regards the group financial statements, Article 4 of the IAS Regulation.

<table>
<tr><td colspan="3">Overview</td></tr>
<tr><td>Materiality:
group financial statements as a whole</td><td colspan="2">£8.5m (2016: £7.6m)
4.9% (2016: 5.0%) of the Group's profit before tax</td></tr>
<tr><td>Coverage</td><td colspan="2">99% of the Group's profit before tax, 99% of profit before exceptional items and tax, 99% of revenues and 99% of total assets.
(2016: 97% of the Group's profit before tax, 99% of profit before exceptional items and tax, 99% of revenues and 99% of total assets).</td></tr>
<tr><td colspan="2">Risks of material misstatement</td><td>vs 2016</td></tr>
<tr><td rowspan="2">Recurring risks</td><td>Valuation of the defined benefit pension obligation</td><td></td></tr>
<tr><td>Property provisions</td><td></td></tr>
</table>

2. Our assessment of risks of material misstatement

In arriving at our audit opinion above on the financial statements, the risks of material misstatement that had the greatest effect on our audit, in decreasing order of audit significance, were as follows:

	The risk	Our response
Valuation of the defined benefit pension obligation (£797.9m; 2016: £714.8m) *Refer to page 27 (Audit Committee Report), page 66 (accounting policy) and page 80 (financial disclosures)*	**Subjective valuation:** Significant assumptions are made in valuing the group's defined benefit obligation (before deducting scheme assets) including in particular the discount rate, inflation rates and the average life expectancy. Small changes in the assumptions used could have a significant effect on the results and financial position of the group**.**	Our procedures included: **Benchmarking assumptions**: Challenging, with the support of our own actuarial specialists, the key assumptions applied, being the discount rate, inflation rate and mortality/life expectancy against externally derived data and internally developed benchmarks; and **Assessing transparency**: Considering the adequacy of the group's disclosures in respect of the sensitivity of the deficit to these assumptions
Property provisions (£36.9m; 2016: £39.8m) *Refer to page 27 (Audit Committee Report), page 69 (accounting policy) and page 83 (financial disclosures).*	**Subjective estimate:** Inherent uncertainty is involved in estimating these provisions as it requires a significant degree of judgement and the use of subjective assumptions, including the expected cash flows associated with the properties over the remaining lease term, the expected costs related to dilapidations and to removing asbestos and the rates used to discount future cash flows to account for risk and the time value of money.	Our procedures included: **Historical comparison:** Critically evaluating the expected cash outflows used in the calculations for both the dilapidations and asbestos provisions by comparing the assumptions against the historical trend of charges incurred and by comparing actual utilisation of the provision to the forecast cashflows at the prior year end. For the vacant/onerous lease provision we critically assessed actual utilisation of the provision compared to forecast cash flows. **Sensitivity analysis**: Performing sensitivity analysis on the key drivers within the financial models, including forecast cash outflow and inflows to ascertain the extent of change in those assumptions that would be required for the provisions to be further increased or decreased and evaluating the likelihood of such movements through our historical comparison;

	The risk	Our response
		Benchmarking assumptions: Assessing the discount rate used against the market data; **Inquiry of property specialists**: Comparing the reasonableness of assumptions within the provision calculation through discussions with the in-house property specialist including the probability of sublet for properties, discussing the plans for the property estate in the future and the status of any negotiations with landlords; and **Assessing transparency**: Considering the adequacy of the group's disclosures in respect of the sensitivity of the provisions to the assumptions made.

3. Our application of materiality and an overview of the scope of our audit

The materiality for the Group financial statements as a whole was set at £8.5m (2016: £7.6m), determined with reference to a benchmark of Group profit before tax of £174.0m (2016: £150.8m), of which it represents 4.9% (2016: 5.0%).

We report to the Audit Committee any corrected or uncorrected identified misstatements exceeding £0.4m (2016: £0.35m), in addition to other identified misstatements that warranted reporting on qualitative grounds.

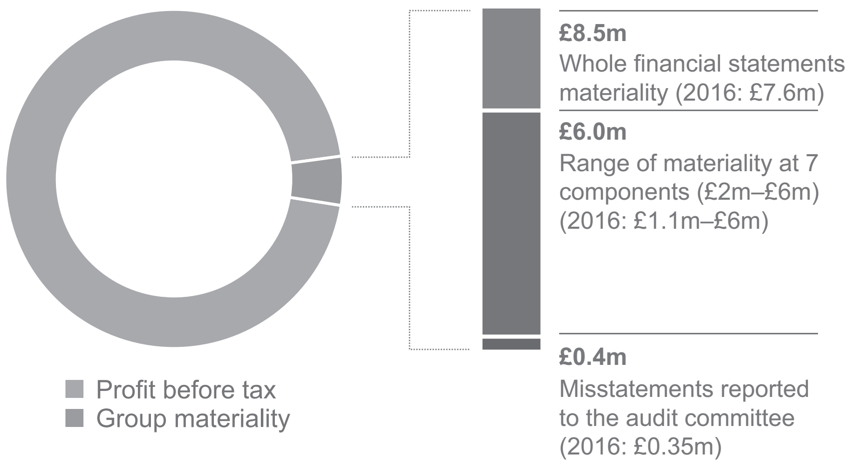
Of the Group's seven reporting components (2016: seven reporting components), we subjected four to audits for Group reporting purposes. For the three remaining components (2016: three remaining components), we performed analysis at an aggregated group level to re-examine our assessment that there were no significant risks of material misstatement within these.

Our work covered 99% of the Group's profit before tax, 99% of profit before exceptional items and tax, 99% of revenues and 99% of total assets (2016: 97% of the Group's profit before tax, 99% of profit before exceptional items and tax, 99% of revenues and 99% of total assets).

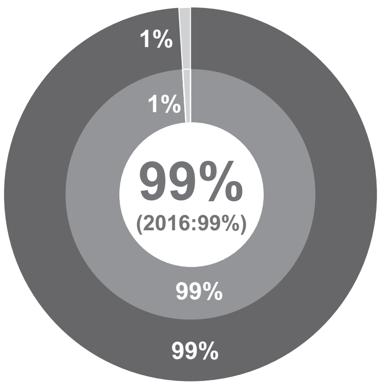
The Group audit team carried out the work on all the components at the Group's offices in Wellingborough, Deeside, Uxbridge and Eccles. Component materialities ranged between £2m and £6m (2016: between £1.1m and £6m).

Profit before tax
£174.0m (2016: £150.8m)

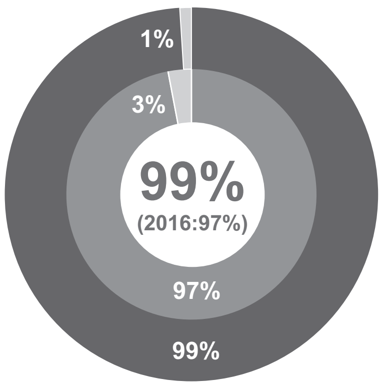
Materiality
£8.5m (2016: £7.6m)



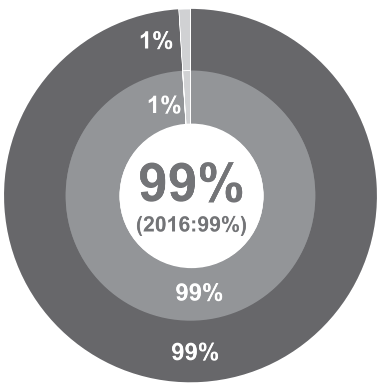
Group revenue



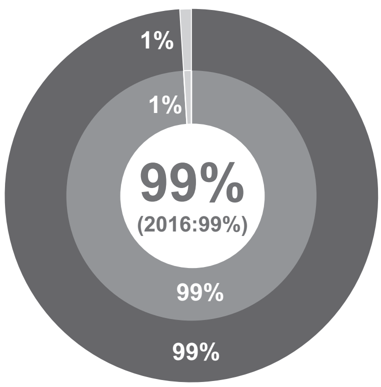
Group profit before tax



Group total assets



Group profit before exceptional items and taxation



- Full scope for group audit purposes 2017
- Full scope for group audit purposes 2016
- Residual components

4. Our opinion on other matters prescribed by the Companies Act 2006 is unmodified

In our opinion:

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

Based solely on the work required to be undertaken in the course of the audit of the financial statements and from reading the Strategic report and the Directors' report:

- we have not identified material misstatements in those reports; and
- in our opinion, those reports have been prepared in accordance with the Companies Act 2006.

5. We have nothing to report on the disclosures of principal risks

Based on the knowledge we acquired during our audit, we have nothing material to add or draw attention to in relation to:

- the Strategic Report on pages 1 and 17, concerning the principal risks, their management, and, based on that, the directors' assessment and expectations of the group's continuing in operation over the three years to 27 March 2020; or
- the disclosures in note 1 of the financial statements concerning the use of the going concern basis of accounting.

6. We have nothing to report in respect of the matters on which we are required to report by exception

Under ISAs (UK and Ireland) we are required to report to you if, based on the knowledge we acquired during our audit, we have identified other information in the annual report that contains a material inconsistency with either that knowledge or the financial statements, a material misstatement of fact, or that is otherwise misleading.

In particular, we are required to report to you if

- we have identified material inconsistencies between the knowledge we acquired during our audit and the directors' statement that they 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 position and performance, business model and strategy; or
- the Audit Committee Report does not appropriately address matters communicated by us to the audit committee.

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

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules we are required to review:

- the directors' statements, set out on page 17, in relation to going concern and longer-term viability; and
- the part of the Corporate Governance Statement on page 22 relating to the company's compliance with the eleven provisions of the 2014 UK Corporate Governance Code specified for our review.

We have nothing to report in respect of the above responsibilities.

Scope and responsibilities

As explained more fully in the Directors' Responsibilities Statement set out on page 53, the directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. A description of the scope of an audit of financial statements is provided on the Financial Reporting Council's website at www.frc.org.uk/auditscopeukprivate. This report is made solely to the Company's members as a body and is subject to important explanations and disclaimers regarding our responsibilities, published on our website at www.kpmg.com/uk/auditscopeukco2014a, which are incorporated into this report as if set out in full and should be read to provide an understanding of the purpose of this report, the work we have undertaken and the basis of our opinions.

Stuart Burdass (Senior Statutory Auditor)
for and on behalf of KPMG LLP,
Statutory Auditor
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

17 May 2017

SECTION D: HISTORICAL FINANCIAL INFORMATION RELATED TO BOOKER GROUP FOR THE 24 WEEKS ENDED 8 SEPTEMBER 2017

Condensed Consolidated Financial Statements

Consolidated Income Statement

	Note	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Revenue		2,587.3	2,524.4	5,327.9
Cost of sales		(2,449.5)	(2,397.3)	(5,036.0)
Gross profit		137.8	127.1	291.9
Administrative expenses		(48.7)	(45.7)	(115.8)
Operating profit		89.1	81.4	176.1
Finance costs	2	(1.3)	(1.2)	(2.5)
Finance income	2	0.2	0.8	0.4
Profit before tax		88.0	81.0	174.0
Tax	3	(13.3)	(13.2)	(20.2)
Profit for the period attributable to owners of the Company		74.7	67.8	153.8
Earnings per share (Pence)				
Basic	4	4.19p	3.83p	8.66p
Diluted	4	4.15p	3.80p	8.58p

Consolidated statement of comprehensive income

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Profit for the period	74.7	67.8	153.8
Items that will not be reclassified to profit or loss			
Remeasurements of the pension scheme	(0.9)	(28.4)	(16.3)
Tax on pension scheme remeasurements	0.2	4.5	1.7
Items that may be reclassified to profit or loss			
Currency translation differences	–	–	1.0
Total other comprehensive expense	(0.7)	(23.9)	(13.6)
Total comprehensive income for the period attributable to the owners of the Company	74.0	43.9	140.2

Consolidated Balance Sheet

	Note	8 September 2017 £m	9 September 2016 £m	24 March 2017 £m
ASSETS				
Non-current assets				
Property, plant and equipment	6	211.3	214.7	216.4
Intangible assets and goodwill		465.1	466.2	465.6
Investment in joint ventures		1.4	1.4	1.6
Deferred tax assets		28.2	31.8	27.4
		706.0	714.1	711.0
Current assets				
Inventories		355.3	348.9	397.0
Trade and other receivables		163.2	182.8	167.8
Cash and cash equivalents		165.1	105.7	160.7
		683.6	637.4	725.5
Total assets		1,389.6	1,351.5	1,436.5
LIABILITIES				
Current liabilities				
Trade and other payables		(717.7)	(688.0)	(699.8)
Tax liabilities		(20.6)	(30.6)	(21.3)
		(738.3)	(718.6)	(721.1)
Non-current liabilities				
Other payables		(24.4)	(25.5)	(25.0)
Retirement benefit liabilities	7	(47.0)	(58.5)	(46.9)
Provisions	8	(37.0)	(40.0)	(37.9)
		(108.4)	(124.0)	(109.8)
Total liabilities		(846.7)	(842.6)	(830.9)
Net assets		542.9	508.9	605.6
EQUITY				
Share capital		17.8	17.7	17.8
Share premium		8.3	1.9	7.6
Merger reserve		260.8	260.8	260.8
Capital redemption reserve		179.6	179.5	179.5
Other reserve		–	–	–
Share option reserve		16.1	13.9	13.1
Retained earnings		60.3	35.1	126.8
Total equity attributable to equity holders		542.9	508.9	605.6

Consolidated Cash Flow Statement

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Cash flows from operating activities			
Profit before tax	88.0	81.0	174.0
Depreciation	12.2	12.0	25.1
Amortisation	0.5	0.5	1.1
Net finance costs	1.1	0.4	2.1
Profit on disposal of property, plant and equipment	(1.1)	(0.2)	(0.6)
Equity settled share based payments	3.5	2.0	5.8
Decrease/(increase) in inventories	41.7	5.2	(42.9)
Decrease/(Increase) in debtors	4.6	(1.9)	13.1
Increase in creditors	17.3	9.6	21.9
Contributions to pension scheme	(1.4)	–	–
Decrease in provisions	(1.3)	(1.2)	(3.9)
	165.1	107.4	195.7
Tax paid	(13.6)	(5.5)	(18.2)
Cash generated from operating activities	151.5	101.9	177.5
Cash flows from investing activities			
Acquisition of property, plant and equipment	(10.3)	(11.3)	(27.0)
Investment in joint venture	0.2	0.1	(0.1)
Sale of property, plant and equipment	4.3	14.6	15.9
Net cash flows from investing activities	(5.8)	3.4	(11.2)
Cash flows from financing activities			
Proceeds from issue of ordinary shares	0.8	0.6	6.4
Redemption of B shares	(0.1)	(56.7)	(56.7)
Dividends paid	(141.9)	(71.4)	(82.6)
Net interest received/(paid)	(0.1)	0.5	(0.1)
Net cash flows from financing activities	(141.3)	(127.0)	(133.0)
Net increase/(decrease) in cash and cash equivalents	4.4	(21.7)	33.3
Cash and cash equivalents at the start of the period	160.7	127.4	127.4
Cash and cash equivalents at the end of the period	165.1	105.7	160.7

Reconciliation to net cash

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Net increase/(decrease) in cash and cash equivalents	4.4	(21.7)	33.3
Opening net cash	160.7	127.4	127.4
Closing net cash	165.1	105.7	160.7

Consolidated Statement of Changes in Equity

24 weeks ended 8 September 2017

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 25 March 2017	17.8	7.6	260.8	179.5	–	13.1	126.8	605.6
Profit for the period	–	–	–	–	–	–	74.7	74.7
Remeasurements of the pension scheme	–	–	–	–	–	–	(0.9)	(0.9)
Tax on pension scheme remeasurements	–	–	–	–	–	–	0.2	0.2
Total comprehensive income for the period	–	–	–	–	–	–	74.0	74.0
Dividends to shareholders	–	–	–	–	–	–	(141.9)	(141.9)
Redeem B shares	–	–	–	0.1	–	–	(0.1)	–
Share options exercised.	–	0.7	–	–	–	(0.5)	0.5	0.7
Share based payment charge	–	–	–	–	–	3.5	–	3.5
Tax on share schemes	–	–	–	–	–	–	1.0	1.0
	–	0.7	–	0.1	–	3.0	(140.5)	(136.7)
At 8 September 2017	17.8	8.3	260.8	179.6	–	16.1	60.3	542.9

24 weeks ended 9 September 2016

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 25 March 2016	17.7	44.0	260.8	122.8	14.0	12.4	118.5	590.2
Profit for the period	–	–	–	–	–	–	67.8	67.8
Remeasurements of the pension scheme	–	–	–	–	–	–	(28.4)	(28.4)
Tax on pension scheme remeasurements	–	–	–	–	–	–	4.5	4.5
Total comprehensive income for the period	–	–	–	–	–	–	43.9	43.9
Dividends to shareholders	–	–	–	–	–	–	(71.4)	(71.4)
Issue B shares	–	(42.7)	–	–	(14.0)	–	–	(56.7)
Redeem B shares	–	–	–	56.7	–	–	(56.7)	–
Share options exercised	–	0.6	–	–	–	(0.5)	0.5	0.6
Share based payment charge	–	–	–	–	–	2.0	–	2.0
Tax on share schemes	–	–	–	–	–	–	0.3	0.3
Total transactions with owners	–	(42.1)	–	56.7	(14.0)	1.5	(127.3)	(125.2)
At 9 September 2016	17.7	1.9	260.8	179.5	–	13.9	35.1	508.9

52 weeks ended 24 March 2017

	Share capital £m	Share premium £m	Merger reserve £m	Capital redemption reserve £m	Other reserve £m	Share option reserve £m	Retained earnings £m	Total £m
At 25 March 2016	17.7	44.0	260.8	122.8	14.0	12.4	118.5	590.2
Profit for the period	–	–	–	–	–	–	153.8	153.8
Remeasurements of the pension scheme	–	–	–	–	–	–	(16.3)	(16.3)
Tax on pension scheme remeasurements	–	–	–	–	–	–	1.7	1.7
Currency translation differences	–	–	–	–	–	–	1.0	1.0
Total comprehensive income for the period	–	–	–	–	–	–	140.2	140.2
Dividends to shareholders	–	–	–	–	–	–	(82.6)	(82.6)
Issue B shares	–	(42.7)	–		(14.0)	–	–	(56.7)
Redemption of B shares	–	–	–	56.7	–	–	(56.7)	–
Share options exercised	0.1	6.3	–	–	–	(5.1)	5.1	6.4
Share based payment charge	–	–	–	–	–	5.8	–	5.8
Tax on share schemes	–	–	–	–	–	–	2.3	2.3
	0.1	(36.4)	–	56.7	(14.0)	0.7	(131.9)	(124.8)
At 24 March 2017	17.8	7.6	260.8	179.5	–	13.1	126.8	605.6

NOTES TO THE CONDENSED FINANCIAL STATEMENTS

1. General information

Reporting entity

Booker Group plc (the 'Company') is a public limited company incorporated in the United Kingdom (Registration number 05145685). The Company's ordinary shares are traded on the London Stock Exchange. These condensed consolidated interim financial statements ('interim financial statements') as at and for the 24 weeks ended 8 September 2017 comprise the Company and its subsidiaries (together referred to as the 'Group'). The financial statements are presented in Sterling and rounded to the nearest hundred thousand.

Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting', as adopted by the EU. As required by the Disclosure and Transparency Rules of the Financial Conduct Authority, these condensed set of financial statements have been prepared applying the accounting policies that were applied in the preparation of the Group's published consolidated financial statements for the 52 weeks ended 24 March 2017. They do not include all the information required for a complete set of IFRS financial statements and should be read in conjunction with the consolidated financial statements of the Group as at and for the 52 weeks ended 24 March 2017.

These interim financial statements were approved by the Company's Board on 11 October 2017.

Risks and uncertainties

The Board has considered the principal risks and uncertainties for the remaining 29 weeks of the financial year and determined that the risks and uncertainties presented in the 2017 Annual Reports still remain.

Going concern

The Directors' assessment of the Group's ability to continue as a going concern is based on cash flow forecasts for the Group, covering a period of at least 12 months from the date of approval of these interim financial statements, and the committed borrowing and debt facilities of the Group. In August 2015, the Group negotiated an unsecured bank facility of £120m for a period of 5 years.

These forecasts include consideration of future trading performance, working capital requirements and the principal risks facing the Group. Having reconsidered the principal risks, the Directors consider it appropriate to adopt the going concern basis of accounting in preparing the interim financial statements.

Accounting policies

The accounting policies applied by the Group in these condensed consolidated interim financial statements are the same as those applied in the Group's published consolidated financial statements for the period ended 24 March 2017 except for the application of relevant new standards.

A number of new standards and amendments to existing standards are effective for the financial period ending 30 March 2018. None of these have had any impact and accordingly the 24 March 2017 and 9 September 2016 comparatives have not been restated. A number of amendments to standards and interpretations have been issued during the period, which are either not yet endorsed, or are endorsed but not yet effective, and accordingly the Group has not yet adopted them.

Judgements and estimates

In preparing the condensed consolidated interim financial statements, management are required to make accounting judgements, assumptions and estimates. The judgements, assumptions and estimation methods are consistent with those disclosed in the published consolidated financial statements for the period ended 24 March 2017.

Seasonality

The Group's operations are mainly unaffected by seasonal factors. It should be noted that, in line with internal management reporting, the interim period consists of 24 weeks whilst the second period consists of 29 weeks (FY 2017: 28 weeks).

2. Finance income and expense

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Net pension charge	(0.6)	(0.5)	(1.0)
Unwinding of discount on provisions	(0.4)	(0.4)	(1.0)
Other interest payable	(0.3)	(0.3)	(0.5)
Finance costs	(1.3)	(1.2)	(2.5)
Bank interest receivable	0.2	0.3	0.4
Gain on financial instrument	–	0.5	–
Finance income	0.2	0.8	0.4
Net finance costs	(1.1)	(0.4)	(2.1)

3. Tax

Tax of £13.3m on the profit before taxation for the 24 weeks ended 8 September 2017 is based on an effective rate of 15.1%, which has been calculated by reference to the projected effective tax rate for the full financial year. The rate for the 24 weeks ended 9 September 2016 and 52 weeks ended 24 March 2017 was 16.3% and 11.6% respectively.

Reductions in the UK corporation tax rate from 19% to 18% (effective from 1 April 2020) was substantively enacted on 26 October 2015, and an additional reduction to 17% (effective from 1 April 2020) was substantively enacted on 6 September 2016. The deferred tax asset at 8 September 2017 has been calculated based on these rates.

4. Earnings per share

	24 weeks ended 8 September 2017			24 weeks ended 9 September 2016			52 weeks ended 24 March 2017		
	Earnings	Weighted average shares	Earnings per share	Earnings	Weighted average shares	Earnings per share	Earnings	Weighted average shares	Earnings per share
	£m	Number m	Pence	£m	Number m	Pence	£m	Number m	Pence
Basic earnings	74.7	1,782.5	4.19	67.8	1,769.6	3.83	153.8	1,775.7	8.66
Share options	–	15.5	(0.04)	–	15.6	(0.03)	–	16.1	(0.08)
Diluted earnings	74.7	1,798.0	4.15	67.8	1,785.2	3.80	153.8	1,791.8	8.58

5. Dividends

Declared and paid during the period	per share	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Final dividend for 2015/16	4.03 pence	–	71.4	71.4
Interim dividend for 2016/17	0.63 pence	–	–	11.2
Final dividend for 2016/17	4.97 pence	88.3	–	–
Special dividend for 2016/17	3.02 pence	53.6	–	–
		141.9	71.4	82.6

6. Property, plant and equipment

Net book value

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
At start of period	216.4	229.8	229.8
Additions	10.3	11.3	27.0
Disposal proceeds	(4.3)	(14.6)	(15.9)
Profit on disposal	1.1	0.2	0.6
Depreciation charge for the period	(12.2)	(12.0)	(25.1)
At end of period	211.3	214.7	216.4

7. Retirement benefit liabilities

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
Total market value of assets	765.0	752.4	751.0
Present value of scheme liabilities	(812.0)	(810.9)	(797.9)
Deficit in the scheme	(47.0)	(58.5)	(46.9)
Movement in the scheme			
At start of period	(46.9)	(29.6)	(29.6)
Employer contributions	1.4	–	–
Net pension finance charge	(0.6)	(0.5)	(1.0)
Pension scheme remeasurements	(0.9)	(28.4)	(16.3)
At end of period	(47.0)	(58.5)	(46.9)

The principal assumptions adopted for the valuation at 8 September 2017 are the same as those adopted at 24 March 2017, other than changes to the discount rate (from 2.70% to 2.45%) and RPI inflation (from 3.20% to 3.15%) which are in line with market conditions.

8. Provisions

	24 weeks ended 8 September 2017 £m	24 weeks ended 9 September 2016 £m	52 weeks ended 24 March 2017 £m
At start of period	37.9	40.8	40.8
Unwinding of discount	0.4	0.4	1.0
Utilised	(1.3)	(1.2)	(3.9)
At end of period	37.0	40.0	37.9

By order of the Board

Charles Wilson
Chief Executive

Jonathan Prentis
Finance Director

11 October 2017

INDEPENDENT REVIEW REPORT TO BOOKER GROUP PLC

Conclusion

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 24 weeks ended 8 September 2017 which comprises the consolidated income statement, consolidated statement of comprehensive income, consolidated balance sheet, consolidated statement of changes in equity, the consolidated cash flow statement and the related explanatory notes.

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 24 weeks ended 8 September 2017 is not prepared, in all material respects, in accordance with IAS34 'Interim Financial Reporting' as adopted by the EU and the Disclosure Guidance and Transparency Rules ('the DTR') of the UK's Financial Conduct Authority ('the UK FCA').

Scope of Review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 'Review of Interim Financial Information Performed by the Independent Auditor of the Entity' issued by the Auditing Practices Board for use in the UK. A review of interim financial information consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the DTRs of the UK FCA.

As disclosed in note 1, the annual financial statements of the group are prepared in accordance with IFRSs as adopted by the EU. The directors are responsible for preparing the condensed set of financial statements included in this half-yearly financial report in accordance with IAS34 as adopted by the EU.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

The purpose of our review work and to whom we owe our responsibilities

This report is made solely to the Company in accordance with the terms of our engagement to assist the company in meeting the requirements of the DTR of the UK FCA. Our review has been undertaken so that we might state to the company those matters we are required to state to it in this report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company for our review work, for this report, or for the conclusions we have reached.

Stuart Burdass
For and on behalf of KPMG LLP
Chartered Accountants
1 St Peter's Square
Manchester
M2 3AE

11 October 2017

PART 10

UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP

Unaudited pro forma financial information

The unaudited pro forma income statement for the 52 weeks ended 25 February 2017 and statement of net assets as at 26 August 2017 of the Combined Group set out below have been prepared to illustrate the effect of the Merger on the income statement of Tesco as if it had taken place on 28 February 2016, and on the net assets of Tesco as if it had taken place on 26 August 2017.

The information has been produced for illustrative purposes only and by its nature addresses a hypothetical situation and, therefore, does not purport to represent what the Combined Group's financial position or results of operations actually would have been if the Merger had been completed on the date indicated nor does it purport to represent the results of operations for any future period or financial position at any future date. The unaudited pro forma financial information is compiled on the basis set out in the notes below and in accordance with the accounting policies of Tesco for the 52 weeks ended 25 February 2017. The unaudited pro forma financial information does not constitute financial statements within the meaning of section 434 of the Act. Investors should read the whole of this Prospectus and not rely solely on the unaudited financial information in this Part 10. Deloitte's report on the unaudited pro forma financial information is set out in Section B of this Part 10 ("*Accountants' report on the unaudited pro forma financial information*").

Section A: Unaudited consolidated pro forma income statement of the Combined Group

£m	52 weeks ended Tesco 25 February 2017 (i)	52 weeks ended Booker 24 March 2017 (ii)	Finance Income (iii)	Acquisition adjustments (iv)	Pro forma income statement for the Combined Group
Revenue	**55,917**	**5,328**	**–**	**–**	**61,245**
Cost of sales	(53,015)	(5,036)	–	–	(58,051)
Gross profit	**2,902**	**292**	**–**	**–**	**3,194**
Administrative expenses	(1,995)	(116)	–	(62)	(2,173)
Profits arising on property-related items	110	–	–	–	110
Operating profit/ (loss)	**1,017**	**176**	**–**	**(62)**	**1,131**
Share of post-tax losses of joint ventures and associates	(107)	–	–	–	(107)
Finance income	109	–	(2)	–	107
Finance costs	(874)	(2)	–	–	(876)
Profit/(loss) before tax	**145**	**174**	**(2)**	**(62)**	**255**
Taxation	(87)	(20)	–	–	(107)
Profit/(loss) for the year from continuing operations	**58**	**154**	**(2)**	**(62)**	**148**
Discontinued operations					
Loss for the year from discontinued operations	(112)	–	–	–	(112)
Profit/(loss) for the year	**(54)**	**154**	**(2)**	**(62)**	**36**
Attributable to:					
Owners of the Parent	(40)	154	(2)	(62)	50
Non-controlling interests	(14)	–	–	–	(14)
	(54)	**154**	**(2)**	**(62)**	**36**

(i) The Tesco income statement has been extracted without material adjustment from the audited Tesco Group income statement within Tesco's 2017 Annual Report and Financial Statements.

(ii) The Booker income statement has been extracted without material adjustment from the consolidated income statement within Part 9: ("*Booker Historical Financial Information of this Prospectus*") of this Prospectus. There were no accounting policy adjustments to align to policies adopted by Tesco.

(iii) Adjustments for finance income reflect an amount of interest which accrued on cash held in ring-fenced accounts until released as cash consideration on completion of the Merger as shown in note (iii a) to the unaudited pro forma net assets statement. For the purpose of the pro forma, this is treated as if the cash consideration was paid on 28 February 2016 and therefore represents an adjustment for a 12 month period. The tax impact of this adjustment is not considered to be material. The nature of this adjustment means that an adjustment of a similar nature will have a continuing impact on the Combined Group.

(iv) a) No pro forma impairment charge has been applied to the goodwill balance (arising from the acquisition accounting as set out in the pro forma statement of net assets below) in the period presented. No additional depreciation and amortisation charge has been applied for the IFRS 3 Business Combinations fair values of intangible assets and property, plant and equipment, as the fair value adjustments are considered impractical to do at this date.

b) For the purposes of the unaudited pro forma income statement, it is expected that total transaction costs of circa £88 million, will be incurred in relation to the Merger, of which £26 million had been recorded in Tesco's financial information for the 52 weeks ended 25 February 2017. The adjustment to the income statement is related to the transaction costs of circa £42 million and stamp duty costs of circa £20 million that have not been recorded in either Tesco's financial information for the 52 weeks ended 25 February 2017 or in Booker's financial information for the 52 weeks ended 24 March 2017. No tax benefit has been assumed for the transaction costs.

c) No adjustment has been made to reflect synergies that may arise subsequent to the Merger as these are dependent upon the future actions of management.

d) No adjustment has been made to reflect the financial results of either Tesco or Booker since 25 February 2017 and 24 March 2017 respectively.

Unaudited consolidated pro forma statement of net assets of the Combined Group

	Tesco As at 26 August 2017 (i)	Booker As at 8 September 2017 (ii)	Acquisition adjustments (iii)	Pro forma statement of net assets Combined Group
Non-Current Assets				
Goodwill, software and other intangible assets	2,752	465	3,403	6,620
Property, plant and equipment	18,429	211	–	18,640
Investment property	74	–	–	74
Investment in joint ventures and associates	750	2	–	752
Other investments	832	–	–	832
Trade and other receivables	170	–	–	170
Loans and advances to customers	6,362	–	–	6,362
Derivative financial instruments	1,238	–	–	1,238
Deferred tax assets	82	28	–	110
	30,689	**706**	**3,403**	**34,798**
Current Assets				
Other investments	122	–	–	122
Inventories	2,488	356	–	2,844
Trade and other receivables	1,674	163	–	1,837
Loans and advances to customers	4,400	–	–	4,400
Derivative financial instruments	274	–	–	274
Current tax assets	10	–	–	10
Short-term investments	2,388	–	–	2,388
Cash and cash equivalents	4,319	165	(763)	3,721
	15,675	**684**	**(763)**	**15,596**
Assets of the disposal group and non-current assets classified as held for sale	127	–	–	127
	15,802	**684**	**(763)**	**15,723**

	Tesco As at 26 August 2017 (i)	Booker As at 8 September 2017 (ii)	Acquisition adjustments (iii)	Pro forma statement of net assets Combined Group
Current Liabilities				
Trade and other payables	(8,965)	(718)	(57)	(9,740)
Borrowings	(2,950)	–	–	(2,950)
Derivative financial instruments	(71)	–	–	(71)
Customer deposits and deposits from banks	(7,043)	–	–	(7,043)
Current tax liabilities	(343)	(21)	–	(364)
Provisions	(534)	–	–	(534)
	(19,906)	**(739)**	**(57)**	**(20,702)**
Liabilities of the disposal group classified as held for sale	–	–	–	–
Net current liabilities	**(4,104)**	**(55)**	**(820)**	**(4,979)**
Non-current liabilities				
Trade and other payables	(340)	(24)	–	(364)
Borrowings	(8,638)	–	–	(8,638)
Derivative financial instruments	(550)	–	–	(550)
Customer deposits and deposits from banks	(2,790)	–	–	(2,790)
Post-employment benefit obligations	(2,945)	(47)	–	(2,992)
Deferred tax liabilities	(102)	–	–	(102)
Provisions	(671)	(37)	–	(708)
	(16,036)	**(108)**	**–**	**(16,144)**
Net Assets	**10,549**	**543**	**2,583**	**13,675**

(i) The Tesco net assets have been extracted without material adjustment from Tesco's 2017/2018 Interim Results Statement.

(ii) The Booker net assets are based on the consolidated balance sheet as at 8 September 2017 without material adjustment as set out within the financial statements in Part 9: ("*Booker Historical Financial Information*") of this Prospectus. There were no accounting policy adjustments to align to policies adopted by Tesco. The order of line items and the presentational format matched those of Tesco's balance sheet.

(iii) a) The unaudited pro forma statement of net assets has been prepared on the basis that the Merger will be treated as an acquisition of Booker by Tesco in accordance with IFRS 3 Business Combinations. The pro forma statement of net assets does not reflect the fair value adjustments to the acquired assets and liabilities as the fair value measurement of these items will only be performed subsequent to completion of the Merger. For the purposes of the pro forma statement of net assets, the excess purchase consideration over the carrying amount of the net assets acquired has been attributed to goodwill and no pro forma impairment charge has been applied to the goodwill balance in the period presented. When finalised following the completion of the Merger, the fair value adjustments may be material. The preliminary goodwill arising has been calculated as follows:

	£m
Cash consideration transferred[(1)]	763
Share consideration[(2)]	3,183
Less carrying amount of net assets acquired	543
Goodwill (before measurement of the net assets acquired and liabilities at their fair value)	3,403

(1) The calculation assumes that there will be 1,792,195,220 Booker Shares in issue (taken from the Latest Practicable Date) and that each Booker Shareholder will receive 42.6 pence per Booker Share. It is assumed that this amount will be cash settled without the issuance of new debt by Tesco.

(2) The calculation is based on the Closing Price of Tesco shares of 206.3 pence and assumes that there will be 1,792,195,220 Booker shares in issue (all taken from the Latest Practicable Date) and that each Booker Shareholder will receive 0.861 New Tesco Shares per Booker Share.

b) For the purposes of the unaudited pro forma net asset statement, £88 million of transaction costs are expected to be incurred in relation to the Merger by Tesco, of which £31 million had been recorded in Tesco's financial information as at 26 August 2017. The adjustment to the net assets statement is related to the transaction costs of circa £37 million and stamp duty costs of circa £20 million that have not been expensed in either Tesco's financial information up to 26 August 2017 or in Booker's financial information up to 8 September 2017. No tax benefit has been assumed for these transaction costs. These costs are not expected to be incurred on an ongoing basis in the Combined Group.

c) No adjustment has been made to reflect any synergies that may arise subsequent to the Merger as these are dependent upon the future actions of management. No adjustment has also been made to reflect the impact of any subsequent trading activities.

d) No adjustment has been made to reflect the financial results of either Tesco or Booker since the respective balance sheet dates.

Section B: Accountants' report on the unaudited pro forma financial information

The Board of Directors (including the Proposed Directors)
on behalf of Tesco PLC
Tesco House, Shire Park,
Kestrel Way,
Welwyn Garden City,
AL7 1GA

Barclays Bank PLC, acting through its Investment Bank
5 The North Colonnade
Canary Wharf
London
E14 4BB
United Kingdom

J&E Davy
Davy House
49 Dawson Street
Dublin 2
Ireland

5 February 2018

Dear Sirs,

Tesco PLC (the "Company")

We report on the pro forma financial information (the "Pro forma financial information") set out in Part 10 of the prospectus dated 5 February 2018 (the "Prospectus"), which has been prepared on the basis described in the notes to the Pro forma financial information, for illustrative purposes only, to provide information about how the transaction might have affected the financial information presented on the basis of the accounting policies adopted by the Company in preparing the financial statements for the 52 weeks ended 25 February 2017 and the unaudited condensed financial information for the 26 weeks ended 26 August 2017. This report is required by the Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation") and is given for the purpose of complying with that requirement and for no other purpose.

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Pro forma financial information in accordance with Annex II items 1 to 6 of the Prospectus Directive Regulation.

It is our responsibility to form an opinion, as to the proper compilation of the Pro forma financial information and to report that opinion to you in accordance with Annex II item 7 of the Prospectus Directive Regulation.

Save for any responsibility arising under Prospectus Rule 5.5.3R (2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

In providing this opinion we are not updating or refreshing any reports or opinions previously made by us on any financial information used in the compilation of the Pro forma financial information, nor do we accept responsibility for such reports or opinions beyond that owed to those to whom those reports or opinions were addressed by us at the dates of their issue.

Basis of Opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. The work that we performed for the purpose of making this report, which involved no independent examination of any of the underlying financial information, consisted primarily of comparing the unadjusted financial information with the source documents, considering the evidence supporting the adjustments and discussing the Pro forma financial information with the Directors.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Pro forma financial information has been properly compiled on the basis stated and that such basis is consistent with the accounting policies of the Company.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards or practices.

Opinion

In our opinion:

(a) the Pro forma financial information has been properly compiled on the basis stated; and

(b) such basis is consistent with the accounting policies of the Company.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

PART 11

TESCO QUANTIFIED FINANCIAL BENEFITS STATEMENT

Quantified Financial Benefits Statement

The Merger is expected to enable significant opportunity for revenue synergies. The Merger is also expected to enable significant opportunity for cost synergies across areas including procurement, distribution, central functions and other costs.

The Tesco Directors expect pre-tax synergies for the Combined Group to reach a recurring run-rate of at least £200 million per annum by the end of the third year following completion of the Merger. These anticipated synergies will accrue as a direct result of the Merger and would not be achieved on a standalone basis.

Significant revenue growth potential

The Tesco Board anticipates significant revenue growth opportunities, many of which have not been fully quantified at this stage.

The Tesco Board is able to anticipate recurring incremental operating profit of at least £25 million per annum by the end of the third year following completion of the Merger, primarily through additional revenue generated from an extended catering offering within Tesco's stores, as well as Booker's symbol stores being able to offer an enhanced product range and customer proposition.

Significant cost synergy potential

One of the key drivers of the identified synergies is the efficiencies that the Merger enables given the complementary nature of the businesses. The Tesco Directors expect pre-tax cost synergies for the Combined Group to reach a recurring run-rate of at least £175 million per annum by the end of the third year following completion of the Merger.

The constituent elements of quantified cost synergies are in addition to savings initiatives already underway at Tesco and comprise:

- *Procurement:* approximately 55 per cent. of the identified cost synergies are expected to be generated from improved purchasing cost efficiencies and sharing best practice across each of the three main types of supplier: fresh, own label and branded. These opportunities comprise end-to-end cost reduction, lower waste, new opportunities for shared innovation and better optimisation of supply terms for the Combined Group.
- *Distribution and fulfilment:* approximately 35 per cent. of the identified cost synergies are expected to be generated from opportunities in logistics and delivery, and improved efficiency and service standards. Optimising a joint national distribution system of Tesco and Booker is expected to lead to material benefits, including sharing parts of the delivery fleet. The recent failure of Palmer & Harvey, a national distributor that worked with Tesco, has caused a reassessment of plans for the distribution networks of both businesses and how they will be best brought together. This assessment is underway and will be completed after the Merger.
- *Central functions and other:* less than 10 per cent. of the identified cost synergies are expected to be generated from the reduction of duplicate costs and improved purchase of goods not for resale.

Realisation costs and dis-synergies

The Tesco Directors expect the realisation of the quantified synergies will require estimated one-off cash costs of approximately £145 million incurred in the first three years after the Effective Date.

Aside from the one-off costs referred to above, the Tesco Directors do not expect any material dis-synergies to arise in connection with the Merger.

These statements of identified synergies and estimated savings relate to future actions and circumstances which by their nature involve risks, uncertainties and contingencies. As a consequence, the identified synergies and estimated savings referred to may not be achieved, may be achieved later or sooner than estimated, or those achieved could be materially different from those estimated.

These anticipated synergies identified reflect both the beneficial elements and the relevant costs.

Further information on the bases of belief supporting the Tesco Quantified Financial Benefits Statement including the principal assumptions and sources of information, is set out below.

Bases of Belief for the Tesco Quantified Financial Benefits Statement

- Following initial discussions regarding the Merger, a synergy development team was established to evaluate and assess the potential synergies available for the integration and undertake an initial planning exercise (the "Synergy Team"). The Synergy Team comprises senior personnel representing both Tesco and Booker. Collectively, the Synergy Team brings significant experience of operations, distribution, commercial, procurement and central/other activities across both organisations. The Synergy Team has worked collaboratively to identify and quantify potential synergies as well as estimate any associated costs on behalf of the Tesco Directors.

- In preparing a detailed synergy plan, the Synergy Team has worked alongside and with the support of external consultants engaged by Tesco.

- In supporting this exercise, Booker and Tesco have shared certain operating and financial information with each other, in order to facilitate a detailed analysis of the potential synergies available from the combination of the Tesco and Booker businesses. This has included the use of a clean team process, where each of Tesco and Booker has shared detailed operating and financial metrics, visibility of which is limited to specific clean team personnel within the Synergy Team.

- As is typical of these exercises, confidentiality considerations and legal restrictions have limited the scale of the Synergy Team to being formed of a small number of specialists and experts from each of Tesco and Booker. Nevertheless, the Synergy Team has, to the extent allowed by such confidentiality considerations, engaged with relevant Tesco and Booker functional heads and other personnel to provide input into the development process and to agree on the nature and quantum of the identified synergy initiatives. Specifically this has included the input of the Chief Executive of Booker, as well as the Tesco executive leadership team.

- In circumstances where data has been limited due to lack of access to the relevant Tesco or Booker experts or data, the Synergy Team has made estimates and assumptions to aid its development of individual synergy initiatives. The assessment and quantification of the potential synergies have in turn been informed by Tesco and Booker management's industry experience and knowledge of the existing businesses.

- The cost and revenue bases used as the basis for the quantified exercise (which was finalised in January 2017) are those contained in Tesco's 2016 Annual Report and Financial Statements and Booker's 2016 Annual Report and Financial Statements, supported where relevant by specific data points from Tesco's and Booker's financial year 2017 cost bases.
- The cost synergies are within the influence of Tesco's management, albeit the procurement synergies are dependent upon confirmation of agreements with suppliers. Delivery of the revenue synergies is complex and is dependent on a number of tests and trials.

In general, the synergy assumptions have in turn been risk adjusted, exercising a degree of prudence in the calculation of the estimated synergy benefit set out above.

Confirmation of validity

As required by Rule 27.2(d) of the City Code, the Tesco Directors confirm that the Tesco Quantified Financial Benefits Statement remains valid.

Notes

The statements of estimated synergies referred to above relate to future actions and circumstances which, by their nature, involve risks, uncertainties and contingencies. As a result, the synergies referred to may not be achieved, or may be achieved later or sooner than estimated or those achieved could be materially different from those estimated.

In future, there may be additional changes to the Combined Group's operations. As a result, and given the fact that the changes relate to the future, the resulting synergies may be materially greater or less than those estimated.

Save as expressly set out in this Prospectus, no statement should be construed as a profit forecast or interpreted to mean that the Combined Group's earnings in the first full financial year following completion of the Merger, or in any subsequent period, would necessarily match or be greater than or less than those of Tesco and/or Booker for the relevant preceding financial period or any other period.

In arriving at the estimate of synergies set out above, it has been assumed that:

- there will be no significant impact on the underlying operations of either business;
- there will be no material change to macroeconomic, political or legal conditions in the markets or regions in which in the Combined Group operates which will materially impact on the implementation of or costs to achieve the proposed cost savings; and
- there will be no material change in exchange rates.

PART 12

TESCO PROFIT FORECAST

1. Tesco Profit Forecast

In the Prospectus, Tesco includes the following statement, which for the purposes of Rule 28 of the City Code constitutes a profit forecast for the full year ending 24 February 2018:

"*The Tesco Directors expect the Tesco Group to deliver at least £1.575 billion group operating profit before exceptional items in respect of the financial year ending 24 February 2018.*"

Basis of preparation

The Tesco Directors hereby confirm that the Tesco Profit Forecast has been properly compiled on the basis stated below and that the basis of accounting used is consistent with Tesco's accounting policies, which are in accordance with IFRS and are those that Tesco will apply in preparing its financial statements for the 52 weeks ending 24 February 2018. The Tesco Directors have prepared the profit forecast based on the unaudited interim financial results for the 26 weeks ended 26 August 2017, the unaudited management accounts for the 18 weeks ended 30 December 2017 and a forecast for the remaining period ending 24 February 2018.

In preparing the Tesco Profit Forecast, the Tesco Directors made the following assumptions:

Factors outside the influence or control of the Tesco Directors

- no change to current prevailing global macroeconomic and political conditions during FY2018 which is material in the context of the Tesco Profit Forecast;
- no change in legislation or regulation impacting on the Tesco Group's operations or its accounting policies and standards to which it is subject which is material in the context of the Tesco Profit Forecast;
- no change in inflation, interest or tax rates in Tesco's principal markets compared with Tesco's estimates which is material in the context of the Tesco Profit Forecast;
- no change in market conditions within the retail or financial services industry in relation to either demand or competitive environment which is material in the context of the Tesco Profit Forecast;
- no change in the exchange rates compared with Tesco's estimates which is material in the context of the Tesco Profit Forecast;
- no change in labour costs, including pension and other post-retirement benefits; and
- there will be no adverse event that will have an impact on Tesco's financial performance which is material in the context of the Tesco Profit Forecast.

Factors within the influence or control of the Tesco Directors

- no material acquisitions, joint venture agreements or disposals will be made by Tesco prior to 24 February 2018;
- the level of loan related provisions within Tesco Bank appropriately covers future losses under the relevant loans and there are no events or circumstances arising which would cause a change in the level of loan related provisions in Tesco Bank that would be material to the Tesco Profit Forecast; and
- no change in Tesco's strategy.

2. Report from Deloitte

The Board of Directors (including the Proposed Directors)
on behalf of Tesco PLC
Tesco House, Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA

Barclays Bank PLC, acting through its Investment Bank
5 The North Colonnade
Canary Wharf
London
E14 4BB
United Kingdom

5 February 2018

Dear Sirs

Merger of Tesco PLC and Booker Group plc

We report on the profit forecast comprising group operating profit before exceptional items of Tesco plc (the "Company") and its subsidiaries (together the "Tesco Group") for the 52 weeks ending 24 February 2018 (the "Tesco Profit Forecast"). The Tesco Profit Forecast, and the material assumptions upon which it is based, are set out in section 1 of Part 12 of the Prospectus (the "Prospectus") issued by the Company dated 5 February 2018. This report is required by Annex I item 13.2 of Commission Regulation (EC) No 809/2004 (the "Prospectus Directive Regulation).

Responsibilities

It is the responsibility of the directors of the Company (the "Directors") to prepare the Tesco Profit Forecast in accordance with the requirements of the Prospectus Directive Regulation.

It is our responsibility to form an opinion as required by the Prospectus Directive Regulation as to the proper compilation of the Tesco Profit Forecast and to report that opinion to you.

Save for any responsibility arising under Prospectus Rule 5.5.3R(2)(f) to any person as and to the extent there provided, to the fullest extent permitted by law we do not assume any responsibility and will not accept any liability to any other person for any loss suffered by any such other person as a result of, arising out of, or in connection with this report or our statement, required by and given solely for the purposes of complying with Annex I item 23.1 of the Prospectus Directive Regulation, consenting to its inclusion in the Prospectus.

Basis of Preparation of the Tesco Profit Forecast

The Tesco Profit Forecast has been prepared on the basis stated in section 1 of Part 12 of the Prospectus and is based on the unaudited interim financial results for the 26 weeks ended 26 August 2017, the unaudited management accounts for the 18 weeks ended 30 December 2017 and a forecast for the remaining period ending 24 February 2018. The Tesco Profit Forecast is required to be presented on a basis consistent with the accounting policies of the Tesco Group.

Basis of opinion

We conducted our work in accordance with the Standards for Investment Reporting issued by the Auditing Practices Board in the United Kingdom. Our work included evaluating the basis on which the historical financial information included in the Tesco Profit Forecast has been prepared and considering whether the Tesco Profit Forecast has been accurately computed based upon the disclosed assumptions and the accounting policies of the Tesco Group. Whilst the assumptions upon which the Tesco Profit Forecast are based are solely the responsibility of the Directors, we considered whether anything came to our attention to indicate that any of the assumptions adopted by the Directors which, in our opinion, are necessary for a proper understanding of the Tesco Profit Forecast have not been disclosed or if any material assumption made by the Directors appears to us to be unrealistic.

We planned and performed our work so as to obtain the information and explanations we considered necessary in order to provide us with reasonable assurance that the Tesco Profit Forecast has been properly compiled on the basis stated.

Since the Tesco Profit Forecast and the assumptions on which it is based relate to the future and may therefore be affected by unforeseen events, we can express no opinion as to whether the actual results reported will correspond to those shown in the Tesco Profit Forecast and differences may be material.

Our work has not been carried out in accordance with auditing or other standards and practices generally accepted in jurisdictions outside the United Kingdom, including the United States of America, and accordingly should not be relied upon as if it had been carried out in accordance with those standards and practices. We have not consented to the inclusion of this report and our opinion in any registration statement filed with the SEC under the US Securities Act of 1933 (either directly or by incorporation by reference) or in any offering document enabling an offering of securities in the United States (whether under Rule 144A or otherwise). We therefore accept no responsibility to, and deny any liability to, any person using this report and opinion in connection with any offering of securities inside the United States of America or who makes a claim on the basis they had acted in reliance on the protections afforded by United States of America law and regulation.

Opinion

In our opinion, the Tesco Profit Forecast has been properly compiled on the basis stated and the basis of accounting used is consistent with the accounting policies of the Tesco Group.

Declaration

For the purposes of Prospectus Rule 5.5.3R(2)(f) we are responsible for this report as part of the Prospectus and declare that we have taken all reasonable care to ensure that the information contained in this report is, to the best of our knowledge, in accordance with the facts and contains no omission likely to affect its import. This declaration is included in the Prospectus in compliance with Annex I item 1.2 of the Prospectus Directive Regulation.

Yours faithfully

Deloitte LLP

Deloitte LLP is a limited liability partnership registered in England and Wales with registered number OC303675 and its registered office at 2 New Street Square, London EC4A 3BZ, United Kingdom. Deloitte LLP is the United Kingdom affiliate of Deloitte NWE LLP, a member firm of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"). DTTL and each of its member firms are legally separate and independent entities. DTTL and Deloitte NWE LLP do not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

PART 13

CLOSING DIVIDEND

Summary of dividend entitlements agreed at the time of the Merger Announcement

The terms of the Merger set out the agreement between Tesco and Booker on the payment of dividends to Booker Shareholders pending the completion of the Merger. Since the Merger Announcement, Booker has paid dividends in respect of the financial periods ending 24 March 2017 (the "2016/17 Final Dividend") and 8 September 2017 (the "2017/18 Interim Dividend") and a special dividend of 3.02 pence per Booker Share (the "2016/17 Special Dividend") in accordance with that agreement. Pursuant to that agreement, Booker Shareholders on the relevant record date will also be entitled to receive, subject to Booker having sufficient distributable reserves at the relevant time, the dividends set out below (such dividends, together with the 2016/17 Final Dividend; 2017/18 Interim Dividend; and 2016/17 Special Dividend, (being the "Permitted Booker Dividends" and each a "Permitted Booker Dividend"):

- if the Effective Date is after the record date for the 2017/18 Final Dividend (as defined below) (but not otherwise), subject to approval by the Booker Shareholders, a final dividend of up to 65 per cent. of Booker's Earnings for the 53 weeks ending 30 March 2018 less the aggregate amount of the 2017/18 Interim Dividend (the "2017/18 Final Dividend"). If the Effective Date is expected to occur prior to Booker's annual general meeting for the 53 weeks ending 30 March 2018, the 2017/18 Final Dividend may be approved by the Booker Board, and paid, as an interim dividend. If the 2017/18 Final Dividend is announced or declared, the record date for it shall be in June 2018 and any general meeting to approve the 2017/18 Final Dividend shall be after such record date;

- if the Effective Date is after the record date for the 2018/19 Interim Dividend (as defined below) (but not otherwise), an interim dividend of up to 0.76 pence per Booker Share in respect of the 24 weeks ending 14 September 2018 (the "2018/19 Interim Dividend"). If the 2018/19 Interim Dividend is announced or declared, the record date for it shall be in October 2018; and

- subject to the Scheme becoming Effective, an aggregate closing dividend (the "Closing Dividend"), to be agreed by Tesco and Booker (or, in the absence of agreement, determined as set out below) to reflect the principle that Booker Shareholders should receive a dividend payment equal to the accrued but unpaid ordinary dividends that they would otherwise have expected to receive as Booker Shareholders in respect of the period from the end of the last financial period for which a dividend was made, declared or paid until the Effective Date, such payment to be reduced by any dividends that Booker Shareholders would be expected to become entitled to receive as holders of New Tesco Shares after the Effective Date in relation to the same period.

Summary of basis for Closing Dividend re-calculation (if required)

As set out in Part 1 – INFORMATION ON THE MERGER, based on the Effective Date occurring on or before 31 March 2018, Tesco and Booker have now agreed that the Closing Dividend that Booker Shareholders are entitled to will be 3.7 pence per Booker Share. If the Effective Date is after 31 March 2018, the Closing Dividend will be re-calculated in accordance with the formula set out below or as otherwise agreed between Tesco and Booker and the amount of the Closing Dividend will be announced to Booker Shareholders via a Regulatory Information Service on or prior to the Effective Date.

To the extent the Closing Dividend is to be recalculated as described above, Tesco and Booker have agreed that it will be an aggregate amount calculated by deducting the aggregate Accrued

Tesco Dividend from the aggregate Accrued Booker Dividend in accordance with the formula below, where:

- the "Accrued Booker Dividend" is equal to the aggregate amount of unpaid ordinary dividends that will have accrued as ordinary dividends on the Booker Shares on or prior to the Effective Date, calculated as:

  (A x 1.1 x B) – C

where:

  - A equals the sum of the aggregate amounts of the last interim dividend and last final (or second interim) dividend of Booker (but, for the avoidance of doubt, excluding any special dividend of Booker, including the 2016/17 Special Dividend) that have been announced or declared, and for which the record date has or will have occurred as at the Effective Date;
  - B equals:
    - if the Effective Date is prior to the record date for the 2017/18 Final Dividend, the number of days from (and including) 25 March 2017 to (and excluding) the Effective Date divided by 365;
    - if the Effective Date is on or after the record date for the 2017/18 Final Dividend, the number of days from (and including) 31 March 2018 to (and excluding) the Effective Date divided by 365;
  - C equals:
    - if the Effective Date is after the record date for the 2017/18 Interim Dividend but prior to the record date for the 2017/18 Final Dividend, the aggregate 2017/18 Interim Dividend;
    - if the Effective Date is on or after the record date for the 2017/18 Final Dividend but prior to the record date for the 2018/19 Interim Dividend, zero;
    - if the Effective Date is on or after the record date for the 2018/19 Interim Dividend, an amount equal to the aggregate of the 2018/19 Interim Dividend;

- the "Accrued Tesco Dividend" is equal to the aggregate amount of unpaid ordinary dividends that Booker Shareholders are expected to become entitled to receive as holders of New Tesco Shares after the Effective Date in relation to the same period as for the Accrued Booker Dividend, calculated as:

  ((D x E x F) – G) x H

where:

  - D equals the amount of the interim dividend by Tesco for the financial year ending 24 February 2018 (the "Tesco 2017 FY") multiplied by 3;
  - E equals:
    - if the Effective Date is on or prior to the record date for a final (or second interim) dividend by Tesco in respect of the Tesco 2017 FY (the "Tesco 2017/18 Final Dividend"), one;
    - if the Effective Date is on or after the record date for the Tesco 2017/18 Final Dividend, 1.5;

- o F equals:
  - ■ if the Effective Date is prior to the record date for the Tesco 2017/18 Final Dividend, the sum of the number of days from (and including) 26 February 2017 to (and excluding) the Effective Date divided by 365;
  - ■ if the Effective Date is on or after the record date for the Tesco 2017/18 Final Dividend, the number of days from (and including) 25 February 2018 to (and excluding) the Effective Date divided by 365;
- o G equals:
  - ■ if the Effective Date is on or after the record date for the Tesco 2017/18 Interim Dividend but prior to the record date for the Tesco 2017/18 Final Dividend, (the aggregate Tesco 2017/18 Interim Dividend);
  - ■ if the Effective Date is on or after the record date for the Tesco 2017/18 Final Dividend but prior to the record date for an interim dividend by Tesco in respect of the financial year ending 23 February 2019 (the "Tesco 2018/19 Interim Dividend"), zero;
  - ■ if the Effective Date is on or after the record date for the Tesco 2018/19 Interim Dividend, an amount equal to the aggregate of the Tesco 2018/19 Interim Dividend;
- o H equals the number of New Tesco Shares to be issued under the Merger divided by the number of Tesco Shares in issue immediately prior to the Scheme becoming Effective.

For the avoidance of doubt, if the Effective Date occurs after the announcement or declaration of any Permitted Booker Dividend, but before its record date, the relevant Booker Shareholders will not be entitled to receive such dividend.

Tesco and Booker intend to agree the timetable relating to the Permitted Booker Dividends with the London Stock Exchange to take into account the relevant dividend procedure timetable at the relevant time.

If, on or after the date of this document, any dividend and/or other distribution and/or other return of capital is declared, made or paid or becomes payable in respect of the Booker Shares, other than a Permitted Booker Dividend, Tesco reserves the right (without prejudice to any right of Tesco to invoke Condition 10(c) in the Merger Announcement), to reduce the value implied under the terms of the Merger for the Booker Shares by an amount up to the amount of such dividend and/or distribution and/or return of capital, in which case any reference in this document to the Consideration payable under the terms of the Merger will be deemed to be a reference to the Consideration as so reduced. In such circumstances, to the extent possible, the cash component of the Consideration would be reduced by an amount up to the amount of such dividend and/or distribution and/or return of capital. To the extent that any such dividend and/or distribution and/or other return of capital is declared, made or paid or is payable and it is: (i) transferred pursuant to the Merger on a basis which entitles Tesco to receive the dividend or distribution and to retain it; or (ii) cancelled, the Consideration payable under the terms of the Merger will not be subject to change in accordance with this paragraph. Any exercise by Tesco of its rights referred to in this paragraph shall be the subject of an announcement via a Regulatory Information Service and, for the avoidance of doubt, shall not be regarded as constituting any revision or variation of the Merger.

If you are in any doubt as to how the above will apply, you are recommended to seek your own financial advice from your stockbroker, bank manager, solicitor, accountant, fund manager or other appropriate independent financial adviser, who is authorised under FSMA if you are resident in the UK or, if not, from another appropriately authorised independent financial adviser.

PART 14

TAXATION

UK Taxation

The following statements are intended only as a general guide to certain UK tax considerations and do not purport to be a complete analysis of all potential UK tax consequences of acquiring, holding or disposing of Tesco Shares. They are based on current UK law and what is understood to be the current practice of HMRC as at the date of this Prospectus, both of which may change, possibly with retroactive effect. They apply only to Tesco Shareholders who are resident and, in the case of individuals domiciled, for tax purposes in (and only in) the UK (except insofar as express reference is made to the treatment of non-UK residents), who hold their Tesco Shares as an investment (other than in an individual savings account "ISA" or Lifetime ISA or pension arrangement) and who are the absolute beneficial owner of both the Tesco Shares and any dividends paid on them. The tax position of certain categories of Tesco Shareholders who are subject to special rules (such as persons acquiring Tesco Shares in connection with employment, dealers in securities, insurance companies and collective investment schemes) is not considered.

The statements summarise the current position and are intended as a general guide only. Prospective investors who are in any doubt as to their tax position or who may be subject to tax in a jurisdiction other than the UK are strongly recommended to consult their own professional advisers.

Taxation of dividends

Tesco is not required to withhold tax when paying a dividend. Liability to tax on dividends will depend upon the individual circumstances of a Tesco Shareholder.

(i) *UK resident individual Tesco Shareholders*

Under current UK tax rules specific rates of tax apply to dividend income. These include a nil rate of tax for the first £5,000 of dividend income in any tax year (the "nil rate band") (which will be reduced to £2,000 with effect from 6 April 2018) and different rates of tax for dividend income that exceeds the nil rate band. No tax credit attaches to dividend income. For these purposes, "dividend income" includes UK and non UK source dividends and certain other distributions in respect of shares.

An individual Tesco Shareholder who is resident for tax purposes in the UK and who receives a dividend from Tesco will not be liable to UK tax on the dividend to the extent that (taking account of any other dividend income received by the Tesco Shareholder in the same tax year) that dividend falls within the nil rate band.

To the extent that (taking account of any other dividend income received by the Tesco Shareholder in the same tax year) the dividend exceeds the nil rate band, it will be subject to income tax at 7.5 per cent. to the extent that it falls below the threshold for higher rate income tax. To the extent that (taking account of other dividend income received in the same tax year) it falls above the threshold for higher rate income tax then the dividend will be taxed at 32.5 per cent., to the extent that it is within the higher rate band, or 38.1 per cent., to the extent that it is within the additional rate band. For the purposes of determining which of the taxable bands dividend income falls into, dividend income is treated as the highest part of a Tesco Shareholder's income. In addition, dividends within the nil rate band which would (if there was no nil rate band) have fallen within the basic or higher rate bands will use up those bands respectively for the purposes of determining whether the threshold for higher rate or additional rate income tax is exceeded.

(ii) *UK resident corporate Tesco Shareholders*

It is likely that most dividends paid on the Tesco Shares to UK resident corporate shareholders would fall within one or more of the classes of dividend qualifying for exemption from corporation tax. It should be noted, however, that the exemptions are not comprehensive and are also subject to anti-avoidance rules.

(iii) *UK resident exempt Tesco Shareholders*

UK resident Tesco Shareholders who are not liable to UK tax on dividends, including exempt pension funds and charities, are not entitled to any tax credit in respect of dividends paid by Tesco.

(iv) *Non-UK resident Tesco Shareholders*

No tax credit will attach to any dividend paid by Tesco. A Tesco Shareholder resident outside the UK may also be subject to non-UK taxation on dividend income under local law. A Tesco Shareholder who is resident outside the UK for tax purposes should consult his, her or its own tax adviser concerning his, her or its tax position on dividends received from Tesco.

Taxation of disposals

A disposal or deemed disposal of Tesco Shares by a Tesco Shareholder who is resident in the UK for tax purposes may, depending upon the Tesco Shareholder's circumstances and subject to any available exemption or relief (such as the annual exempt amount for individuals), give rise to a chargeable gain or an allowable loss for the purposes of UK taxation of capital gains.

Tesco Shareholders who are not resident in the UK will not generally be subject to UK taxation of capital gains on the disposal or deemed disposal of Tesco Shares unless they are carrying on a trade, profession or vocation in the UK through a branch or agency (or, in the case of a Tesco corporate Shareholder, a permanent establishment) in connection with which the Tesco Shares are used, held or acquired. Non-UK tax resident Tesco Shareholders may be subject to non-UK taxation on any gain under local law.

An individual Tesco Shareholder who has been resident for tax purposes in the UK but who ceases to be so resident or becomes treated as resident outside the UK for the purposes of a double tax treaty ("Treaty non-resident") for a period of five years or less (or, for departures before 6 April 2013, ceases to be resident or ordinarily resident or becomes Treaty non-resident for a period of less than five tax years) and who disposes of all or part of their Tesco Shares during that period may be liable to capital gains tax on his or her return to the UK, subject to any available exemptions or reliefs.

Stamp Duty and Stamp Duty Reserve Tax ("SDRT")

(i) *The Merger*

The issue of Tesco Shares direct to persons acquiring Tesco Shares pursuant to the terms of the Merger will not generally give rise to stamp duty or SDRT.

(ii) *Subsequent transfers*

Stamp duty at the rate of 0.5 per cent. (rounded up to the next multiple of £5.00) of the amount or value of the consideration given is generally payable on an instrument transferring Tesco Shares. A charge to SDRT will also arise on an unconditional agreement to transfer Tesco Shares (at the rate of 0.5 per cent. of the amount or value of the consideration payable). If, however, within six years of the date of the agreement becoming unconditional an instrument of transfer is executed pursuant to the agreement, and stamp duty is paid on that instrument, any SDRT already paid will be refunded (generally, but not necessarily, with interest) provided that a claim for repayment is made, and any outstanding liability to SDRT will be cancelled. The liability to pay stamp duty or SDRT is generally satisfied by the purchaser or transferee. An exemption from stamp duty is available on an instrument transferring Tesco Shares where the amount or value of the consideration is £1,000 or less, and it is certificated on the instrument that the transaction effected by the instrument does not form part of a larger transaction or series of transactions for which the aggregate consideration exceeds £1,000.

(iii) *Shares transferred through paperless means including CREST*

Paperless transfers of Tesco Shares, such as those occurring within CREST, are generally liable to SDRT rather than stamp duty, at the rate of 0.5 per cent. of the amount or value of the consideration. CREST is obligated to collect SDRT on relevant transactions settled within the system. The charge is generally borne by the purchaser. Under the CREST system, no stamp duty or SDRT will arise on a transfer of Tesco Shares into the system unless such a transfer is made for a consideration in money or money's worth, in which case a liability to SDRT (usually at a rate of 0.5 per cent.) will arise.

(iv) *Shares held through Clearance Systems or Depositary Receipt Arrangements*

Special rules apply where Tesco Shares are issued or transferred to, or to a nominee or agent for, either a person whose business is or includes issuing depositary receipts or a person providing a clearance service, under which SDRT or stamp duty may be charged at a rate of 1.5 per cent on such issue or transfer (with subsequent transfers within the clearance service or transfers of depositary receipts then being free from stamp duty or SDRT). Following litigation, HMRC confirmed that they will no longer seek to apply the 1.5 per cent. SDRT charge on an issue of shares into a clearance service or depositary receipt arrangement on the basis that the charge is not compatible with EU law. This view has not yet been reflected in a change in the UK rules, but it was confirmed in the Autumn 2017 Budget that the Government intend to continue this approach following Brexit. HMRC's view has been that the 1.5 per cent. SDRT or stamp duty charge will continue to apply to transfers of shares into a clearance service or depositary receipt arrangement unless they are an integral part of an issue of share capital. Further litigation indicates that this view is not correct (at least in respect of certain transfers of legal title to clearance services), but HMRC have not yet confirmed whether they will cease applying the charge. **Accordingly, specific professional advice should be sought before incurring a 1.5 per cent. stamp duty or stamp duty reserve tax charge in any circumstances.**

The statements under the heading "Stamp Duty and Stamp Duty Reserve Tax ("SDRT")" in paragraphs (i) to (iv) above relating to stamp duty and SDRT apply to any holders of Tesco Shares irrespective of their residence, summarise the current position and are intended as a general guide only. Special rules apply to agreements made by, amongst others, intermediaries.

Certain US Federal Income Tax Considerations

The following discussion is a general summary based on present law of certain US federal income tax considerations relevant to the acquisition, ownership and disposition of Tesco Shares. This discussion is not a complete description of all tax considerations that may be relevant. It addresses only US Holders (as defined below) to whom New Tesco Shares are issued pursuant to the Merger, who will hold New Tesco Shares as capital assets, and use the US dollar as their functional currency. This discussion does not address the tax treatment of persons subject to special rules, such as financial institutions, insurance companies, regulated investment companies, real estate investment trusts, dealers, traders in securities that elect to mark-to-market, tax-exempt entities, persons owning directly, indirectly or constructively ten per cent. or more of Tesco's share capital, US expatriates, investors liable for alternative minimum tax, persons holding Tesco Shares as part of a hedge, straddle, conversion, constructive sale or other integrated financial transaction or persons holding Tesco Shares in connection with a permanent establishment or fixed base outside the United States. It also does not address US federal taxes other than income tax (e.g. estate and gift taxes), US state and local, or non-US tax considerations.

As used in this section, "US Holder" means a beneficial owner of Booker Scheme Shares and, after the Merger, New Tesco Shares that is, for US federal income tax purposes (i) a citizen or individual resident of the United States, (ii) a corporation or other business entity treated as a corporation created or organised under the laws of the United States or its political subdivisions, (iii) a trust subject to the control of one or more US Persons and the primary supervision of a US court or (iv) an estate the income of which is subject to US federal income tax without regard to its source.

The US federal income tax treatment of a partner in an entity treated as a partnership for US federal income tax purposes that holds Tesco Shares generally will depend on the status of the partner and the activities of the partnership. Prospective purchasers that are partnerships should consult their own tax advisors regarding the specific US federal income tax consequences to their partners of the partnership's receipt, ownership and disposition of Tesco Shares.

Tesco believes, and the following discussion assumes, that Tesco has not been a passive foreign investment company ("PFIC") for US federal income tax purposes in any prior taxable year and, based on the composition of Tesco's current gross assets and income (including the income and assets of Tesco Group) and the manner in which Tesco expects the Tesco Group and, if the Merger becomes effective, the Combined Group to operate its business in future years, Tesco believes that it should not be classified as a PFIC for US federal income tax purposes for Tesco's current taxable year or in the foreseeable future. The tests to determine whether a company is a PFIC apply annually and a company's status can change depending, among other things, on changes in the composition and relative value of its gross receipts and assets, changes in its operations and changes in the market value of its stock. Accordingly, no assurance can be provided by Tesco that it will not become a PFIC in any future year.

Consequences of the Scheme for Booker Shareholders

The receipt of cash and/or New Tesco Shares by a US Holder as consideration for the transfer of its Booker Scheme Shares pursuant to the Scheme is expected to be a taxable transaction for US federal income tax purposes. Accordingly, a US Holder will generally be required to recognise any gain or loss in an amount equal to the difference between its tax basis in the Booker Scheme Shares and the sum of the cash received (including any cash received in lieu of fractional entitlements to a New Tesco Share) and the fair market value of the New Tesco Shares received, both amounts determined in US dollars. If Booker is currently or has been a PFIC for any taxable year in which a Booker Scheme Shareholder that is a US Holder has held Booker Scheme Shares, (i) any gain recognized would generally be allocated ratably over the US Holder's holding period in the Booker Scheme Shares, (ii) the amount allocated to the current taxable year and any year before Booker became a PFIC would be taxed as ordinary income in the current year, and (iii) the amount allocated to other taxable years would be taxed at the highest applicable marginal rate in effect for each year and an interest charge would be imposed to recover the deemed benefit from the deferred payment of the tax attributable to each such prior year. Each US Holder is urged to consult its own appropriately authorised independent professional adviser immediately regarding the US federal, state and local and non-US tax consequences of the Scheme applicable to it.

Considerations with respect to the ownership and disposition

Dividends

Distributions on the New Tesco Shares, to the extent they are paid by Tesco out of current or accumulated earnings and profits ("E&P") (as determined for US tax purposes), should be included in a US Holder's gross income as ordinary dividend income from foreign sources upon receipt. Dividends will not be eligible for the dividends-received deduction generally available to US corporations. Distributions in excess of current and accumulated E&P will be treated as a non-taxable return of capital to the extent of the US Holder's basis in the New Tesco Shares and thereafter as capital gain. However, Tesco does not maintain calculations of its E&P in accordance with US federal income tax accounting principles. US Holders should therefore assume that any distributions by Tesco with respect to other New Tesco Shares will constitute ordinary dividend income. If Tesco qualifies for benefits under the United States-United Kingdom tax treaty (the "Treaty") (which Tesco believes it does) and is not a PFIC in the year of distribution or in the preceding year, dividends on the New Tesco Shares will qualify for the reduced rates applicable to qualified dividend income of certain eligible non-corporate US Holders that satisfy a minimum holding period and other generally applicable requirements. Dividends paid in a currency other than US dollars will be includable in income in a US dollar amount based on the exchange rate in effect on the date of receipt whether or not the currency is converted into US dollars or otherwise disposed of at that time. A US Holder's tax basis in the non-US currency will equal the US dollar amount included in income. Any gain or loss realised on a subsequent disposition or conversion of the non-US currency for a different US dollar amount generally will be US source ordinary income or loss.

Dispositions

A US Holder generally will recognise capital gain or loss on the sale or other disposition of Tesco Shares in an amount equal to the difference between the US Holder's adjusted tax basis in the Tesco Shares and the US dollar value of the amount realised from the sale or other disposition.

A US Holder's adjusted tax basis in the Tesco Shares generally will be the US dollar value of the issued Tesco Shares. Any gain or loss generally will be treated as arising from US sources and will be long-term capital gain or loss if the US Holder's holding period exceeds one year. Deductions for capital loss are subject to limitations. A loss may nonetheless be a long-term capital loss regardless of a US Holder's actual holding period to the extent the US Holder has received qualified dividends eligible for reduced rates of tax prior to a sale or other disposition of its Tesco Shares that exceeded ten per cent. of such US Holder's basis in the Tesco Shares.

A US Holder that receives a currency other than US dollars on the sale or other disposition of Tesco Shares will realise an amount equal to the US dollar value of the currency received at the spot rate on the date of sale or other disposition (or, in the case of cash basis and electing accrual basis US Holders, the settlement date). An accrual basis US Holder that does not elect to determine the amount realised using the spot rate on the settlement date will recognise foreign currency gain or loss equal to the difference between the US dollar value of the amount received based on the spot exchange rates in effect on the date of sale or other disposition and the settlement date. A US Holder will have a tax basis in the currency received equal to the US dollar value of the currency received at the spot rate on the settlement date. Any gain or loss realised on a subsequent disposition or conversion of the non-US currency for a different US dollar amount generally will be US source ordinary income or loss.

Passive Foreign Investment Company Rules

Tesco believes that it is not a passive foreign investment company, or PFIC, for US federal income tax purposes for its most recent taxable year, being the 52 weeks ended 25 February 2017 and, based on the composition of Tesco's current gross assets and income (including the income and assets of Tesco Group) and the manner in which Tesco expects the Tesco Group and, if the Merger becomes effective, the Combined Group to operate its business in future years, Tesco believes that it should not be classified as a PFIC for US federal income tax purposes for Tesco's current taxable year or in the foreseeable future. In general, a non-US corporation is a PFIC for any taxable year in which, taking into account a pro rata portion of the income and assets of 25 per cent. or more owned subsidiaries, either (i) at least 75 per cent. of its gross income is passive income or (ii) at least 50 per cent. of the average value of its assets is attributable to assets that produce or are held to produce passive income. For this purpose, passive income generally includes, among other things, interest, dividends, rents, royalties and gains from the disposition of investment assets (subject to various exceptions) and property that produces passive income. Whether Tesco is a PFIC is a factual determination made annually, and Tesco's status could change depending among other things upon changes in the composition and relative value of its gross receipts and assets. Because the market value of Tesco's assets may be determined in large part by the market price of the Tesco Shares, which is likely to fluctuate, there can be no assurance that Tesco will not be a PFIC in the current or any future taxable year.

If Tesco were a PFIC for any taxable year in which a US Holder holds Tesco Shares, such US Holder will be subject to additional taxes on any excess distributions and any gain realised from the sale or other taxable disposition of the Tesco Shares (including certain pledges) regardless of whether Tesco continues to be a PFIC. A US Holder will have an excess distribution to the extent that distributions on Tesco Shares during a taxable year exceed 125 per cent. of the average amount received during the three preceding taxable years (or, if shorter, the US Holder's holding period). To compute the tax on excess distributions or any gain, (i) the excess distribution or gain is allocated ratably over the US Holder's holding period, (ii) the amount allocated to the current taxable year and any year before Tesco became a PFIC is taxed as ordinary income in the current year, and (iii) the amount allocated to other taxable years is taxed at the highest applicable marginal rate in effect for each year and an interest charge is imposed to recover the deemed benefit from the deferred payment of the tax attributable to each year.

A US Holder may be able to avoid some of the adverse impacts of the PFIC rules described above by electing to mark the Tesco Shares to market annually. The election is available only if the Tesco Shares are considered "marketable stock," which generally includes stock that is regularly traded in more than *de minimis* quantities on a qualifying exchange. If a US Holder makes the mark-to-market election, any gain from marking the Tesco Shares to market or from disposing of them would be ordinary income. Any loss from marking the Tesco Shares to market would be recognised only to the extent of unreversed gains previously included in income. Loss from marking the Tesco Shares to market would be ordinary, but loss on disposing of them would be capital loss except to the extent of mark-to-market gains previously included in income. No assurance can be given that the Tesco Shares will be traded in sufficient frequency and quantity to be considered "marketable stock" or whether the London Stock Exchange and/or the Irish Stock Exchange are or will continue to be considered a qualifying exchange for purposes of the PFIC mark-to-market election. A valid mark-to-market election cannot be revoked without the consent of the US Internal Revenue Service ("IRS") unless the Tesco Shares cease to be marketable stock.

Each US Holder is encouraged to consult its own tax advisor as to Tesco's status as a PFIC and whether a mark to market election is available or desirable in its particular circumstances.

Tax on Net Investment Income

Certain non-corporate US Holders whose income exceeds certain thresholds generally will be subject to a 3.8 per cent. surtax tax on their "net investment income" (which generally includes, among other things, dividends on, and capital gain from the sale or other disposition of Booker Scheme Shares pursuant to the Scheme or of New Tesco Shares). Non-corporate US Holders should consult their own tax advisors regarding the possible effect of such tax on their ownership and disposition of Tesco Shares.

Reporting and Backup Withholding

Dividends on the Tesco Shares and proceeds from the sale or other disposition of Tesco Shares may be reported to the US Internal Revenue Service ("IRS") unless the holder is a corporation or otherwise establishes a basis for exemption. Backup withholding may apply to reportable payments unless the holder makes the required certification, including providing its taxpayer identification number or otherwise establishes a basis for exemption. Any amount withheld may be credited against a US Holder's US federal income tax liability or refunded to the extent it exceeds the holder's liability, provided the required information is timely furnished to the IRS.

Certain US Holders are required to report information with respect to Tesco Shares not held through an account with a financial institution to the IRS. Investors who fail to report required information could become subject to substantial penalties. Potential investors are encouraged to consult with their own tax advisors about these and any other reporting obligations arising from their investment in the Tesco Shares.

THE DISCUSSION ABOVE IS A GENERAL SUMMARY. IT DOES NOT COVER ALL TAX MATTERS THAT MAY BE OF IMPORTANCE TO A PARTICULAR INVESTOR. EACH PROSPECTIVE INVESTOR IS URGED TO CONSULT ITS OWN TAX ADVISER ABOUT THE TAX CONSEQUENCES TO IT OF AN INVESTMENT IN THE NEW TESCO SHARES IN LIGHT OF THE INVESTOR'S OWN CIRCUMSTANCES.

PART 15

ADDITIONAL INFORMATION

Responsibility

Tesco, the Tesco Directors and the Proposed Directors, whose names appear in the section of this Prospectus titled "Tesco *Directors, Proposed Directors, Company Secretary, registered office and advisers*", accept responsibility for the information contained in this document. To the best of the knowledge and belief of Tesco, the Tesco Directors and the Proposed Directors (each of whom has taken all reasonable care to ensure that such is the case), the information contained in this document is in accordance with the facts and does not omit anything likely to affect the import of such information.

Incorporation and registered office

The Company was incorporated and registered in England and Wales on 27 November 1947 as Tesco Stores (Holdings) Limited, a private company limited by shares with the registered number 00445790, under the Companies Act 1929. The Company was re-registered as a public company limited by shares and renamed Tesco Stores (Holdings) public limited company on 14 December 1981, and was renamed Tesco PLC on 25 August 1983. The Company is a resident of the UK for UK tax purposes.

The Company's registered office and principal place of business is at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA and its telephone number is +44 (0) 1992 632 222 (Switchboard).

Share capital

The principal laws and legislation under which the Company operates and the Tesco Shares have been created are the Act and regulations made thereunder.

A history of the share capital of the Company for the period covered by the historical financial information set out in this Prospectus is set out below.

As at 23 February 2014, being the first date in the period covered by the Tesco historical financial information set out in this Prospectus, the Company's share capital comprised:

Class of Shares	Number issued	Amount issued	Fully paid
Ordinary	8,095,821,091	£404,791,054.55	Yes

Between 23 February 2014 and 28 February 2015, Tesco issued 27,170,408 Tesco Shares, following which the Company's share capital comprised:

Class of Shares	Number issued	Amount issued	Fully paid
Ordinary	8,122,991,499	£406,149,574.95	Yes

Between 1 March 2015 and 27 February 2016, Tesco issued 18,091,615 Tesco Shares, following which the Company's share capital comprised:

Class of Shares	Number issued	Amount issued	Fully paid
Ordinary	8,141,083,114	£407,054,155.70	Yes

Between 28 February 2016 and 25 February 2017, Tesco issued 33,849,439 Tesco Shares, following which the Company's share capital comprised:

Class of Shares	Number issued	Amount issued	Fully paid
Ordinary	8,174,932,553	£408,746,627.65	Yes

As at 1 February 2018 (being the Latest Practicable Date) Tesco's share capital comprised:

Class of Shares	Number issued	Amount issued	Fully paid
Ordinary	8,191,798,719	£409,589,935.95	Yes

On 16 June 2017, the Tesco Shareholders resolved at Tesco's Annual General Meeting that:

- the Tesco Directors be generally and unconditionally authorised in accordance with section 551 of the Act to allot:
  - shares in the Company or to grant rights to subscribe for or to convert any securities into shares in the Company up to a maximum aggregate nominal amount of £136,256,566; and, in addition
  - equity securities (as defined in section 560 of the Act) of the Company up to an aggregate nominal amount of £136,256,566 in connection with an offer of such securities by way of a rights issue,

provided that this authority shall expire on the date of the next Annual General Meeting of the Company; and

- the Tesco Directors be empowered pursuant to section 570 of the Act to allot equity securities (as defined in section 560 of the Act) for and/or to sell equity securities held as treasury shares for cash pursuant to section 727 of the Act, in each case as if the pre-emption rights set out in section 561(1) of the Act did not apply to any such allotment or sale, provided that this power shall be limited:

  (a) to the allotment and/or sale of equity securities in connection with an offer of such securities by way of a rights issue; and

  (b) to the allotment and/or sale (otherwise than pursuant to sub-paragraph (a) above) of equity securities up to an aggregate nominal value of £20,438,484; plus

  (c) in addition to the amount in sub-paragraph (b) above, to the allotment and/or sale of equity securities up to an aggregate nominal value of £20,438,484, provided that any allotment and/or sale of equity securities under this paragraph (c) shall only be used in connection with an acquisition or specified capital investment,

  such authority to expire on the date of the next Annual General Meeting of the Company.

In addition, on or about 28 February 2018, the Company will seek the approval of Tesco Shareholders at a Tesco General Meeting to the following resolutions required to approve, implement and effect the Merger and to authorise the creation and allotment of New Tesco Shares:

- the proposed acquisition by the Company of the entire issued and to be issued ordinary share capital of Booker, to be effected pursuant to the Scheme (or by way of an Offer in the circumstances set out in the cooperation agreement entered into between the Company and Booker dated 27 January 2017) substantially on the terms and subject to the conditions as described in:
  - the Circular; and

- this Prospectus,

be and is hereby approved and the Tesco Directors (or a duly authorised committee thereof) be and are hereby authorised to do or procure to be done all such acts and things as they consider necessary, expedient or appropriate in connection with the Merger and this resolution and to agree such modifications, variations, revisions, waivers or amendments to the terms and conditions of the Merger (provided that such modifications, variations, revisions, waivers or amendments do not materially change the terms of the Merger for the purposes of the FCA's Listing Rule 10.5.2) and to any documents and arrangements relating thereto, as the Tesco Directors (or a duly authorised committee thereof) may in their absolute discretion think fit; and

- subject to and conditional upon:
  - the conditions for the Scheme to become effective being satisfied, except for the conditions relating to:
    - the UK Listing Authority (the "UKLA") having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the application for the admission of the New Tesco Shares to be issued pursuant to the Scheme (or, as the case may be, the Offer) to listing on the premium listing segment of the Official List maintained by the FCA has been approved and (after satisfaction of any conditions to which such approval is expressed to be subject (the "listing conditions")) will become effective as soon as a dealing notice has been issued by the FCA and any listing conditions having been satisfied; and
    - London Stock Exchange having acknowledged to the Company or its agent (and such acknowledgment not having been withdrawn) that the New Tesco Shares will be admitted to trading on the main market of the London Stock Exchange; or, as the case may be,
  - an Offer becoming or being declared wholly unconditional (except for UK Admission),

the Tesco Directors be and hereby are generally and unconditionally authorised in accordance with Section 551 of the Act (in addition, to the extent unutilised, to the authority granted to the Tesco Directors at the annual general meeting of the Company held on 16 June 2017, which remains in full force and effect and without prejudice to the continuing authority of the Tesco Directors to allot equity securities pursuant to an offer or agreement made by the Company before the expiry of the authority pursuant to which such offer or agreement was made) to exercise all the powers of the Company to allot the New Tesco Shares and grant rights to subscribe for or to convert any security into shares in the Company, up to an aggregate nominal amount of £79,500,000, in each case, credited as fully paid, with authority to deal with fractional entitlements arising out of such allotment as they think fit, subject always to the terms of the Merger and to take all such other steps as they may in their absolute discretion deem necessary, expedient or appropriate to implement such allotments in connection with the Merger, and which authority shall expire at the close of business on 30 November 2018 (unless previously revoked, renewed or varied by the Company in a general meeting), save that the Company may before such expiry make an offer or enter into an agreement that would or might require shares to be allotted, or rights to subscribe for or to convert securities into shares to be granted, after such expiry and the Tesco Directors may allot shares or grant such rights in pursuance of such an offer or agreement as if the authority conferred by this resolution had not expired.

The authority to allot the New Tesco Shares represents approximately 19.4 per cent. of the total issued ordinary share capital of Tesco as at the Latest Practicable Date (as at the Latest Practicable Date, Tesco did not hold any shares in treasury). The passing of the Tesco Resolution requires more than 50 per cent. of the votes cast in respect of the Tesco Resolution to be in favour of it. If the Tesco Resolution is passed, this authority will expire on 30 November 2018 (unless previously revoked, renewed, varied or extended).

The full text of the Tesco Resolution and other matters is set out in the Notice of the Tesco General Meeting attached to the Circular. If the Tesco Merger Resolution is not passed, the Scheme will not proceed.

Save as disclosed in this Part 15 "*Additional Information – Tesco employee share schemes*":

- no share or loan capital of the Company has, within three years of the date of this Prospectus, been issued or agreed to be issued, or is now proposed to be issued (other than pursuant to the Merger), fully or partly paid, either for cash or for a consideration other than cash, to any person;
- no commissions, discounts, brokerages or other special terms have been granted by the Company in connection with the issue or sale of any share or loan capital of the Company; and
- no share or loan capital of the Company is under option or agreed conditionally or unconditionally to be put under option.

The Company will be subject to the continuing obligations of the FCA with regard to the issue of shares for cash. The provisions of section 561(1) of the Act (which confer on shareholders rights of pre-emption in respect of the allotment of equity securities which are, or are to be, paid up in cash other than by way of allotment to employees under an employees' share scheme as defined in section 1166 of the Act) apply to the issue of shares in the capital of the Company except to the extent such provisions are disapplied as referred to above.

Immediately following Admission, the issued share capital of the Company is expected to be £486,743,940.15 comprising 9,734,878,803 Tesco Shares, all of which will be fully paid or credited as fully paid.

The Tesco Shares are in registered form and, subject to the provisions of the CREST Regulations, the Tesco Directors may permit the holding of Tesco Shares of any class in uncertificated form and title to such shares may be transferred by means of a relevant system (as defined in the CREST Regulations). Where Tesco Shares are held in certificated form, share certificates will be sent to the registered members by first class post. Where Tesco Shares are held in CREST, the relevant CREST stock account of the registered members will be credited.

Summary of the Articles of Association

The Articles of Association of the Company (the "Articles") include provisions to the following effect:

Objects

The Articles do not restrict the Company's objects. Therefore, according to the Act, the Company's objects are unrestricted.

Share rights

Subject to the provisions of the Act, and to any special rights conferred on the holders of any other shares:

- any share may be issued with such rights and restrictions as the Company may by ordinary resolution decide or, if no such resolution has been passed or so far as the resolution does not make specific provision, as the Tesco Board may decide; and
- any share may be issued on terms that it is to be redeemed or is liable to be redeemed at the option of the Company or the shareholder and the Tesco Board may determine the terms, conditions and manner of redemption of such shares.

Voting rights

Subject to the provisions of the Articles and to any special rights or restrictions attached to any shares, on a show of hands every member who is present in person shall have one vote. On a poll, every member present in person or by proxy shall have one vote in respect of each share of which they are the holder.

Unless the Tesco Board otherwise decides, a member shall not be entitled to vote at any general meeting in respect of a share held by them unless all calls and other sums presently payable by them in respect of that share have been paid.

If the holder of, or any other person appearing to be interested in, any share has been served with a notice under section 793 of the Act and, in respect of that share (a "default share"), has been in default for a period of 14 days after service of that notice in supplying to the Company the information required by the notice:

- if the default shares represent less than 0.25 per cent. of the issued shares of the class (calculated exclusive of treasury shares), the holders of the default shares shall not be entitled, in respect of those shares, to attend and vote at a general meeting of the Company; and
- if the default shares represent at least 0.25 per cent. of the issued shares of the class (calculated exclusive of treasury shares), the holders of the default shares shall not be entitled, in respect of those shares:
    - to attend and vote at a general meeting of the Company;
    - to receive any dividend (including shares issued in lieu of dividend); or
    - to transfer or agree to transfer any of those shares or any rights in them.

Dividends and other distributions

The Company may, by ordinary resolution, declare a dividend to be paid to the members, according to their respective rights and interest in the profits, and may fix the time for payment of such dividend, but no dividend shall exceed the amount recommended by the Tesco Board.

Except as the rights attaching to, or the terms of issue of, any share otherwise provide, all dividends shall be declared and paid according to the amounts paid up on the shares in respect of which the dividend is paid, but no amount paid up on a share in advance of the date on which a call is payable shall be treated for these purposes as paid up on the share, and all dividends shall be apportioned and paid *pro rata* according to the amounts paid up on the shares during any portion or portions of the period in respect of which the dividend is paid.

The Tesco Board may pay such interim dividends as appear to the Tesco Board to be justified by the financial position of the Company and may also pay any dividend at a fixed rate at intervals settled by the Tesco Board, whenever the financial position of the Company, in the opinion of the Tesco Board, justifies its payment.

No dividend or other monies payable by the Company on or in respect of any share shall bear interest against the Company unless otherwise provided by the rights attached to the share.

The Tesco Board may, if authorised by an ordinary resolution of the Company, offer any holders of any particular class of shares the right to elect to receive further shares (whether or not of that class), credited as fully paid, by way of scrip dividend instead of cash in respect of all or part of any dividend specified by ordinary resolution.

Any dividends, interests or other sums payable unclaimed for 12 years after having been declared or becoming due for payment shall, if the Tesco Board so resolves, be forfeited and cease to remain owing by the Company.

Except as provided by the rights and restrictions attached to any class of shares, the holders of the Company's shares will under general law be entitled to participate in any surplus assets of the Company in a winding up in proportion to their shareholdings. If the Company is in liquidation, the liquidator, with the sanction of a special resolution and any other sanction required by relevant legislation, may:

- divide among the members in specie the whole or any part of the assets of the Company and, for that purpose, value any assets and determine how the division shall be carried out as between the members or different classes of members; or
- vest the whole or any part of the assets of the Company in trusts for the benefit of such members of the Company as the liquidator, with like sanction, shall think fit but no member shall be compelled to accept any assets upon which there is any liability.

Variation of rights

Wherever the capital of the Company is divided into different classes of shares, all or any rights attached to any class of shares may be varied:

- in such manner (if any) as may be provided by those rights;
- with the written consent of the holders of three fourths in nominal value of the issued shares of the class (excluding any shares of that class held as treasury shares); or
- with the sanction of a special resolution passed at a separate general meeting of the holders of the shares of the class.

Lien and forfeiture

The Company shall have a first and paramount lien on every share (not being a fully paid share) for all amounts payable (whether or not due) in respect of that share. The lien shall extend to every amount (including, without limitation, dividends) payable in respect of that share.

The Company may sell any share subject to a lien in such manner as the Tesco Board may decide if any amount payable on the share is due and is not paid within 14 clear days after a notice is served demanding payment and giving notice of intention to sell in default.

Subject to the terms of allotment, the Tesco Board may make calls on the members in respect of any monies unpaid on their shares (whether in respect of nominal amount or premium). Each member shall (subject to receiving at least 14 clear days' notice specifying when and where payment is to be made) pay to the Company as required by the notice the amount called on their shares.

If the whole or any part of any call or instalment remains unpaid on any share after the due date for payment, the Tesco Board may serve a notice on the holder requiring him, her or it to pay so much of the call or instalment as remains unpaid together with any accrued interest and any costs, charges and expenses incurred by the Company by reason of such non-payment. The notice shall state a further day, being not less than seven days from the date of the notice, on or before which, and the place where, payment is to be made and shall state that in the event of non-payment on or before the day and at the place appointed, the shares in respect of which the call was made or instalment is payable will be liable to be forfeited. A person whose share(s) have been forfeited shall remain liable to pay the Company for, amongst other things, all arrears payable by him, her or it in respect of such share(s), no deduction shall be made for the value of the share(s) at the time of forfeiture or for any consideration received on their disposal.

Transfer of shares

Transfer of certificated shares

A transfer of a certificated share shall be in writing in the usual common form or in any other form permitted by law or approved by the Tesco Board. The instrument of transfer shall be executed by or on behalf of the transferor and, if the certificated share is not fully paid, by or on behalf of the transferee. An instrument of transfer need not be under seal.

The Tesco Board may, in its absolute discretion, refuse to register the transfer of a certificated share of any class which is not fully paid provided that, where any such shares are admitted to the UK Official List or to trading on AIM, such discretion may not be exercised in such a way as to prevent dealings in the shares of that class from taking place on an open and proper basis.

The Tesco Board may also refuse to register the transfer of a certificated share unless:

- the instrument of transfer, duly stamped (if stampable), is deposited at the office or at such other place as the Tesco Board may appoint, accompanied by the certificate (if any) for the share(s) to which it relates and such other evidence as the Tesco Board may reasonably require to show the right of the transferor to make the transfer;
- the transfer is in respect of one class of share; and
- the transfer is in favour of not more than four transferees.

No fee shall be charged in respect of the registration of any transfer, probate, letters of administration or other document or instruction relating to or affecting the title to any shares.

Transfer of uncertificated shares

Any share may be issued, held, registered, converted to or transferred in uncertificated form and may be converted from uncertificated form to certificated form in accordance with the CREST Regulations and the requirements and practices of the operator of the relevant system.

Subject to the provisions of the Articles, a member may transfer an uncertificated share by means of the relevant system or in any other manner which is permitted by relevant legislation and is from time to time approved by the Tesco Board. The Tesco Board may refuse to register any transfer of an uncertificated share where permitted by the CREST Regulations.

Alteration of share capital

The Articles do not restrict the Company's ability to increase, consolidate or sub-divide its share capital. Therefore, subject to the Act, the Company may by ordinary resolution increase, consolidate or sub-divide its share capital.

Purchase of own shares

The Articles do not restrict the Company's ability to purchase its own shares. Therefore, subject to the Act and without prejudice to any relevant special rights attached to any class of shares, the Company may purchase any of its own shares of any class in any way and at any price.

General meetings

The Tesco Board shall convene and the Company shall hold annual general meetings in accordance with the requirements of the Act. The Tesco Board may convene a general meeting whenever and at such times and places as it shall determine. Members of the Company may also requisition the Tesco Board to convene a general meeting pursuant to the provisions of the Act.

When specifying the place of the meeting, the Tesco Board may direct that the general meeting be held at a place specified in the notice at which the Chairperson of the general meeting shall preside, and make arrangements for simultaneous attendance and participation of members at another place or other places. The members present at the other place will be counted in the quorum for, and entitled to vote at, the meeting. The meeting shall be duly constituted and its proceedings valid if the Chairperson is satisfied that members attending all the meeting places are able to participate in the business of the meeting, hear and see all speakers, and be heard and seen by all other persons present.

An annual general meeting and all other general meetings of the Company shall be called by at least the minimum period of notice prescribed under relevant legislation for the type of meeting concerned. Notice of every general meeting shall be given to all members entitled to receive such notice from the Company, the Tesco Directors and the Company's auditors.

Subject to the provisions of the Articles, two persons entitled to attend and vote on the business to be transacted shall be a quorum for a general meeting.

Company Secretary

The Tesco Board shall appoint the company secretary for such term, at such remuneration and on such conditions as it thinks fit. The Tesco Board may remove from office any company secretary so appointed. If thought fit, the Tesco Board may appoint one or more of the following: two or more persons as joint company secretaries, one or more persons as deputy company secretaries and one or more persons as assistant company secretaries.

Directors

Appointment of directors

The directors (other than alternate directors) shall not, unless otherwise determined by ordinary resolution, be less than four in number. There is no maximum number of directors. Directors may be appointed, to fill a vacancy or as an additional director, by ordinary resolution or by the Tesco Board.

Directors need not be members

A director need not be a member of the Company.

Annual retirement of directors

At each annual general meeting all the directors at the date of notice convening the annual general meeting shall retire from office. A retiring director shall be eligible for appointment or reappointment by the members and (unless they are removed from office or their office is vacated in accordance with the Articles) shall retain office until the close of the meeting at which they retire or (if earlier) when a resolution is passed at that meeting not to fill the vacancy or to appoint another person in their place or the resolution to appoint or re-appoint them is put to the meeting and lost.

Remuneration of directors

The directors (other than any director who for the time being holds an executive office of employment with the Company or a subsidiary of the Company) shall be paid out of the funds of the Company by way of remuneration for their services as directors such fees not exceeding in aggregate £2,000,000 per annum (or such larger sum as the Company may, by ordinary resolution, determine), to be divided among such directors in such proportion and manner as they may agree or, failing agreement, equally.

The Tesco Board may grant additional special remuneration to any director who performs any special or extra services to or at the request of the Company, by way of lump sum, salary, commission, participation in profits, or otherwise, as the Tesco Board may decide.

In addition to any remuneration to which the directors are entitled, they may be paid all travelling, hotel and other expenses properly incurred by them in connection with the exercise of their powers and discharge of their duties.

The Tesco Board may exercise all the powers of the Company to pay, provide or procure the grant of pensions or other retirement or superannuation benefits and death, disability or other benefits, allowances or gratuities to any person who is or has been at any time a director of the Company or in the employment or service of the Company or of any associated or predecessor company, or of their respective spouses and dependents.

Board meetings

The quorum necessary for the transaction of the business of the Tesco Board may be fixed by the Tesco Board and, unless fixed otherwise shall be three. Questions arising at any meeting of the Tesco Board shall be determined by a majority of votes, and in the event of an equality of votes, the chairperson shall have a second or casting vote.

Delegation of board powers

The Tesco Board may, on such terms and conditions as it thinks fit, delegate any of its powers, authorities and discretions (with power to sub-delegate) to one or more of the following:

- an individual director;
- a committee consisting of such persons (whether Directors or not), provided that the majority of the members of the committee are directors and that no meeting of such a committee shall be quorate for exercising any of its powers unless a majority of those present are directors; and
- other than the Tesco Board's power to make calls, forfeit shares, borrow money or issue shares or other securities, a local or divisional board, manager or agent.

The Tesco Board may revoke any such delegation.

Permitted interests of directors

Subject to relevant legislation, a director, notwithstanding his or her office:

- may enter into any contract with the Company, either with regard to his or her tenure of any office or position in the management, administration or conduct of the business of the Company or as vendor, purchaser or otherwise, provided that the interest of the director is duly declared;
- may hold any other office or place of profit with the Company (except that of auditor) in conjunction with his or her office of director and may be paid such extra remuneration for so doing as the Tesco Board may decide;
- may be or become a member or director of, or hold any other office or place of profit under, or otherwise be interested in, any other company in which the Company may be interested; and
- may act by himself or herself or for his or her firm in a professional capacity for the Company (except as auditor), and he or she or his or her firm shall be entitled to remuneration for professional services as if he or she were not a director.

If a director is in any way, directly or indirectly, interested in a proposed or existing transaction or arrangement with the Company, he or she must declare the nature and extent of the interest in accordance with relevant legislation.

Restrictions on voting

A director shall not be entitled to vote on a resolution (or attend or count in the quorum at those parts of a meeting regarding such resolutions) relating to a transaction or arrangement with the Company in which he or she has an interest, unless:

- the other directors resolve that the director concerned should be entitled to do so, in circumstances where they are satisfied that such director's interest cannot be reasonably regarded as likely to give rise to a conflict of interest; or
- the resolution concerns one or more of the following matters:
  - the giving of a guarantee, security or indemnity in respect of money lent or obligations incurred by the director concerned or by any other person at the request of, or for the benefit of, the Company or any of its subsidiary undertakings;
  - the giving of a guarantee, security or indemnity in respect of a debt or obligation of the Company or any of its subsidiary undertakings for which the director concerned has assumed responsibility (in whole or part and whether alone or jointly with others) under a guarantee or indemnity or by the giving of security;
  - any contract concerning an offer of shares, debentures or other securities of the Company or any of its subsidiary undertakings for subscription or purchase, in which offer the director concerned either is (or may be) entitled to participate as a holder of securities or participates (or is to participate) as underwriter or sub-underwriter;
  - any contract in which the director concerned is interested by virtue of an interest in shares, debentures or other securities of the Company or otherwise in or through the Company;
  - any contract concerning any other company in which the director concerned is interested, directly or indirectly and whether as an officer, shareholder, creditor or otherwise, unless the company is one in which he or she has a relevant interest, and for this purpose:
    - a company shall be deemed to be one in which a director has a relevant interest if and so long as he or she (together with persons connected with him or her within the meaning of sections 252 to 255 of the Act) to his or her knowledge holds an interest in shares (as determined pursuant to sections 820 to 825 of the Act) representing 1.0 per cent. or more of either any class of the equity share capital or of the voting rights available to members of that company or if he or she can cause 1.0 per cent. or more of those voting rights to be exercised at his or her direction; and
    - where a company in which a director is deemed to have a relevant interest is materially interested in a contract, he or she shall also be deemed materially interested in that contract,
  - any contract concerning an arrangement for the benefit of employees of the Company or of any of its subsidiary undertakings which does not award the director concerned any privilege or benefit not generally accorded to the employees to whom the arrangement relates;

    - any contract concerning the adoption, modification or operation of a pension fund or retirement, death or disability benefits scheme which relates to both directors and employees of the Company and/or any of its subsidiary undertakings and does not provide in respect of any director as such any privilege or advantage not accorded to the employees to which the fund or scheme relates;
    - any contract concerning the adoption, modification or operation of an employees' share scheme; or
    - any proposal concerning the purchase or maintenance of insurance for the benefit of persons including directors.

Indemnity of directors and officers

Subject to the provisions of, and so far as permitted by and consistent with relevant legislation, each current or former director or other officer (other than an auditor) of the Company or any associated company may be indemnified out of the assets of the Company against:

- any liability incurred by or attaching to him or her in connection with any negligence, default, breach of duty or breach of trust in relation to the Company, other than in the case of a current or former director:
    - any liability to the Company or any associated company; and
    - any liability of the kind referred to in section 234(3) of the Act,
- any liability incurred by or attaching to him or her in connection with the activities of the Company, or any associated company, in its capacity as a trustee of an occupational pension scheme (as defined in section 235(6) of the Act), other than a liability of the kind referred to in section 235(3) of the Act; and
- any other liability incurred by or attaching to him or her in the actual or purported execution and/or discharge of his or her duties and/or the exercise or purported exercise of his or her powers.

Tesco Directors, Proposed Directors and Senior Managers

The Tesco Directors, Proposed Directors and Senior Managers and their respective positions within the Company are set out in Part 5 ("*Tesco Directors, Proposed Directors and corporate governance*"), along with brief biographies.

Tesco Directors', Proposed Directors' and Senior Managers' interests in Tesco

As at 1 February 2018 (being the Latest Practicable Date) the interests (all of which are beneficial unless otherwise stated) of the Tesco Directors, Proposed Directors, Senior Managers, their immediate families and (so far as is known to them or could with reasonable diligence be ascertained by them) persons connected (within the meaning of section 252 of the Act) with the Tesco Directors, Proposed Directors or Senior Managers in the issued ordinary share capital of Tesco, including (a) those arising pursuant to transactions notified to Tesco pursuant to Article 19 of the Market Abuse Regulation ("MAR"), or (b) those of persons connected with the Tesco Directors, Proposed Directors or Senior Managers, which would, if such connected person were a Tesco Director, Proposed Director or Senior Manager, be required to be disclosed under (a) above, together with the interests which are expected to subsist immediately following the Merger becoming Effective, are set out in the following table:

Tesco Director/Proposed Director/Senior Manager	As at 1 February 2018 (the Latest Practicable Date) Number of Tesco Shares	Percentage of issued share capital	Interests immediately following the Merger becoming Effective[(1)(a)] Number of Tesco Shares	Percentage of issued share capital
Tesco Directors				
John Allan CBE	284,082	0.0035	284,082	0.0029
Dave Lewis	103,279[(b)]	0.0013	103,279[(b)]	0.0011
Alan Stewart	52,966[(c)]	0.0006	52,966[(c)]	0.0005
Mark Armour	50,000	0.0006	50,000	0.0005
Steve Golsby	42,296	0.0005	42,296	0.0004
Mikael Olsson	20,101	0.0002	20,101	0.0002
Simon Patterson	100,000	0.0012	100,000	0.0010
Alison Platt	11,242	0.0001	11,242	0.0001
Lindsey Pownall OBE	20,000	0.0002	20,000	0.0002
Proposed Directors				
Stewart Gilliland	–	0.0000	43,050	0.0004
Charles Wilson	24,533	0.0003	93,220,883	0.9576
Senior Managers				
Matt Davies	699,461	0.0085	699,461	0.0072
Matt Simister	64,987[(d)]	0.0008	64,987[(d)]	0.0007
Tony Hoggett	190,932[(e)]	0.0023	190,932[(e)]	0.0020
Benny Higgins	29,468[(f)]	0.0004	29,468[(f)]	0.0003
Adrian Morris	49,187[(g)]	0.0006	49,187[(g)]	0.0005
Jane Lawrie	–	0.0000	–	0.0000
Alison Horner	116,330[(h)]	0.0014	116,330[(h)]	0.0012
Jason Tarry	280,139[(i)]	0.0034	280,139[(i)]	0.0029
Alessandra Bellini	51,970	0.0006	51,970	0.0005

(a) This assumes that the significant shareholders do not hold shares in Booker and so will not increase their holdings under the Scheme.

(b) This number includes 2,820 SIP shares.

(c) This number includes 2,712 SIP shares.

(d) This number includes 7,113 SIP shares.

(e) This number includes 14,588 SIP shares.

(f) This number includes 6,322 SIP shares.

(g) This number includes 5,203 SIP shares.

(h) This number includes 7,220 SIP shares.

(i) This number includes 22,868 SIP shares.

Tesco Director	As at 1 February 2018 (the Latest Practicable Date) Number of Tesco ADRs	Number of Tesco Shares	Percentage of share issued capital	Interests immediately following the Merger becoming Effective[(1)] Number of Tesco ADRs	Number of Tesco Shares	Percentage of issued share capital
Deanna Oppenheimer	36,347	109,041	0.0013	36,347	109,041	0.0011
Byron Grote	81,000	243,000	0.0030	81,000	243,000	0.0025

Note:

(1) Figures are calculated assuming that (i) the interests of the Tesco Directors, the Proposed Directors, Senior Managers as at close of business on 1 February 2018 (being the Latest Practicable Date) do not change before the Merger becomes Effective, (ii) each Booker Shareholder (including Charles Wilson) will receive 0.861 New Tesco Shares and 42.6 pence in cash per Booker Share pursuant to the Merger, and (iii) no New Tesco Shares are issued between 1 February 2018 (being the Latest Practicable Date) and Admission.

Details of options or awards made under the Sharesave; PSP; EIP; 2014 EIP; LTIP; DSOP; Bonus Plan; DL Buy-Out Award; AS Buy-Out Award 1; and AS Buy-Out Award 2 as defined in this Part 15 (‘*Additional Information*’) of this Prospectus held by the Tesco Directors and Senior Managers as at 1 February 2018 (being the Latest Practicable Date) are set out below:

Tesco Director/ Senior Manager	Plan	Number of Tesco Shares over which options or awards are granted[2]	Exercise price (if any)	Vesting date
Tesco Directors				
Dave Lewis	DL Buy-Out Award	454,694	£0.00	17/02/2015
Dave Lewis	DL Buy-Out Award	611,205	£0.00	18/02/2016
Dave Lewis	DL Buy-Out Award	613,365	£0.00	14/02/2017
Dave Lewis	EIP 2014	472,383	£0.00	24/11/2017
Dave Lewis	EIP 2014	944,767	£0.00	12/05/2019
Dave Lewis	EIP 2014	659,337	£0.00	11/05/2020
Dave Lewis	PSP	1,575,403	£0.00	24/07/2018
Dave Lewis	PSP	2,173,013	£0.00	12/05/2019
Dave Lewis	PSP	1,919,978	£0.00	11/05/2020
Dave Lewis	Sharesave	11,920	£1.51	01/02/2019
Alan Stewart	AS Buy-Out Award 1	254,231	£0.00	18/06/2015
Alan Stewart	AS Buy-Out Award 1	328,841	£0.00	24/06/2016
Alan Stewart	AS Buy-Out Award 2	57,255	£0.00	06/07/2018
Alan Stewart	EIP 2014	255,086	£0.00	24/11/2017
Alan Stewart	EIP 2014	510,174	£0.00	12/05/2019
Alan Stewart	EIP 2014	349,774	£0.00	11/05/2020
Alan Stewart	PSP	859,310	£0.00	24/07/2018
Alan Stewart	PSP	1,185,279	£0.00	12/05/2019
Alan Stewart	PSP	1,047,260	£0.00	11/05/2020
Alan Stewart	Sharesave	11,920	£1.51	01/02/2019
Senior Managers				
Matt Davies	Bonus Plan	393,844	£0.00	12/05/2019
Matt Davies	Bonus Plan	281,931	£0.00	11/05/2020
Matt Davies	LTIP	307,845	£0.00	01/11/2017
Matt Davies	LTIP	158,106	£0.00	07/08/2018
Matt Davies	LTIP	464,026	£0.00	24/07/2018
Matt Davies	PSP	696,041	£0.00	24/07/2018
Matt Davies	PSP	960,076	£0.00	12/05/2019
Matt Davies	PSP	848,281	£0.00	11/05/2020
Matt Simister	Bonus Plan	17,482	£0.00	27/05/2018
Matt Simister	Bonus Plan	152,722	£0.00	12/05/2019
Matt Simister	Bonus Plan	135,567	£0.00	11/05/2020
Matt Simister	PSP	261,391	£0.00	20/07/2018
Matt Simister	PSP	355,583	£0.00	12/05/2019
Matt Simister	PSP	174,260	£0.00	20/07/2018
Matt Simister	PSP	565,521	£0.00	11/05/2020
Matt Simister	DSOP	44,496	£4.27	12/05/2011
Matt Simister	DSOP	59,101	£3.384	06/05/2012
Tony Hoggett	Bonus Plan	40,792	£0.00	27/05/2018
Tony Hoggett	Bonus Plan	212,941	£0.00	12/05/2019
Tony Hoggett	Bonus Plan	203,903	£0.00	11/05/2020
Tony Hoggett	PSP	348,521	£0.00	20/07/2018

Tesco Director/ Senior Manager	Plan	Number of Tesco Shares over which options or awards are granted[2]	Exercise price (if any)	Vesting date
Tony Hoggett	PSP	497,817	£0.00	12/05/2019
Tony Hoggett	PSP	232,348	£0.00	20/07/2018
Tony Hoggett	PSP	710,043	£0.00	11/05/2020
Tony Hoggett	DSOP	20,726	£4.27	12/05/2011
Tony Hoggett	DSOP	31,028	£3.384	06/05/2012
Tony Hoggett	Sharesave	20,200	£1.50	01/03/2020
Benny Higgins	Bonus Plan	252,185	£0.00	06/07/2018
Benny Higgins	Bonus Plan	381,093	£0.00	12/05/2019
Benny Higgins	PSP	103,213	£0.00	19/06/2014
Benny Higgins	PSP	103,213	£0.00	19/06/2017
Benny Higgins	PSP	69,602	£0.00	17/07/2017
Benny Higgins	PSP	800,679	£0.00	24/07/2018
Benny Higgins	PSP	1,104,408	£0.00	12/05/2019
Benny Higgins	PSP	975,805	£0.00	11/05/2020
Benny Higgins	LTIP	533,786	£0.00	24/07/2018
Benny Higgins	DSOP	46,838	£4.27	12/05/2011
Benny Higgins	Sharesave	20,200	£1.50	01/03/2020
Adrian Morris	Bonus Plan	279,095	£0.00	12/05/2019
Adrian Morris	Bonus Plan	210,796	£0.00	11/05/2020
Adrian Morris	PSP	83,464	£0.00	03/09/2014
Adrian Morris	PSP	38,728	£0.00	19/06/2014
Adrian Morris	PSP	38,731	£0.00	19/06/2017
Adrian Morris	PSP	38,979	£0.00	17/07/2017
Adrian Morris	PSP	493,246	£0.00	24/07/2018
Adrian Morris	PSP	680,352	£0.00	12/05/2019
Adrian Morris	PSP	601,129	£0.00	11/05/2020
Adrian Morris	LTIP	328,830	£0.00	24/07/2018
Adrian Morris	Sharesave	20,200	£1.50	01/03/2020
Jane Lawrie	Bonus Plan	46,500	£0.00	11/05/2020
Jane Lawrie	PSP	61,290	£0.00	01/02/2017
Jane Lawrie	PSP	91,936	£0.00	01/02/2018
Jane Lawrie	PSP	364,446	£0.00	11/05/2020
Alison Horner	EIP	22,107	£0.00	26/05/2015
Alison Horner	Bonus Plan	317,607	£0.00	12/05/2019
Alison Horner	Bonus Plan	195,302	£0.00	11/05/2020
Alison Horner	PSP	45,202	£0.00	19/06/2014
Alison Horner	PSP	45,203	£0.00	19/06/2017
Alison Horner	PSP	45,492	£0.00	17/07/2017
Alison Horner	PSP	523,319	£0.00	24/07/2018
Alison Horner	PSP	721,835	£0.00	12/05/2019
Alison Horner	PSP	637,782	£0.00	11/05/2020
Alison Horner	LTIP	348,879	£0.00	24/07/2018
Alison Horner	DSOP	46,838	£4.27	12/05/2011
Alison Horner	DSOP	62,056	£3.384	06/05/2012
Alison Horner	Sharesave	20,200	£1.50	01/03/2020
Jason Tarry	Bonus Plan	47,432	£0.00	06/07/2018
Jason Tarry	Bonus Plan	332,731	£0.00	12/05/2019

Tesco Director/ Senior Manager	Plan	Number of Tesco Shares over which options or awards are granted[2]	Exercise price (if any)	Vesting date
Jason Tarry	Bonus Plan	227,570	£0.00	11/05/2020
Jason Tarry	PSP	567,144	£0.00	24/07/2018
Jason Tarry	PSP	782,285	£0.00	12/05/2019
Jason Tarry	PSP	722,610	£0.00	11/05/2020
Jason Tarry	LTIP	378,095	£0.00	24/07/2018
Jason Tarry	DSOP	51,522	£4.27	12/05/2011
Jason Tarry	DSOP	70,922	£3.384	06/05/2012
Jason Tarry	Sharesave	12,000	£1.50	01/03/2018
Jason Tarry	Sharesave	10,714	£1.68	01/03/2021
Alessandra Bellini	PSP	52,801	£0.00	01/02/2019
Alessandra Bellini	PSP	502,685	£0.00	11/05/2020

2 The number of Tesco Shares shown includes any dividend equivalent options/shares added since the date of grant.

Significant shareholders

Other than the interests of Tesco Directors, the Proposed Directors and the Senior Managers disclosed in the paragraph above, so far as Tesco is aware, in accordance with DTR 5, the following persons, being the Principal Shareholders, held, directly or indirectly, 3.0 per cent. or more of Tesco's voting rights as at 1 February 2018 (being the Latest Practicable Date) or will do so immediately following the Merger becoming Effective (being the threshold of notification under the DTRs):

	As at 1 February 2018 (the Latest Practicable Date)		Interests immediately following the Merger becoming Effective[(1)]	
Shareholder	Number of Tesco Shares	Percentage of issued share capital	Number of Tesco Shares	Percentage of issued share capital
BlackRock, Inc.	543,470,778	6.63	621,768,127	6.39
Norges Bank	484,744,143	5.92	547,427,596	5.62
Schroders plc	406,295,163	4.96	407,626,351	4.19
GIC Private Limited	251,669,495	3.07	251,669,495	2.59

Notes:

(1) Figures are calculated assuming that (i) the interests of the Principal Shareholders as at close of business on 1 February 2018 do not change and no other Tesco Shares are issued until Admission, and (ii) the maximum number of New Tesco Shares are issued in connection with the Merger).

Save as disclosed above, in so far as is known to the Tesco Directors, there is no other person who is or will be immediately following Admission, directly or indirectly, interested in 3.0 per cent. or more of the issued share capital of the Company, or of any other person who can, will or could, directly or indirectly, jointly or severally, exercise control over the Company. The Directors have no knowledge of any arrangements the operation of which may at a subsequent date result in a change of control of the Company. None of the Company's major shareholders have or will have different voting rights attached to the shares they hold in the Company.

No Tesco Director or Proposed Director has or has had any interest in any transactions which are or were unusual in their nature or conditions or are or were significant to the business of the Tesco Group or any of its subsidiary undertakings and which were effected by the Tesco Group or any of its subsidiaries during the current or immediately preceding financial year or during an earlier financial year and which remain in any respect outstanding or unperformed.

There are no outstanding loans or guarantees granted or provided by any member of the Tesco Group to or for the benefit of any of the Tesco Directors or the Proposed Directors.

Tesco Directors' and Proposed Directors' terms of employment

The Directors and their functions are set out in Part 5 ("*Tesco Directors, Proposed Directors and corporate governance*").

On 27 January 2017, Charles Wilson, Booker's Chief Executive, Tesco and Booker entered into an agreement to amend Charles Wilson's service agreement with Booker in which Charles Wilson waived his right to rely on (i) in connection with the Merger, or (ii) in the event of an intra-group transfer of Booker following the Effective Date, the change of control provision contained in his existing service contract with Booker.

Tesco Executive Directors

Dave Lewis receives a salary of £1.25 million as Group Chief Executive. Alan Stewart receives a salary of £750,000 as Chief Financial Officer. Their salaries are normally reviewed annually, with changes being effective from 1 July. The Remuneration Committee considered the Group Chief Executive's and Chief Financial Officer's salaries during 2016 taking into account pay review budgets across the Tesco Group. As a result, the Remuneration Committee determined that the salaries for the Group Chief Executive and the Chief Financial Officer would remain unchanged in the 2016/2017 financial year and, in line with the position taken in 2016, no increases to their salaries are planned for 2017/2018 financial year.

The Tesco Executive Directors receive a cash allowance in lieu of pension of 25 per cent. of base salary. They also receive car benefits, staff discount, healthcare benefits, home security and relocation fees.

Each Tesco Executive Director is entitled to 30 working days' paid holiday per annum in addition to bank and public holidays.

Each Tesco Executive Director may receive an annual bonus. Their entitlement to, and the extent of, any annual bonus is assessed by the Remuneration Committee by reference to financial and non-financial annual bonus targets that are set at the start of the performance period by the Remuneration Committee. In determining the final level of bonus payable, the Remuneration Committee also considers the wider performance of the Tesco Group. In line with the approved remuneration policy, 50 per cent. of any bonuses paid will be deferred into Tesco Shares for three years.

The Tesco Executive Directors also participate in a performance share plan (the "Performance Share Plan"), with the first Performance Share Plan due to vest based on the performance period ending in the 2017/2018 financial year. The Performance Share Plan was introduced to align Tesco Executive Directors' interests with those of shareholders'. Performance measures for the Performance Share Plan are selected to ensure that they incentivise the Tesco Executive Directors to deliver long-term sustainable returns for shareholders.

The Tesco Remuneration Committee has the discretion to scale back deferred share awards and performance shares awards prior to the satisfaction of such awards in certain circumstances. The Tesco Remuneration Committee also has discretion to claw back awards which have been settled under the Performance Share Plan up to the fifth anniversary of the date of grant of awards and cash bonus payments up to the third anniversary of payment, in certain circumstances. Each of the Tesco Executive Directors' service agreement is terminable on not less than 12 months' notice by the Employer or not less than six months' notice by the relevant Tesco Executive Director. Tesco is entitled to terminate the relevant Tesco Executive Director's employment by making a payment in lieu of notice, equal to: (i) the basic salary that would have been payable; and (ii) the value of the contractual benefits (comprising car-related benefits, healthcare benefits, health insurance and colleague discount but excluding payments in respect of pension, bonus and share plan awards), for any unexpired portion of the notice period. The payment in lieu will be paid in 13 equal instalments if the relevant Tesco Executive Director has eight years or less of continuous employment. If the relevant Tesco Executive Director has more than eight years of employment but less than 15 at the date of termination he will be paid a percentage of the payment in lieu on termination and the remainder in instalments. If the relevant Tesco Executive Director has at least 15 years of service at the date of termination he is entitled to all of the payment in lieu on termination. In the event that the relevant Tesco Executive Director secures alternative employment, Tesco's obligation to pay any unpaid amount of the payment in lieu will cease. If a Tesco Executive Director's employment is terminated or Tesco gives notice to terminate a Tesco Executive Director's employment within 12 months of a change of control, the relevant Tesco Executive Director is entitled to the payment in lieu of notice in full on termination.

Tesco is entitled to dismiss a Tesco Executive Director without notice in certain circumstances, such as wilful neglect of a material aspect of his duties having a substantially adverse effect on the business of any Tesco Group company or following any repeated breach of duties.

Each of the Tesco Executive Directors is subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation and non-dealing restrictive covenants for a period of six months after the termination of their respective employments arrangements.

Each Tesco Executive Director has the benefit of a qualifying third-party indemnity from Tesco (the terms of which are in accordance with the Act) and appropriate directors' and officers' liability insurance.

Tesco Non-Executive Directors

The appointments of each of the Tesco Non-Executive Directors is for an initial period of three years after which they are reviewed. In line with the Governance Code, all Directors submit themselves for re-election by shareholders every year at Tesco's Annual General Meeting.

The Tesco Non-Executive Directors do not have service contracts, but each has a letter of appointment with Tesco. The letters of appointment are available for shareholders to view at Tesco's registered office.

John Allan, who was appointed Non-Executive Chairman of Tesco with effect from 1 March 2015, receives a fee of £650,000 per annum inclusive of all Tesco Board fees, which is fixed for a period of three years. He may receive the benefit of home security, staff discount and healthcare. The Tesco Remuneration Committee may introduce additional benefits for the Non-Executive Chairman of Tesco if it is considered appropriate to do so.

In the 2016/2017 financial year, each Tesco Non-Executive Director other than the Tesco Chairman was entitled to receive an annual fee of £70,000. In addition to this, the Senior Independent Director was entitled to an annual fee of £26,000, each of the Chairpersons of the Audit and Remuneration Committees was entitled to an annual fee of £30,000 and the members of the Audit, Corporate Responsibility, Nominations and Remuneration Committees were entitled to an annual fee of £12,000 for their membership on each Committee.

Effective 1 March 2017, following a review of independently sourced data, it was deemed appropriate to increase Non-Executive Director fees. Each Tesco Non-Executive Director other than the Tesco Chairman is now entitled to receive an annual fee of £72,000. In addition to this, the Senior Independent Director is entitled to an annual fee of £27,000, each of the Chairpersons of the Audit and Remuneration Committees is entitled to an annual fee of £31,000 and the members of the Audit, Corporate Responsibility, Nominations and Remuneration Committees are entitled to an annual fee of £12,500 for their membership on each Committee. Tesco Non-Executive Director fees are normally reviewed biennially.

Tesco reimburses the Tesco Non-Executive Directors for reasonable expenses incurred in performing their duties and may settle any tax incurred in relation to these. For Tesco Non-Executive Directors based overseas, Tesco will meet travel and accommodation expenditure as required to fulfil their duties.

Tesco Non-Executive Directors are not paid a pension and do not participate in any of the Tesco's variable incentive schemes. Tesco Non-Executive Directors' appointments can be terminated by either party without notice and they have no entitlement to compensation on termination (except that they shall be entitled to accrued fees or expenses up to the date of termination).

The Tesco Non-Executive Directors are subject to confidentiality undertakings without limitation in time. They are also subject to non-compete restrictive covenants for the duration of their appointments and for six months after the termination of their appointments.

Each Tesco Non-Executive Director has the benefit of a qualifying third-party indemnity from Tesco (the terms of which are in accordance with the Act) and appropriate directors' and officers' liability insurance.

Save as set out above, there are no existing or proposed service agreements or letters of appointment between the Tesco Directors and any member of the Tesco Group.

Proposed Directors' remuneration

Stewart Gilliland

The appointment of Stewart Gilliland will be for an initial period of three years after which it will be reviewed. In line with the Governance Code, Stewart Gilliland will submit himself for re-election by shareholders every year at Tesco's Annual General Meeting.

Stewart Gilliland will not have a service contract, but will have a letter of appointment with Tesco. The letter of appointment will be available for shareholders to view at Tesco's registered office with effect on and from the Effective Date.

Stewart Gilliland will receive a fee of £72,000 per annum. Tesco will reimburse Stewart Gilliland for reasonable expenses incurred in performing his duties and may settle any tax incurred in relation to these. Stewart Gilliland will not be paid a pension and will not participate in any of the Tesco Employee Share Plans. The non-executive director appointment will be terminable by either party without notice and Stewart Gilliland will have no entitlement to compensation on termination (except that he shall be entitled to accrued fees or expenses up to the date of termination).

Stewart Gilliland will be subject to confidentiality undertakings without limitation in time. He will also be subject to a non-compete restrictive covenant for the duration of his appointment and for six months after the termination of his appointment. Stewart Gilliland will also have the benefit of a qualifying third-party indemnity from Tesco (the terms of which are in accordance with the Act) and appropriate directors' and officers' liability insurance.

Charles Wilson

Charles Wilson will receive a salary of £575,000 per annum as CEO of Tesco UK and ROI from completion of the Merger. His salary will normally be reviewed annually, with changes being effective from 1 July. Charles Wilson will be entitled to participate in the Tesco Retirement Savings Plan, a defined contribution pension scheme, into which he will be eligible to receive a contribution from Tesco of 20 per cent. of base salary, which he will be entitled to take as a cash allowance in lieu of his pension. He will also be entitled to receive car benefits, staff discount and healthcare benefits.

Charles Wilson will be entitled to 30 working days' paid holiday per annum in addition to bank and public holidays.

Charles Wilson may receive an annual bonus. His entitlement to, and the extent of, any annual bonus is assessed by the Remuneration Committee by reference to financial and non-financial annual bonus targets that are set at the start of the performance period by the Remuneration Committee. In determining the final level of bonus payable, the Remuneration Committee also considers the wider performance of the Tesco Group. In line with the approved remuneration policy, 50 per cent. of any bonuses paid will be deferred into Tesco Shares for three years.

Charles Wilson will also be entitled to participate in the Performance Share Plan. His participation in the Performance Share Plan and his annual bonus entitlement is in line with the approved remuneration policy.

The Tesco Remuneration Committee has the discretion to scale back deferred share awards and performance share awards prior to the satisfaction of such awards in certain circumstances. The Tesco Remuneration Committee also has discretion to claw back awards which have been settled under the Performance Share Plan up to the fifth anniversary of the date of grant of awards and cash bonus payments up to the third anniversary of payment, in certain circumstances.

Charles Wilson's service agreement with Tesco will be terminable on not less than six months' notice by Tesco or by himself. Tesco will be entitled to terminate Charles Wilson's employment by making a payment in lieu of notice, equal to: (i) the basic salary that would have been payable; and (ii) the value of the contractual benefits (comprising car-related benefits, healthcare benefits, health insurance and colleague discount but excluding payments in respect of pension, bonus and share plan awards), for any unexpired portion of the notice period. The payment in lieu will be paid in seven equal instalments if Charles Wilson has eight years or less of continuous employment with Tesco (which shall not take into account his employment with Booker). If Charles Wilson has more than eight years of employment but less than 15 he will be paid a percentage of the payment in lieu on termination and the remainder in instalments. If he has at least 15 years of service he will be entitled to all of the payment in lieu on termination. In the event that Charles Wilson secures alternative employment, Tesco's obligation to pay any unpaid amount of the payment in lieu will cease. If Charles Wilson's employment is terminated or Tesco gives notice to terminate his employment within 12 months of a change of control, he will be entitled to the payment in lieu of notice in full on termination.

Tesco will be entitled to dismiss Charles Wilson without notice in certain circumstances, such as wilful neglect of a material aspect of his duties having a substantially adverse effect on the business of any Tesco Group company or following any repeated breach of duties.

Charles Wilson will be subject to a confidentiality undertaking without limitation in time and to non-competition, non-solicitation and non-dealing restrictive covenants for a period of six months after the termination of his employment arrangement with Tesco.

Charles Wilson will have the benefit of a qualifying third-party indemnity from Tesco (the terms of which are in accordance with the Act) and appropriate directors' and officers' liability insurance.

Tesco Directors' and Senior Managers' Remuneration

Under the terms of their service contracts, letters of appointment and applicable incentive plans, in the year ended 25 February 2017, the aggregate remuneration and benefits to the Tesco Directors and Senior Managers who served the Tesco Group, consisting of 19 individuals, was £19.4 million (subject to the qualifications noted below).Under the terms of their service contracts, letters of appointment and applicable incentive plans, in the year ended 25 February 2017, the Tesco Directors were remunerated as set out below:

Name	Position	Annual Salary (£)	Other Benefits (£)	Date of Joining the Tesco Group
John Allan CBE	Non-Executive Chairman	650,000	3,000	1 March 2015
Dave Lewis	Group Chief Executive	1,250,000	2,897,000	1 September 2014
Alan Stewart	Chief Financial Officer	750,000	1,486,000	23 September 2014
Deanna Oppenheimer	Senior Independent Director	196,000	0	1 March 2012
Mark Armour	Independent Non-Executive Director	82,000	0	2 September 2013
Steve Golsby	Independent Non-Executive Director	28,000	0	1 October 2016
Byron Grote	Independent Non-Executive Director	124,000	0	1 May 2015
Mikael Olsson	Independent Non-Executive Director	94,000	0	1 November 2014
Simon Patterson	Independent Non-Executive Director	71,000	0	1 April 2016
Alison Platt	Independent Non-Executive Director	71,000	0	1 April 2016
Lindsey Pownall OBE	Independent Non-Executive Director	71,000	0	1 April 2016

In addition to the options and rights under the Tesco Share Schemes disclosed in the paragraph entitled "Tesco Directors, Proposed Directors and Senior Management's interest in Tesco" and "Tesco employee share schemes" in this Part 15, the aggregate remuneration and benefits in kind paid or granted to the Senior Managers by Tesco and its subsidiaries during the financial year ended 25 February 2017 for services in all capacities was (a) salary: £4,023,802, (b) benefits £7,608,892. These figures exclude remuneration paid to members of the Tesco Group's senior management who are no longer employed by the Tesco Group, and excludes current senior managers who were not employed by the Tesco Group during the financial year ended 25 February 2017 and, for Senior Managers promoted after 25 February 2017, includes their salaries and benefits as at 25 February 2017. Tesco is not required to, and does not otherwise, disclose publicly remuneration for Senior Managers on an individual basis.

There is no arrangement under which any Tesco Director has waived or agreed to waive future emoluments nor has there been any waiver of emoluments during the financial year immediately preceding the date of this Prospectus.

Tesco Directors', Proposed Directors and Senior Managers' current and past directorships and partnerships

Set out below are the directorships and partnerships held by the Tesco Directors, the Proposed Directors and Senior Managers (other than, where applicable, directorships held in the Company and its subsidiaries and the subsidiaries of the companies listed below), in the five years prior to the date of this Prospectus:

Name	Current directorships/partnerships	Past directorships/partnerships
Tesco Directors		
John Allan CBE	Chairman of Barratt Developments PLC Chairman of London First Vice President of the Confederation of British Industry Chairman and Founder of J and A Mentoring Partners	Director of Deutsche Post AG Director of Dixons Retail PLC Director of Dixons Carphone PLC Director of Care UK Health and Social Care Holdings Limited Non-Executive Director of Worldpay Group PLC CEO of Exel PLC Non-Executive Director of National Grid plc Non-Executive Director of UK Home Office Supervisory Board Non-Executive Director of 3i plc Non-Executive Director of PHS Group plc Non-Executive Director of Connell plc Non-Executive Director of Royal Mail plc Non-Executive Director of Wolseley plc Non-Executive Director of Hamleys plc Non-Executive Director of ISS A/S
Dave Lewis	Member of the Governance Committee of the Consumer Goods Forum Chair of Champions 12.3	Non-Executive Director of British Sky Broadcasting Group PLC
Alan Stewart	Non-Executive Director of Diageo plc Non-Executive Director of Tesco Bank, Member of the Advisory Board, Chartered Institute of Management Accountants Member of the Main Committee and Chairman of the Pension Committee of the 100 Group of Finance Directors	Group Finance Director of Marks and Spencer plc Director of Amethyst Leasing (Holdings) Limited Director of Amethyst Leasing (Properties) Limited Director of Busyexport Limited Director of M&S Card Services Limited Director of Marks and Spencer Services Inc. Director of Marks and Spencer Simply Foods Limited

Name	Current directorships/partnerships	Past directorships/partnerships
Alan Stewart *(continued)*		Director of Marks and Spencer Ventures Finance LLC Director of Marks and Spencer (Belgium) Limited Director of Marks and Spencer (Initial LP) Limited Director of Marks and Spencer (Property Investments) Limited Director of Marks and Spencer (Property Ventures) Limited Director of Marks and Spencer 2005 (Bath Store) Limited Director of Marks and Spencer 2005 (Brooklands Store) Limited Director of Marks and Spencer 2005 (Cambridge Satellite Store) Limited Director of Marks and Spencer 2005 (Cambridge Store) Limited Director of Marks and Spencer 2005 (Cardiff Store) Limited Director of Marks and Spencer 2005 (Chester Satellite Store) Limited Director of Marks and Spencer 2005 (Chester Store) Limited Director of Marks and Spencer 2005 (Culverhouse Cross Store) Limited Director of Marks and Spencer 2005 (Edinburgh Satellite Store) Limited Director of Marks and Spencer 2005 (Fife Road Kingston Store) Limited Director of Marks and Spencer 2005 (Glasgow Sauchiehall Store) Limited Director of Marks and Spencer 2005 (Hedge End Store) Limited Director of Marks and Spencer 2005 (Kensington Store) Limited Director of Marks and Spencer 2005 (Kingston-on-Thames Satellite Store) Limited Director of Marks and Spencer 2005 (Kingston-on-Thames Store) Limited Director of Marks and Spencer 2005 (Newcastle-Upon-Tyne Store) Limited

Name	Current directorships/partnerships	Past directorships/partnerships
Alan Stewart *(continued)*		Director of Marks and Spencer 2005 (Oxford Store) Limited Director of Marks and Spencer 2005 (Parman House Kingston Store) Limited Director of Marks and Spencer 2005 (Pudsey Store) Limited Director of Marks and Spencer 2005 (Warrington Gemini Store) Limited Director of Marks and Spencer Chester Limited Director of Marks and Spencer Finance plc Director of Marks and Spencer France Limited Director of Marks and Spencer Group plc Director of Marks and Spencer International Holdings Limited Director of Marks and Spencer Investments Director of Marks and Spencer Property Holdings Limited Director of Marks and Spencer SCM Limited Director of Morpheus Europe Limited Director of Ruby Properties (Cumbernauld) Limited Director of Ruby Properties (Enfield) Limited Director of Ruby Properties (Hardwick) Limited Director of Ruby Properties (Long Eaton) Limited Director of Ruby Properties (Thorncliffe) Limited Director of Ruby Properties (Tunbridge) Limited Director of Simply Food (Property Investments) Director of Simply Food (Property Ventures) Limited Director of St. Michael Finance plc

Name	Current directorships/partnerships	Past directorships/partnerships
Deanna Oppenheimer	Non-Executive Director and Chairwoman of Hargreaves Lansdown PLC Non-Executive Director of AXA Group Non-Executive Director of the Joshua Green Corporation Non-Executive Director of Whitbread PLC Non-Executive Director of Worldpay Group PLC Non-Executive Director of Brooks Sports. Senior advisor to Bain & Company Founder of CameoWorks LLC Founder and Director of BoardReady.io Director of Vettd Director of PATH (non-government organisation) Trustee Chairwoman of the Private Liberal Arts College	Non-Executive Director of NCR Corporation Non-Executive Director of Catellus Non-Executive Director of Plum Creek Timer
Mark Armour	Non-Executive Director of the Financial Reporting Council Director of AMR 87 Limited Director of Charborough Renewables Limited Director of Opera North Limited Director of 37 Sutherland Street Management Company Limited Director of AMR 87 Property Limited Director of Charborough Experiences Ltd	Non-Executive Director and Chairman of the Audit Committee of SABMiller PLC CEO of Reed Elsevier Group PLC (now RELX Group PLC)
Steve Golsby	Non-Executive Director of Mead Johnson Nutrition Company Advisor to Thai Union Group PLC Honorary Advisor to the Thailand Board of Investment Non-Executive Director of RMA Group	
Byron Grote	Vice Chairman of the Supervisory Board of Akzo Nobel NV Non-Executive Director of Anglo American PLC Non-Executive Director of Standard Chartered PLC Director of the Bounder Limited	Director of Unilever PLC Director of BP PLC

Name	Current directorships/partnerships	Past directorships/partnerships
Mikael Olsson	Non-Executive Director and Vice Chairman of Volvo Cars AB Non-Executive Director of Ikano S.A. Non-Executive Director of Lindengruppen AB Non-Executive Director of The Royal Schiphol Group	CEO of IKEA Group
Simon Patterson	Managing Director of Silver Lake Partners Director of Dell, Inc. Director of Dell Technologies Inc. Director of Denali Intermediate Inc. Director of FlixMobility GmbH Trustee of the Natural History Museum Trustee of the Royal Foundation of the Duke and Duchess of Cambridge and Prince Harry	Director of Gerson Lehrman Director of Intelsat Holdings S.A Director of Intelsat Investments S.A. Director of Intelsat Management LLC Director of Cegld Group S.A. Director of N Brown Group plc Director of Gerson Lehrman Group, Inc. Director of MPH Acquisition Corporation Director of MPH Acquisition Holdings LLC Director of MPH Intermediate Holding Company 1 Director of MPH Intermediate Holding Company 2 Director of MultiPlan, Inc. Director of ReWireU LLP tie SmailLIP Future Fifty Prince's Trust Member of the Advisory Board of the Prince's Trust
Alison Platt	–	Non-Executive Director of the Foreign & Commonwealth Office Non-Executive Director of Cable & Wireless Communications PLC Chief Executive of Countrywide PLC
Lindsey Pownall OBE	Non-Executive Director of P+P Green Jersey Holdings Ltd (a Meadow Foods Limited company) Non-Executive Director of Story Contracting Limited	Director of Samworth Brothers Limited Director of Samworth Brothers (Holdings) Limited Director of Pink Ribbon Desserts Company Limited Director of Blueberry Foods Limited

Proposed Directors

Stewart Gilliland	CEO of Booker Group plc Director of Curious Drinks Limited Director of Mitchells & Butler plc Director of Nature's Way Foods Limited Director of SMDH Consulting Limited Non-Executive Director of C&C Group plc	Director of Tulip Limited Director of Tulip International (UK) Limited Director of Sutton and East Surrey Water plc Director of Vianet Group plc
Charles Wilson	Director of Booker Group plc Director of Makro Holding Limited Director of Booker Unapproved Scheme Trustees Limited Director of Giant Booker Limited Director of Giant Midco Limited Director of IRTH (19) Limited Director of Ritter-Courivaud Limited Director of Booker Direct Limited	Director of Booker McConnell Engineering Limited Director of Makro Self Service Wholesalers Limited Director of Leovic Limited Director of The Big Food Group Limited Director of Giant Bidco Limited Director of BF Limited

Senior Managers

Matt Davies	–	Director of Halfords Group PLC
Matt Simister	–	–
Tony Hoggett	–	–
Benny Higgins	Chief Executive of Tesco Bank	–
Adrian Morris	–	–
Jane Lawrie	–	–
Alison Horner	Member of the Manchester Business School Advisory Board	Non-Executive Director of Carillion PLC
Jason Tarry	–	–
Alessandra Bellini	–	–

Within the period of five years preceding the date of this Prospectus, none of the Tesco Directors, Proposed Directors or Senior Managers:

- has had any convictions in relation to fraudulent offences;
- save as disclosed below, has in their capacity as members of administrative, management and supervisory bodies or senior managers, have been associated with any bankruptcies, receiverships or liquidations; or
- has received any official public incrimination and/or sanction by any statutory or regulatory authorities (including designated professional bodies) or has ever been disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of affairs of a company.

John Allan CBE was a director of Natakate Ltd which was voluntarily dissolved on 6 June 2017. During the ordinary course of Simon Patterson's involvement in private equity transactions as Managing Director of Silver Lake Partners, he is often a director of the acquisition vehicle that is incorporated to acquire an underlying portfolio company. Following the sale of the portfolio company, the acquisition vehicle often will be liquidated having served its purpose and no longer being required. In addition, there are occasions where a vehicle is established of which Simon is director but the proposed transaction does not complete (due to, for example, terms not being agreed with the seller). In such cases, it would be likely that the acquisition vehicle that has been established will be wound up because it is no longer required. Alison Horner was a non-executive director of Carillion PLC and head of its remuneration committee when it filed for compulsory liquidation on 15 January 2018.

Tesco's employee share schemes

Tesco operates the following employee share plans: the Tesco PLC Savings-Related Share Option Scheme 1981 ("Sharesave"), the Tesco PLC Irish Savings Related Share Option Scheme 2000 ("Irish Sharesave"), the Tesco PLC Performance Share Plan 2011 ("PSP"), the Tesco PLC Executive Incentive Plan 2004 ("EIP"), the Tesco PLC 2014 Executive Incentive Plan ("2014 EIP"), the Tesco PLC Long-Term Incentive Plan 2015 ("LTIP"), the Tesco PLC 2004 Discretionary Share Option Plan ("DSOP"), the Tesco PLC Group Bonus Plan ("Bonus Plan"), a buy-out award for the Group Chief Executive of Tesco in respect of forfeited awards from his previous employer ("DL Buy-Out Award") and two buy-out awards for the Chief Financial Officer of Tesco in respect of forfeited awards from his previous employer ("AS Buy-Out Awards") and the Tesco PLC Share Incentive Plan ("SIP"), (together the "Tesco Employee Share Plans").

The principal features of the Tesco Employee Share Plans are summarised below.

Terms of the Sharesave

Tesco adopted the Sharesave on 31 July 1981 and it has subsequently been amended and renewed. No options may be granted under the Sharesave after 1 July 2021. The Sharesave is a UK "all employee" share option plan, which is intended to satisfy the requirements of Schedule 3 to the UK Income Tax (Earnings and Pensions) Act 2003 for tax qualified save-as-you-earn share options plans. This enables options to acquire Tesco Shares granted under the Sharesave ("Sharesave Options") potentially to benefit from favourable UK tax treatment.

Eligibility

Employees (including Tesco Executive Directors) of participating companies of the Tesco Group who have been employed for a qualifying period (as determined by the Tesco Remuneration Committee but not exceeding four years) and who are ordinarily resident in the UK for tax purposes are eligible to participate in the Sharesave. Sharesave Options must be granted on the same terms to all eligible employees.

Savings contract

Participants enter into three year or five year savings contracts with an approved savings institution (a bank or a building society) under which the participant agrees to save between £5 and £500 per month when aggregated with savings made under any other savings related share option schemes, (or such greater amount as may be permitted under the relevant legislation) over either a three or five year period (whichever Tesco may decide to offer on any occasion or where the employee is given a choice, whichever the participant may elect).

The number of Tesco Shares over which a Sharesave Option is granted will be the number that can be acquired at the option price with the savings made by the participant, plus any tax-free bonus payable by the savings institution on the maturity of the savings contract.

Option prices

The price per Tesco Share at which options may be exercised will be not less than 80 per cent. of the middle-market price averaged over the three dealing days immediately preceding the date of invitation to apply for an option.

Further features of the Sharesave which are also common to the Irish Sharesave are summarised below on page 323.

Terms of the Irish Sharesave

Tesco adopted the Irish Sharesave in 2000 and the plan was revised in 2009. The Irish Sharesave is an Irish "all-employee" share option plan, which is intended to satisfy the requirements of the Taxes Consolidation Act 1997 for tax qualified save-as-you-earn share option plans. This enables options to acquire Tesco Shares granted under the Irish Sharesave ("Irish Sharesave Options") potentially to benefit from favourable Irish tax treatment.

Eligibility

Employees of participating companies of the Tesco Group who have been employed for a qualifying period determined by the Tesco Board (not exceeding three years) and who are ordinarily resident in Ireland for tax purposes are eligible to participate in the Irish Sharesave.

Savings contract

Participants enter into three year or five year savings contracts with an approved savings institution (a bank or building society) for the purposes of the Irish Sharesave under which the participant agrees to save between EUR12 and EUR500 per month, when aggregated with savings made under any other savings related share option schemes (or such greater amount as may be permitted under the relevant legislation) over either a three or five year period (whichever Tesco may decide to offer on any occasion or where the employee is given a choice, whichever the participant may elect).

Option prices

The price per Tesco Share at which options may be exercised will be not less than 75 per cent. of the middle-market price averaged over the three dealing days immediately preceding the date of invitation to apply for an option.

Terms common to the Sharesave and the Irish Sharesave

Grant of options

Each option is granted over the number of Tesco Shares for which the aggregate option price does not exceed the total proceeds payable on maturity of the savings contract. Invitations to apply for options may normally only be made within 42 days of the announcement by Tesco of its interim or final results each year. Invitations may be made outside these periods if the Tesco Board considers that there are sufficiently exceptional circumstances to justify the issue of invitations at that time. No payment will be required for the grant of an option. Options may be satisfied by using new issued Tesco Shares or transferring treasury shares or Tesco Shares purchased in the market.

Exercise of options

In normal circumstances, options may only be exercised within six months of the bonus becoming payable under the savings contract (normally the third anniversary of the commencement of a three year savings contract and the fifth anniversary of the commencement of a five year savings contract). An option will normally lapse if the participant ceases to be an employee of the Tesco Group. Where, however, a participant ceases to be an employee by reason of injury, disability, redundancy, retirement or a sale of the business or entity which employs him or her, or voluntarily ceases to be an employee more than three years after the grant of the option, the participant will have six months from the date of leaving within which to exercise his or her option.

If a participant dies, the option may be exercised within 12 months after his or her death or, if the participant dies during the six month period after the bonus under the savings contract becoming payable, within 12 months of the bonus becoming payable.

In the event of a takeover, reconstruction, amalgamation or voluntary winding up of Tesco, options may within the specified period after the relevant event, be exercised, or in certain circumstances exchanged for options over shares in the acquiring company or a company associated with the acquiring company.

Repayment of savings

When repayment is due under the savings contract, the participant may either exercise his or her option in whole or part or simply take the cash payment. A participant may withdraw the proceeds of his or her savings contract earlier, but if the participant does so before the option is exercisable, the option will lapse.

Variation of capital

In the event of a variation of share capital arising from a capitalisation issue or rights issue or any consolidation, sub-division or reduction of capital of Tesco the number and option price of Tesco Shares subject to options may be subject to adjustment in such manner as the Tesco Board may determine provided that the auditors of Tesco confirm in writing that the proposed adjustment is in its opinion fair and reasonable.

Terms of the PSP

Tesco adopted the PSP on 25 May 2011 and it has subsequently been amended. The PSP will expire on 25 May 2021. No awards may be granted under the PSP after it has expired.

Eligibility

Any person who is an employee of the Tesco Group (including a Tesco Executive Director) is eligible to be granted an award under the PSP. It is currently intended that Tesco Directors and other senior employees will participate in the PSP.

Operation

All major decisions relating to the PSP in respect of Tesco Executive Directors are made by the Tesco Remuneration Committee. The Tesco Board (or a duly authorised committee of the Tesco Board) is responsible for the operation of the PSP for all other employees.

The PSP is discretionary and will only operate in those years that the Tesco Remuneration Committee determines. Awards are typically granted on an annual basis.

Grant of awards

Awards may be granted over newly issued Tesco Shares, treasury shares or Tesco Shares purchased in the market. Where awards are granted over newly issued Tesco Shares or treasury shares (as long as it remains best practice to do so), the issue of these Tesco Shares will be subject to the limits on the issue of shares described below.

No payment will be required for the grant of an award.

Individual limit

No employee may be granted an award under the PSP in any financial year over shares worth more than 350 per cent. of base salary. In applying this limit no account will be taken of shares representing notional reinvestment of dividends and, if applicable, any additional shares provided solely to take into account any Class 1 (secondary) national insurance liability transferred to the participant.

The maximum performance share award is currently 250 per cent. of base salary for the Chief Financial Officer of Tesco and 275 per cent. of base salary for the Group Chief Executive.

The value of an award is normally calculated by reference to the closing market price of a Tesco Share on the dealing day preceding the date of grant or such averaging period as the Tesco Remuneration Committee may determine.

Vesting of awards

The Tesco Remuneration Committee, at the date of grant, determines the vesting arrangements. Vesting of awards are normally subject to performance conditions having been satisfied. The performance period for awards is normally no shorter than three years.

Nil-cost options can be exercised, in full or part, subject to the participant discharging any relevant tax liability, no later than the tenth anniversary of the date of the award (or such earlier date as determined by the Tesco Remuneration Committee).

Where performance shares vest or a nil-cost option is exercised, Tesco Shares will be transferred to the participant within 30 days (subject to any restrictions on Tesco Directors' dealings in securities).

Where restricted share awards vest, these then cease to be subject to forfeiture.

Performance conditions

Awards are normally subject to the satisfaction of performance conditions which determine the proportion (if any) of the award which vests at the end of a performance period.

In relation to those performance conditions:

- the period over which performance is measured is not normally less than three years;
- the Tesco Remuneration Committee ensures that performance conditions are both sufficiently stretching and challenging, and are appropriate for Tesco and the prevailing market;
- to the extent that performance conditions are not met, the awards lapse; and
- the conditions may be varied in certain circumstances following the grant of an award so as to achieve their original purpose, but not so as to make their achievement materially more or less difficult.

The performance measures for PSP awards granted to the Tesco Executive Directors in 2016 and 2017 are aligned with three key strategic priorities:

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

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

There is no provision for retesting of performance.

Overseas employees

The Tesco Remuneration Committee may grant awards to overseas employees on different terms so as to take account of relevant overseas tax, securities or exchange control laws provided that the awards are not overall more favourable than the terms of awards granted to other employees. A US Addendum and a California Addendum have been added to the PSP to enable Tesco to grant awards to US based employees, including those resident in California.

Further features of the PSP which are also common to other discretionary Tesco Employee Share Plans are summarised below on page 329.

Terms of the 2014 EIP

The 2014 EIP was adopted on 10 February 2014 and it has subsequently been amended. The 2014 EIP will expire on 10 February 2024.

Eligibility

Any person who is an employee of the Tesco Group (including a Tesco Executive Director) is eligible to be granted an award under the 2014 EIP. It is currently only Tesco Executive Directors that participate in the 2014 EIP.

Grant of awards

An award under the 2014 EIP is granted over such number of Tesco Shares as have the same market value on the date of grant as is equal to a participant's deferred bonus amount.

Awards are normally granted as nil-cost options but may be awarded as a conditional share award.

No new Tesco Shares may be issued and no treasury shares may be transferred for the purpose of satisfying awards under the 2014 EIP. Awards can only be satisfied using market purchase Tesco Shares, or, if the Tesco Board so determines, a cash sum equal to the market value of the Tesco Shares that would otherwise have been purchased to satisfy an award. The cash sum will be equal to the market value of the Tesco Shares on the date of vesting, or for a nil-cost option, on the date of exercise.

Vesting

Awards normally vest over three years (or an alternative period determined by the Tesco Remuneration Committee).

Vested nil-cost options may normally be exercised until the tenth anniversary of the date of grant of an award.

Leaver provisions

If a participant leaves employment of the Tesco Group by reason of death, injury, disability, ill-health, the sale of the business for which the participant works to a third party or any other reason at the Tesco Board's absolute discretion except where a participant is summarily dismissed, any award will vest in full on the date of cessation unless the Tesco Board determines that any award should vest in full on the normal vesting date. A leaver's award in the form of a nil-cost option must be exercised within 12 months of vesting.

If a participant ceases employment for any other reason, their awards will lapse.

Corporate transactions

In the event of a change of control of Tesco as a result of a takeover, reconstruction, scheme of arrangement of Tesco (not being an internal reorganisation) or in the event of a voluntary winding up of Tesco, the awards will vest in full at the time of such event.

Alternatively, in the above circumstances, except a winding up, the Tesco Board may permit an offer to be made to the participants to exchange their existing awards for new awards of shares in the acquiring company on a comparable basis.

Alterations

The 2014 EIP may at any time be altered by the Tesco Board in any respect. Any amendment to the material disadvantage of existing rights of participants can only be made if the amendment is approved by a majority of the participants.

Terms of the EIP

General

The EIP was established in 2004 and no further options or awards will be granted under it and all outstanding options have vested but certain options currently remain unexercised.

Eligibility

Any person who was an employee of a participating company (excluding non-executive directors) of the Tesco Group or any Tesco Executive Director of a participating company who devoted substantially the whole of his or her working time to the business of a participating company of the Tesco Group was eligible to participate in the EIP.

Grant of awards

The market value of the Tesco Shares subject to an award granted under the EIP would not have exceeded the percentage of the participant's bonus as determined by the relevant committee.

No new Tesco Shares may be issued and no treasury shares may be transferred for the purpose of satisfying awards under the EIP. Awards can only be satisfied using market purchase Tesco Shares.

Awards can only be satisfied using market purchase Tesco Shares or, if the Tesco Board so determines, a cash sum equal to the market value of the Tesco Shares that would otherwise have been purchased to satisfy an award. The cash sum will be equal to the market value of the Tesco Shares on the date of vesting, or for a nil-cost option, on the date of exercise.

Vesting of awards

Awards normally vest over three years unless otherwise determined by the Tesco Board.

Leaver provisions

In the event of a participant's death, an award vests in full or may be exercised in full within the period of one year following the date of death.

Where a participant ceases to hold office or employment with the Tesco Group as a result of:

- ill-health, injury or disability;
- redundancy;
- retirement by agreement with the company which employs him or her;
- the company which employs him ceasing to be part of the Tesco Group; or

- transfer or sale of the business or entity that employs him or her out of the Tesco Group,

the award will vest in full at the date of cessation or the participant may exercise the award at any time from the date of cessation until 12 months thereafter.

If a participant ceases to hold office or employment with the Tesco Group for any other reason (excluding gross misconduct), the award will vest at the vesting date or the participant may exercise the award within the period of 12 months after the vesting date, subject to the achievement of any conditions relating to the award.

Where a participant ceases to hold office or employment with the Tesco Group by reason of termination for gross misconduct, all their awards will lapse.

Corporate transactions

In the event of a change of control of Tesco as a result of a takeover, merger or scheme of arrangement of Tesco, the awards may vest or be exercised within six months. Alternatively, any participant may, by agreement with the relevant company, exchange their existing awards which have not lapsed for new awards of shares in a different company (whether the company has obtained the control of Tesco itself or some other company) on a comparable basis.

If notice is duly given of a resolution for the voluntary winding up of Tesco, an award may vest or be exercised until the resolution is duly passed or defeated or the meeting is concluded or adjourned with no appointed date for resumption, provided that any such exercise of an award shall be conditional upon the said resolution being duly passed. If such resolution is duly passed all awards shall, to the extent that they have not vested or been exercised, lapse immediately.

Alterations

The EIP may at any time be altered by the Tesco Board in any respect. Any amendment that would materially adversely affect the subsisting rights of a participant can only be made if it is approved either: in writing by participants who hold awards under the EIP to acquire 75 per cent. of all shares which would be issued or transferred if all awards granted and subsisting under the EIP were vested or exercised; or by a resolution at a meeting of participants passed by not less than 75 per cent. of the participants who attend and vote either in person or by proxy.

Terms of the LTIP

The LTIP was adopted by the Tesco Board on 14 May 2015. No awards may be granted under the LTIP later than ten years after its approval by the Tesco Board.

Eligibility

Any employee of the Tesco Group other than Tesco Executive Directors are eligible to participate in the LTIP.

Operation

The Tesco Board (or a duly authorised committee of the Tesco Board) is responsible for the operation of the LTIP.

Grant of awards

No new Tesco Shares may be issued and no treasury shares may be transferred for the purpose of satisfying awards under the LTIP. Awards can only be satisfied using market purchase Tesco Shares or, if the Tesco Board so determines, a cash sum equal to the market value of the Tesco Shares that would otherwise have been purchased to satisfy an award. The cash sum will be equal to the market value of the Tesco Shares on the date of vesting, or for a nil-cost option, on the date of exercise.

Performance conditions

Awards may be subject to the satisfaction of performance conditions which will determine the proportion (if any) of the award which will vest at the end of a performance period. However, certain outstanding awards under the LTIP are not subject to the satisfaction of any performance conditions.

Alterations

The LTIP may at any time be altered by the Tesco Board in any respect (but only with the prior consent of the trustees if there are outstanding awards which they have made, have agreed to satisfy or which will be affected by the alteration or addition).

Terms common to the PSP, the LTIP, the 2014 EIP and the EIP

Grant of awards

Awards under the PSP, LTIP, 2014 EIP and EIP may be granted in the 42 days following approval of the relevant plan by Tesco in a general meeting. Thereafter, awards may normally only be granted in the 42 days following:

- the announcement by Tesco of its results for any period;
- a change in the legislation relating to share plans being proposed or made;
- the commencement of an eligible employee's employment; or
- any day on which there are circumstances considered by the Tesco Remuneration Committee to be exceptional.

If Tesco is restricted from granting awards under the PSP, LTIP, 2014 EIP or EIP during the periods specified above, in accordance with any legislation, regulation or government directive, the grant period shall be 42 days commencing on the dealing day after such restriction is lifted.

Clawback

Awards may be reduced (or cancelled) at the discretion of the Tesco Remuneration Committee prior to the satisfaction of the awards in the following circumstances:

- in the event that there is a material misstatement of the accounts;
- where a participant has, by act or omission, contributed to serious reputational damage to the Tesco Group; and/or
- in cases of serious misconduct or fraud.

Under the PSP, LTIP and 2014 EIP, the Tesco Remuneration Committee may, at its discretion, any time (i) after the delivery of the Tesco Shares or cash to a participant following the vesting of an award; and (ii) prior to the fifth anniversary of the date of grant for the PSP and LTIP (and the third anniversary of the date of grant for the 2014 EIP), require a participant to repay an award which has already vested in the circumstances listed above.

Dividends and voting

Participants have no right to receive dividends or vote in relation to the Tesco Shares comprised in their awards prior to the date on which the Tesco Shares are transferred to them. However, the Tesco Remuneration Committee may determine (at grant or any time thereafter prior to vesting) that participants should receive an amount equivalent to the dividends that would have been paid on a re-invested basis during the period from grant to vesting (or, in the case of nil-cost options, and if the Tesco Remuneration Committee so decided, exercise), in respect of the number of vested Tesco Shares comprised in an award.

Such amount may be paid in cash or additional Tesco Shares (subject to awards vesting) at the same time that awards are settled.

Cash alternative

The Tesco Remuneration Committee may also satisfy awards in cash or other assets provided the participant receives the same economic value as would have been provided by an award over Tesco Shares.

Terms common to the PSP, the LTIP and the EIP

Form of awards

Awards may take the form of:

- a conditional right to acquire Tesco Shares;
- an option to acquire Tesco Shares at nil cost;
- a gift of free Tesco Shares forfeitable in the event that specified conditions are not met; and
- such other form that will confer on the participant an equivalent economic benefit (e.g. phantom awards that deliver cash).

The form of award will be determined by the Tesco Remuneration Committee.

Terms common to the PSP and the LTIP

Leaver Provisions

Unvested awards granted under the PSP and the LTIP will normally lapse on cessation of employment with the Tesco Group.

In the event of a participant's death, unless the Tesco Remuneration Committee determines otherwise, an unvested award will vest immediately, subject to the Tesco Remuneration Committee having regard to the achievement of performance conditions at the date of death and the period of time that has elapsed since the award was granted. Where awards are granted in the form of nil-cost options, the participants' personal representatives will normally have 12 months in which to exercise their awards.

Where a participant leaves employment as a result of:

- illness, injury or disability;
- redundancy;
- retirement by agreement with the company which employs him or her; or
- sale of the business or entity that employs him or her out of the Tesco Group,

then normally, unless the Tesco Remuneration Committee determines otherwise, the most recent unvested awards shall lapse if the award was granted in the 12 months prior to the participant ceasing to be in employment with the Tesco Group or the participant holds three unvested awards on the cessation of employment. Awards which do not lapse on cessation of employment will continue in full to the normal vesting date subject to the original performance condition.

Where awards are granted in the form of nil-cost options participants shall have 12 months from the date of vesting in which to exercise their nil-cost options, or in the case of vested options from cessation.

If a participant ceases employment in any other circumstances, all unvested awards will normally lapse, unless the Tesco Remuneration Committee determines otherwise. For vested nil-cost options, participants have 12 months from cessation of employment to exercise their nil-cost options, except in the case of gross misconduct where nil-cost options shall lapse. If the Tesco Remuneration Committee decides to preserve awards in other circumstances, it will normally do so on the terms in the previous paragraph.

In addition, in determining the extent to which awards shall vest in any of the above circumstances, the Tesco Remuneration Committee may also take into account any other relevant circumstances, including the conduct of the participant.

Corporate events

In the event of a change of control of Tesco as a result of a takeover, reconstruction, scheme of arrangement of Tesco (not being an internal reorganisation) or in the event of a voluntary winding up of Tesco, the extent to which awards may vest at that time will be at the discretion of the Tesco Remuneration Committee but taking into account all relevant facts and circumstances, including but not limited to the performance of Tesco, the period of time which has elapsed since the date of the award and having regard to the interests of shareholders.

Alternatively, in the above circumstances, except a winding up, the Tesco Remuneration Committee may permit or require awards to be exchanged for new awards of shares in the acquiring company on a comparable basis.

Terms of the DSOP

The DSOP was adopted by Tesco Shareholders on 18 June 2004 and no further options will be granted under it. There are currently unexercised options which will remain exercisable (unless exercised) until 2019.

Administration

The DSOP is administered by the Tesco Remuneration Committee.

Inland Revenue Approval

The DSOP is divided into two parts; the main plan rules are unapproved (the Unapproved Part) and have a greater degree of flexibility than options granted under the approved part (the Approved Part), which has been designed to satisfy the requirements of Schedule 4 of the Income Tax (Earnings and Pensions) Act 2003. Options granted under the Approved Part are called "Approved Options" and those under the Unapproved Part are called "Unapproved Options".

Eligibility

Any Tesco Executive Director, officer or employee of Tesco and its subsidiaries were eligible to participate in the DSOP.

Grant of Options

Options under the DSOP were only granted:

- within the period of 42 days following:
    - the adoption by Tesco of the DSOP (or in the case of the Approved Part, the approval by HMRC);
    - the announcement by Tesco of its results for the last preceding financial year, half-year or any other financial period;

- the announcement or coming into force of any amendments to legislation affecting share schemes;
- the date of commencement of an eligible employee's employment; or
- a resolution of the Tesco Remuneration Committee such that exceptional circumstances exist which justify the grant of options.

If Tesco is restricted from granting awards under the DSOP during the periods specified above, in accordance with any legislation, regulation or government directive, the grant period shall be 42 days commencing on the day after such restriction is lifted. The DSOP expired on the tenth anniversary of its adoption by Tesco.

Option Price

The option price was determined by the Tesco Remuneration Committee at the date of grant and was not less than the market value of the Tesco Shares on the date of grant.

Individual Limit

The overall annual limit under both the Approved and Unapproved Parts of the DSOP was 200 per cent. of annual remuneration (inclusive of bonuses and commissions but exclusive of benefits in kind). The normal annual grant was not more than 200% of basic salary.

Options granted under the Approved Part of the DSOP were subject to HMRC limits, i.e. the aggregate value of shares under option under the Approved Part of the DSOP and any other approved share option scheme (excluding savings related schemes) established by Tesco were limited to £30,000, measured at the date of grant.

Leaver Provisions

An option will normally be exercisable between three and ten years from the date of grant. The following exercise provisions applied on cessation of employment:

- on a change of control or where a participant left employment as a "good leaver" (for example as a result of death, injury, disability, retirement or redundancy), options are available to exercise until the third anniversary of the date of cessation of employment or, if earlier, until ten years of the date of grant.
- where a participant left employment under any other circumstances (with the exception of gross misconduct), any vested options may be exercised within 12 months of the date of cessation or, if earlier, until ten years of the date of grant. Unvested options will lapse, save in the case of dismissal when the Tesco Remuneration Committee will have discretion to allow for vesting.

Terms of the Bonus Plan

The Bonus Plan was adopted on 3 July 2009.

Eligibility

Any employee of the Tesco Group (other than Tesco Executive Directors) may be invited to participate in the Bonus Plan.

Operation

The Bonus Plan is an annual bonus plan with awards delivered partly in cash and partly in Tesco Shares.

The total bonus earned is determined following the end of the financial year based on achievement of performance targets in the preceding financial year. At the end of the year, the bonus may be delivered in cash (the "Cash Award") and/or Tesco Shares (the "Share Award") that are deferred for a period set at the time of award, usually two or three years.

Participants may be offered the right to elect to receive part or all of the cash element in Tesco Shares (the "Optional Share Award") and may receive an additional award of Tesco Shares (the "Enhancement Share Award"). The part of the bonus satisfied in Tesco Shares that is compulsorily deferred is termed the "Compulsory Share Award".

The Bonus Plan is discretionary and only operates in those years that the Tesco Board determines. Awards are generally made annually.

The Bonus Plan is administered by the Tesco Board or a duly authorised committee thereof.

Form of awards

Share Awards may be made in the form of a conditional award of shares, nil-cost options, or such other form of award that has substantially the same economic effect for the participant.

Participants may be given the right to receive dividends arising in respect of the Tesco Shares subject to their awards. In practice, dividend equivalent rights have been provided to Share Awards granted under the Bonus Plan.

Grant of awards

No payment will be required for the grant of an award. No awards under the Bonus Plan may be granted later than 2 July 2019.

Level of award

The Tesco Board will determine the level of award under the Bonus Plan based on the achievement of performance targets in the preceding financial year.

Currently, the maximum awards under the Bonus Plan are dependent on a participant's role and seniority. The maximum award under the share element is currently 100 per cent. of salary. The Tesco Board will determine the performance measures and targets each year.

Leavers

If a participant leaves the employment of the Tesco Group by reason of retirement (with approval of Tesco in the case of US participants or early retirement), injury, disability, ill-health or death before their bonus is awarded then their bonus will be awarded on a pro rata basis. The bonus will then be paid wholly in cash but there will be no Enhancement Share Award (or cash equivalent). If a participant leaves for other reasons they will not be entitled to a bonus unless the Tesco Board determines otherwise.

Following the award of a bonus, if a participant leaves employment of the Tesco Group by reason of death, injury, disability, ill-health, redundancy, or retirement (with approval of the company), any Share Awards will vest in full on the date of cessation.

If a participant ceases employment for any other reason, any Compulsory Share Awards and Enhancement Share Awards will lapse unless the Tesco Board determines otherwise. The participant will retain entitlement to any Optional Share Awards which will vest on the normal vesting date.

Change of control

In the event of a change of control before the end of the financial year, participants will receive a pro rata bonus paid in cash.

In the event of a change of control after the end of the financial year but prior to the award of a bonus, the Tesco Board shall determine the level of bonus which will be paid in cash.

Vesting of awards

Share Awards will normally vest on the second or third anniversary of the award as specified at the date of grant. As awards are linked to the achievement of performance targets in the financial year preceding the award, vesting will not be subject to any further performance conditions in the deferral period.

Change of control during the retention period

In the event of a change of control during the retention period, Share Awards will vest as soon as practicable.

Malus and clawback

Awards in respect of the 52 weeks ended 27 February 2016 and subsequent bonus years, may be reduced (or cancelled) at the discretion of the Tesco Remuneration Committee prior to the satisfaction of the awards in the following circumstances:

- in the event that there is a material misstatement of the accounts;
- where a participant has, by act or omission, contributed to serious reputational damage to the Tesco Group; and/or
- in cases of serious misconduct or fraud.

Under the Bonus Plan the Tesco Remuneration Committee may, at its discretion, any time (i) after the delivery of the Tesco Shares or cash to a participant following the vesting of an award; and (ii) prior to the third anniversary of the date of grant, require a participant to repay an award which has already vested in the circumstances listed above.

Variation of capital

In the event of any variation of share capital, demerger or other corporate event the Tesco Remuneration Committee may make such adjustments as they consider appropriate to the number of Tesco Shares, nominal value and class relating to awards.

Terms of the DL Buy-Out Award

Grant

The Group Chief Executive received a one-off grant of three nil cost options over Tesco Shares in respect of the restricted shares the participant forfeited on leaving Unilever plc. The options were granted on 24 October 2014.

Vesting

The options vested on 17 February 2015, 18 February 2016 and 14 February 2017. The options are currently unexercised and remain exercisable until the tenth anniversary of the grant date.

Terms of the AS Buy-Out Award 1

Grant

The Chief Financial Officer of Tesco received a grant of three tranches of nil cost options over Tesco Shares in respect of the restricted shares he forfeited on leaving Marks and Spencer plc. The options were granted on 24 October 2014.

Vesting

Two tranches vested on 18 June 2015 and 24 June 2016 respectively and remain exercisable until the tenth anniversary of the grant date. The third tranche of options lapsed on 20 July 2017 at the Tesco Remuneration Committee's discretion following the lapse of the Marks and Spencer Group plc 2014 Performance Share Plan award (the "M&S Award"). The Option was granted in respect of the M&S Award which Mr Stewart forfeited on leaving Marks and Spencer. The Option had a vesting date of 23 June 2017 and the level of vesting was conditional upon the level of vesting of the M&S Award.

Terms of the AS Buy-Out Award 2

Grant

The Chief Financial Officer of Tesco received a grant of a nil cost option over Tesco Shares in respect of the deferred element of the 2014/15 annual bonus he forfeited on leaving Marks and Spencer plc. The option was granted on 6 July 2015.

Vesting

The option will vest on 6 July 2018, subject to the Chief Financial Officer of Tesco remaining a Director or employee within the Tesco Group. The option will remain exercisable until 6 July 2025, and if unexercised will lapse.

Terms common to the DL Buy-Out Award and the AS Buy-Out Awards

One-off buyout awards were made to the Group Chief Executive and the Chief Financial Officer of Tesco (the "Relevant Tesco Directors") to compensate them for awards forfeited from their respective previous employers. The awards were made based on the expected value of the awards forfeited, taking into account performance at their previous employers and delivered in restricted shares, which vest subject to continued employment with Tesco. Since these were awards related to previous employment, and not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance.

Dividend equivalents

The Tesco Remuneration Committee can decide to pay an amount in cash and/or additional Tesco Shares equal in value to the dividends that would have been paid on the vested shares in respect of dividend record dates occurring during the period between the grant date and the date of exercise.

Cash equivalents

At any time prior to the date on which the Relevant Tesco Director decides to exercise his or her award, the Board can decide to pay the Relevant Tesco Director a cash sum in substitution for his or her right to acquire some or all of the shares to which his or her award relates.

Malus

In certain cases, including material misstatement of accounts, serious reputational damage, serious misconduct, fraud or misstatement, the Tesco Remuneration Committee may, prior to the vesting dates, determine that the quantum of any of the awards be reduced or extinguished.

Death

If the Relevant Tesco Director dies, unless the Tesco Remuneration Committee determines otherwise, the award will vest on the date of death. The number of shares in respect of which the awards will vest will be determined by the Tesco Remuneration Committee at its absolute discretion and subject to time pro-ration.

The Relevant Tesco Director's estate will have 12 months from the date of death (or such other period as the Tesco Remuneration Committee may determine up to the tenth anniversary of the grant date) to exercise the award, after which time it will lapse.

Leavers

If the Relevant Tesco Director ceases to hold office or employment with the Tesco Group as a "good leaver" (e.g. ill-heath, injury, disability, redundancy, retirement, the Relevant Tesco Director's employing company ceasing to be a member of the Tesco Group or where the Tesco Remuneration Committee exercises its discretion), his award will usually vest on the normal vesting date.

If the Relevant Tesco Director ceases to hold office or employment with the Tesco Group for any other reason, his or her award will usually lapse, unless it has already vested. If the Relevant Tesco Director is lawfully summarily dismissed his award will lapse, whether or not it has vested.

Change of control, merger or other reorganisation

On a change of control, scheme of arrangement, winding up or a demerger, dividend in specie, super dividend or other transaction which will adversely affect the current or future value of any awards, the Tesco Remuneration Committee will determine the extent to which awards will vest at that time, subject to time pro-ration. Internal reorganisations do not usually trigger the early vesting of awards and awards will generally be automatically released in consideration for the grant of a new award.

Variation in share capital

Awards may be adjusted following a variation in the share capital of Tesco or a demerger, special dividend or other similar event which affects the market price of shares to a material extent.

Terms of the SIP

Eligibility

Tesco must offer all eligible employees of participating Tesco Group companies who are UK tax resident the opportunity to participate in the SIP whether they work full or part time. Tesco can require employees to have completed a minimum qualifying period of employment before they can participate, but that period must not exceed 18 months.

Form of awards

Under the SIP, Tesco can provide "free shares" and "matching shares" or allow employees to acquire "partnership shares" in Tesco in a tax-efficient manner. Tesco can give up to £3,600 worth of "free shares" per annum per employee. Tesco can use "free shares" to reward employees for reaching personal, team or divisional performance targets.

If given the opportunity, Tesco employees can buy "partnership shares" from their gross monthly salary or weekly wages up to a maximum of £1,800 per annum per employee. Tesco can give employees up to two free "matching shares" for each partnership share acquired by the employees.

Tesco has previously awarded "free shares" to eligible employees under the SIP but it currently only gives employees an offer to purchase "partnership shares".

Leaver provisions

The SIP can provide for "free" and "matching shares" to be forfeited if employees leave within three years of the award unless the employee leaves for certain specified reasons such as redundancy or retirement.

Employees can withdraw their "partnership shares" from the SIP at any time. However, "matching shares" may also be subject to forfeiture if the corresponding "partnership shares" are withdrawn within three years of purchase.

Shares have to be transferred to employees and employees have to take their shares out of the SIP when they leave employment with a Tesco Group company.

Operation of SIP

The SIP is operated through a UK resident trust. The trust will buy or subscribe for shares that are subsequently awarded to employees.

Funding the SIP

Tesco will fund the trustee of the trust to subscribe for or buy Tesco Shares ("free" and/or "matching shares") in the market. In the case of a subscription for Tesco Shares, the subscription price may be the nominal value of a Tesco Share.

Terms common to the Tesco Employee Share Plans approved by Tesco Shareholders – Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP, DSOP

Limits on the issue of shares

In any ten year period not more than 10 per cent. of the issued Tesco Shares from time to time may be issued pursuant to rights acquired under the Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP and DSOP and any other employee share plan adopted by Tesco.

In relation to the Bonus Plan, the PSP and the DSOP, in any ten year period, not more than 5 per cent. of the issued share capital of Tesco from time to time may be issued or issuable pursuant to rights acquired under the Bonus Plan, the PSP and the DSOP and any discretionary plan adopted by Tesco.

For the purposes of this limit, awards or other rights to acquire shares which lapse do not count. However, shares subscribed by the trustee of an employee benefit trust to satisfy rights granted under any employee share plans adopted by Tesco and (whilst it continues to be best practice to do so) shares transferred from treasury do count towards these limits.

Source of shares

Awards under the Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP and DSOP may be satisfied using Tesco Shares purchased in the market or by the issue of new Tesco Shares. Any shares issued under the Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP and DSOP will rank equally with all other Tesco Shares for the time being in issue.

Amendments

The Tesco Board can amend the Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP and DSOP. However, any alterations to the rules to the advantage of participants governing eligibility, limits on participation and the terms of vesting and adjustment of awards must be approved by shareholders in a general meeting (and, in relation to the Irish Sharesave, approved by the Irish Revenue Commission) unless the alteration or addition is minor in nature and made to benefit the administration of the Sharesave, SIP, Irish Sharesave, Bonus Plan, PSP and DSOP, to comply with the provisions of any existing or proposed legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for participants or Tesco Group companies.

Terms common to all of the Tesco Employee Share Plans

General

Awards granted under the Tesco Employee Share Plans are personal to participants and, except on death, may not be transferred.

Awards will not form part of pensionable earnings.

Booker Share Schemes

Booker operates the Booker Group PLC Performance Share Plan 2008 ("Booker PSP") and the Booker Group Savings Related Share Option Plan 2008 ("SAYE Scheme").

Outstanding options under the Booker PSP which would not otherwise have been exercisable prior to the Merger will (in consequence of the Merger and in accordance with participants' contractual rights under the Booker PSP) be exercisable to the extent permitted under the Booker PSP rules, and conditionally on the Scheme Court Order, until the earlier of six months from the Booker General Meeting or seven clear days before the date of the Scheme Court Order.

Tesco has agreed that participants in the Booker PSP may elect to roll over their existing rights over Booker Shares under the Booker PSP into equivalent options over Tesco Shares ("Rolled Over Options") but with such Rolled Over Options continuing to be subject to the Booker PSP rules and vesting on the original vesting date. Tesco and Booker have agreed that, in substitution for the terms agreed in relation to unvested options granted under the Booker PSP in the Co-operation Agreement, Rolled Over Options will be subject to the following performance conditions:

(a) Rolled Over Options granted in 2015 will be subject to their original Booker performance conditions tested as at 31 January 2018;

(b) Rolled Over Options granted in 2016 will be subject to their original Booker performance conditions on 50 per cent. of the options tested as at 31 January 2018 and the remaining 50 per cent. of the options will be subject to the performance conditions that Tesco applies to options granted under the PSP in 2016;

(c) Rolled Over Options granted in 2017 will be subject to the performance conditions that Tesco applies to options granted under the PSP in 2017 for the entire vesting period.

Options granted under the SAYE Scheme which would not otherwise have been exercisable prior to the Merger will (in consequence of the Merger and in accordance with participants' contractual rights under the SAYE Scheme) be exercisable to the extent permitted under the SAYE Scheme rules in the six months following the date of the Scheme Court Order.

Tesco has agreed that participants in the SAYE Scheme may elect to roll over their existing rights over Booker Shares under the SAYE Scheme into equivalent options over Tesco Shares.

Participants in the Booker Share Schemes will be contacted regarding the effect of the Merger on their rights under the Booker Share Schemes and appropriate proposals will be made to them, including, the offer to rollover their outstanding options under the Booker PSP and SAYE Scheme, as set out above

The principal features of these Booker Share Schemes are summarised below.

Booker PSP

The Booker PSP was adopted on 25 June 2008.

Eligibility

Booker or the trustees of a trust created by a member of the Booker Group may select any employee (including Executive Directors) of the Booker Group or any of its subsidiaries to participate in the Booker PSP.

Awards

An award takes the form of an option with a nil exercise price or a contingent right to acquire Booker Shares in the future at no cost to the participant. In practice, options have been granted. Awards may normally only be granted during the period of six weeks from the announcement by Booker of its results for any period (but at other times in exceptional circumstances). No awards may be granted more than ten years after the Booker PSP was adopted.

Awards are personal to a participant and, except on death, may not be transferred. All awards are subject to performance conditions and the value of Booker Shares subject to an award (when aggregated with awards granted under any other discretionary share scheme established by a member of the Booker Group) cannot exceed 400 per cent. of an employee's annual remuneration.

For Executive Directors of Booker, other than in exceptional circumstances, awards will not be more than 150 per cent. of annual salary. Booker is in the process of putting a new Directors' remuneration policy in place, and subject to shareholder approval of the policy at its Annual General Meeting on 5 July 2017, the maximum award opportunity for Executive Directors under the PSP will increase to 200 per cent. of annual salary.

Limits

In any ten-year period, the number of Booker Shares which may be issued or placed under award under the Booker PSP and under any employees' share scheme established by Booker may not exceed ten per cent. of the issued ordinary share capital of Booker from time to time. Market purchased Booker Shares do not count towards this limit.

Vesting, exercise and lapse of options

Awards normally vest on the third anniversary of the date of grant but only to the extent that the performance conditions have been met. Awards granted in the form of options may not be exercised, and awards granted in the form of contingent rights may not vest, more than ten years after the date of grant. Any awards which have not been exercised or which have not vested by that time will lapse.

Performance conditions

Awards under the Booker PSP are subject to performance conditions imposed at the date of the grant. The extent to which the performance conditions are satisfied will determine how many (if any) Booker Shares subject to an award a participant may receive.

The current performance conditions of awards granted are:

(a) *Earnings Per Share* ("EPS") *condition*: 50 per cent. of each award is linked to an absolute EPS performance target. 25 per cent. of this segment vests if the Booker Group achieves EPS growth of six per cent. per annum measured over three years. This rises on a straight line basis with full vesting requiring 12 per cent. EPS growth per annum measured over the three years; and

(b) *Total Shareholder Return* ("TSR") *condition*: the remaining 50 per cent. of each award is linked to an absolute TSR performance target. 25 per cent. of this segment vests if the Booker Group achieves TSR growth of eight per cent. per annum measured over three years. This rises on a straight line basis with full vesting requiring 15 per cent. TSR growth per annum measured over three years.

Cessation of employment

Awards may normally only vest if a participant remains in employment with the Booker Group. If a participant ceases employment during the vesting period, unvested parts of his or her award will normally lapse. If, however, the reason for ceasing employment is death, injury, ill-health, disability, redundancy, retirement with the agreement of Booker, the business or company for which the participant works is transferred out of the Booker Group, or any other reason at the Booker Board's discretion, a portion of his or her unvested award (as determined by the Booker Board) will vest and, in the case of an award granted in the form of an option, may become exercisable for a period of six months (12 months in the case of death) from the date of cessation of employment (or such other period as the Booker Board determines) after which time it shall lapse.

Change of control

In the event of a takeover, reconstruction, amalgamation or winding-up of Booker, a proportion of an unvested award will vest immediately and, in the case of an award granted in the form of an option, will be exercisable following such an event for a period of six months. The proportion of an award that will vest will be determined by the Booker Board by reference to such factors as the Booker Board considers relevant. Any options which have not been exercised by the expiry of the relevant period will lapse.

Variation of capital

In the event of any variation of share capital, the Booker Board (or the trustees where the trustees are the grantor) may make such adjustments as it considers appropriate to the number of Booker Shares subject to an award.

Amendments

The Booker Board may amend the Booker PSP at any time. The prior approval of Booker in general meeting is required for amendments to the advantage of participants relating to eligibility, limits, rights to exercise awards and variations of capital except for minor amendments to benefit the administration of the Booker PSP, to take account of changes in legislation or to obtain or maintain favourable tax treatment, exchange control or regulatory treatment for participants or any member of the Booker Group. Amendments to the disadvantage of participants require their majority consent.

SAYE Scheme

The SAYE Scheme was adopted on 21 May 2008. The SAYE Scheme is a UK "all employee" share option plan, which is intended to satisfy the requirements of Schedule 3 of the UK Income Tax (Earnings and Pensions) Act 2003. This enables options to acquire Booker Shares granted under the SAYE Scheme potentially to benefit from favourable UK tax treatment.

Eligibility

Any employee or Executive Director of Booker and any participating company in the Booker Group is eligible to participate.

Savings contracts and options

An eligible employee who applies for an option under the SAYE Scheme must enter into a savings-related contract approved by HMRC for a specified period of three or five years. Under this contract, the employee agrees to make monthly savings contributions of a fixed amount which may not exceed the statutory maximum (currently £500 per month). Booker Shares may only be acquired under the SAYE Scheme on the exercise of the option using the monies repaid under this contract. Repayment is taken as including the bonus payable under the savings contract, unless otherwise decided by the Booker Board at grant. Options may be granted at a discount of up to 20 per cent. to the market value of Booker Shares at the time of grant. Invitations to apply for options may normally only be issued during the period of 42 days following the announcement of results for any period, although invitations can be issued at other times in exceptional circumstances.

Options granted under the SAYE Scheme are personal to the optionholder and, except on the death of the optionholder, may not be transferred.

Limit

A limit applies to the issue of Booker Shares under the SAYE Scheme. The number of Booker Shares which may be issued on the exercise of options granted under all employees' share schemes adopted by Booker (or issued otherwise than on exercise of options) in any ten year period may not exceed such number of Booker Shares as represents ten per cent. of the Booker

Shares in issue on the date of grant of the options. Market purchased Booker Shares do not count towards this limit.

Exercise of options

An option may not normally be exercised until the optionholder has completed his or her savings contract (such exercise will usually be three or five years from the date of commencement of the savings contract) and then not more than six months thereafter. Special provisions allow early exercise in the case of death, injury, disability, redundancy, retirement or because the company or business which employs the optionholder is transferred out of the Booker Group. If an optionholder ceases employment for any other reason within three years of the grant of the option, his or her option will cease to be exercisable. Special provisions also allow early exercise in the event of a change of control, reconstruction or winding-up of Booker.

Variation of capital

In the event of any variation of share capital, the Booker Board may make such adjustments as it considers appropriate to the number of Booker Shares under option and the price at which they may be acquired. Adjustments to the terms of options must be approved by HMRC.

Amendments

The Booker Board may at any time amend or add to all or any of the provisions of the SAYE Scheme in any respect, provided that no amendment may be made without the prior approval of HMRC. In addition, the prior approval of Booker in general meeting is required for an amendment to the advantage of optionholders to the provisions relating to eligibility, the limit on the number of shares that may be issued under the SAYE Scheme, leavers, rights attaching to options and Booker Shares, the determination of the option price and variations of capital. Minor amendments to benefit the administration of the SAYE Scheme to take account of a change in legislation or to obtain or maintain favourable tax, exchange control or regulatory treatment for an optionholder or any member of the Booker Group do not require the approval of Booker in a general meeting.

Booker Bonus Plan

Following further discussions between Booker and Tesco, it has been agreed that, in substitution for the terms agreed in relation to the plan in the Co-operation Agreement, the Booker 2017/18 bonus plan will continue to apply following the Merger until 30 March 2018. The performance measures of the Booker 2017/18 bonus plan will be measured following 30 March 2018 and paid out on the normal Booker bonus payment date. The employees of Booker will participate in the Tesco 2018/19 bonus plan from 31 March 2018 and their entitlement will be pro-rated to reflect the shorter period of participation.

Employee Benefit Trust

Booker Shares held by the Booker Employee Benefit Trust will be distributed for the benefit of approximately 13,000 Booker employees (excluding the Booker Directors) in accordance with the terms of the trust on the date of the Scheme Court Order. Those Booker Shares will be Booker Scheme Shares for the purposes of the Merger.

Pensions

Tesco

Defined contribution pension schemes

The Tesco Group operates various defined contribution pension schemes for its employees. The most significant of these is the Tesco Retirement Savings Plan ("TRSP") which was established for participation on 22 November 2015 and which is open to participation to all Tesco Group employees in the UK.

As at 30 September 2017 there are approximately 207,264 employees who participate in the TRSP. Tesco Group contributions to the TRSP are calculated as a percentage of salary including overtime but excluding bonuses. The TRSP is a Master Trust arrangement.

The Tesco Group also operates defined contribution schemes for employees in overseas jurisdictions into which the Tesco Group pays contributions calculated as a percentage of salary. The most significant of these is operated in Thailand which had 36,034 members as at 1 October 2017.

The total contributions paid for all defined contribution schemes for the 52 weeks to 27 February 2017 was £341 million, which includes £135 million of salaries paid as pension contributions.

Defined benefit pension schemes

The Tesco Group also operates a number of defined benefit pension schemes. On an IAS19 basis, the Tesco Group pension deficit measure (net of deferred tax) had reduced to £2.4 billion as at 26 August 2017. The discount rate used to calculate this measure has been updated in line with developing market practice and following actuarial advice.

The most significant of the Tesco Group's defined benefit pension schemes is the TPPS.

The TPPS is a funded defined benefit pension plan in the UK, whose assets are held in a separate trust which is administered and managed by a trustee company independently of the Tesco Group. The TPPS contains both career average and final salary benefit promises, and was closed to future accrual on 21 November 2015. The triennial actuarial valuation of the TPPS on 31 March 2017 revealed a funding shortfall on the ongoing actuarial (technical provisions) basis of £3.0 billion, and the Tesco Group has agreed recovery plan payments of £285 million per year to the TPPS from 1 April 2018 to 31 March 2027 in respect of this deficit.

The Tesco Group also operates defined benefit pension schemes in overseas jurisdictions, and the most significant of these are two schemes operated in the ROI.

Booker

Booker operates a number of defined benefit pension schemes, the assets of which are held in separate trustee-administered funds to meet future benefit payments. The trustees are responsible for running the schemes in line with the governing documents for each scheme and for complying with UK pension legislation. The main pension scheme is the Booker Pension Scheme, a funded defined benefit pension arrangement based on final salary and which was closed to new defined benefit entrants in 2001, with defined benefits ceasing to accrue from 2002. Following completion of the latest actuarial valuation of the scheme, a deficit of £41.1m was agreed with the trustees and in respect of which Booker will make deficit contributions of £5.4m per annum payable for six years, with effect from 1 April 2017.

Following its acquisition of Musgrave Retail Partners GB Limited on 14 September 2015, Booker also operates the Budgens Pension Scheme and the Londis Pension Scheme, both trust based occupational defined benefit pension schemes. The Londis Pension Scheme was closed to new entrants in 1991 and future benefit accrual in 2009. The Budgens Pension Scheme closed to both new entrants and future accrual in 2010. Following the latest actuarial valuations of both of these pension schemes no employer contributions are required in respect of the schemes.

Booker's total defined benefit obligations as at 24 March 2017 calculated on an IAS19 basis by rolling forward from the results of the latest actuarial funding valuation for each scheme are an aggregated net deficit of £46.9m, comprising assets of £751m and liabilities of £797.9m.

Booker also operates defined contribution pension arrangements in respect of which it made contributions of £8.3m in the period covered by the Booker 2017 Annual Report and Financial Statements.

Significant subsidiaries and investments

Significant subsidiaries and subsidiary undertakings

Tesco is the principal operating and holding company of the Tesco Group.

Tesco has a large number of subsidiaries and other related undertakings, a complete list of which is set out on pages 158 to 165 of Tesco's 2017 Annual Report and Financial Statements.

The principal subsidiaries and subsidiary undertakings of the Company (excluding any companies in liquidation) are as follows:

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
Tesco Holdings Limited	Incorporated in England and Wales (registered number: 00243011), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Activities of head offices
Tesco Stores Limited	Incorporated in England and Wales (registered number: 00519500), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Retailing
Tesco Corporate Treasury Services PLC	Incorporated in England and Wales (registered number: 08629715), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Financial Management
Tesco Overseas Investments Limited	Incorporated in England and Wales (registered number: 03193632), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Holding company for Tesco's overseas subsidiaries

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
Tesco Personal Finance Group Limited	Incorporated in Scotland (registered number: SC173198), with its registered address at 2 South Gyle Crescent, Edinburgh, United Kingdom, EH12 9FQ	100 per cent.	Financial Services
Tesco Food Sourcing Limited	Incorporated in England and Wales (registered number: 07502096), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Sourcing
Tesco Distribution Limited	Incorporated in England and Wales (registered number: 02972724), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Distribution
Tesco Property Holdings Limited	Incorporated in England and Wales (registered number: 02353133), with its registered address at Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, United Kingdom, AL7 1GA	100 per cent.	Property
Tesco International Sourcing Limited	Incorporated in Hong Kong (registered number: 36278), with its registered address at 15/F., Devon House, Taikoo Place, 979 King's Road, Quarry Bay, Hong Kong	100 per cent.	Purchasing
Dunnhumby Limited	Incorporated in England and Wales (registered number: 02388853), with its registered address at 184 Shepherds Bush Road, London, England, W6 7NL	100 per cent.	Data Analysis

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
One Stop Stores Limited	Incorporated in England and Wales (registered number: 02462858), with its registered address at Apex Road, Brownhills, Walsall, West Midlands, United Kingdom, WS8 7HU	100 per cent.	Retailing
Tesco Ireland Limited	Incorporated in the Republic of Ireland (registered number: 19542), with its registered address at Gresham House, Marine Road, Dun Laoghaire, Co. Dublin	100 per cent.	Retailing
Tesco-Global Stores Privately Held Co. Limited	Incorporated in Hungary (registered number: 13-10-040628), with its registered address at H-2040 Budaörs, Kinizsi, ÚT 1–3, Hungary	100 per cent.	Retailing
Tesco (Polska) Sp. z.o.o	Incorporated in Poland (registered number: 16108), with its registered address at 56 Kapelenka St, 30-347, Krakow, Poland	100 per cent.	Retailing
Tesco Stores ČR a.s.	Incorporated in the Czech Republic (registered number: 45308314), with its registered address at Praha 10 – Vršovice, Vršovická 1527/68b, PSČ 10000, Prague, Czech Republic	100 per cent.	Retailing
Tesco Stores SR a.s.	Incorporated in Slovakia (registered number: 31321828 file number 366), with its registered address at Kamenné nám. 1/A 815 61 Bratislava, Slovakia	100 per cent.	Retailing
Ek-Chai Distribution System Co. Limited	Incorporated in Thailand (registered number: 0105536092641), with its registered address at 629/1 Nawamintr Road, Nuanchan, Buengkoom, Bangkok, 10230, Thailand	86 per cent.	Retailing

Name	Country of incorporation and registered office	Class and percentage of ownership interest and voting power	Primary field of activity
Tesco Stores (Malaysia) Sdn Bhn	Incorporated in Malaysia (registered number: 521419-K), with its registered address at Level 8, Symphony House, Pusat Dagangan Dana 1, Jalan PJU 1A/46, 47301 Petaling Jaya, Selangor Darul Ehsan, Malaysia	70 per cent.	Retailing

Principal investments

The Tesco Group has not made any principal investments in any of the financial years during the period covered by the historical financial information.

Statutory auditors

The statutory auditors for the Company for the period covered by the historical financial information set out in this Prospectus are:

- for the historical financial information for the period ended 28 February 2015, PricewaterhouseCoopers LLP, chartered accountants, whose registered address is at 1 Embankment Place, London WC2N 6RH; and
- for the historical financial information for the periods ended 27 February 2016 and 25 February 2017, Deloitte LLP, registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales, whose registered address is at 2 New Street Square, London, EC4A 3BZ.

The Tesco Board decided, on the recommendation of the Audit Committee, to put the Company's external audit out for tender for the 2015/16 financial year. After 32 years, the Company and PricewaterhouseCoopers LLP mutually agreed that PricewaterhouseCoopers LLP would not take part in the tender. Deloitte LLP was appointed as the Company's statutory auditor on 26 June 2015 by resolution of the Tesco Shareholders at the 2015 Annual General Meeting.

Related party transactions

Tesco

Save as described in note 29 of Tesco's 2017 Annual Report and Financial Statements, note 28 of Tesco's 2016 Annual Report and Financial Statements and note 28 of Tesco's 2015 Annual Report and Financial Statements, there are no related party transactions between the Company or members of the Tesco Group and related parties during the 52 week periods to 25 February 2017 and 27 February 2016 and the 53 week period to 28 February 2015.

During the period since 25 February 2017 and up to 1 February 2018, being the Latest Practicable Date, Tesco or members of the Tesco Group entered into the following transactions with related parties (excluding any transactions between Tesco and its subsidiaries which have been eliminated on consolidation):

Transactions with the TPPS defined benefit pension scheme

The Tesco Group has agreed to increase the market value of Tesco Group property held as security in favour of the TPPS by approximately £75 million to £575 million. In total, transactions with the TPPS defined benefit pension scheme during the period since 25 February 2017 and up to 1 February 2018, being the Latest Practicable Date, amounted to £249 million.

Transactions with defined contribution pension schemes

Contributions payable for defined contribution schemes of £291 million have been recognised during the period since 25 February 2017 and up to 1 February 2018, being the Latest Practicable Date, (including £100 million of salaries paid as pension contributions).

Transactions with joint ventures and associates

£ million	Joint ventures	Associates
Sales to related parties[(1)]	363	–
Purchases from related parties[(2)]	375	15
Dividends received	13	8
Injection of equity funding	20	–

Notes:

(1) Sales to related parties consists of services/management fees and loan interest

(2) Purchases from related parties include £275 million of rentals payable to the Tesco Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Balances arising from transactions with joint ventures and associates

£ million	Joint ventures	Associates
Amounts owed to related parties	20	–
Amounts owed by related parties	23	–
Loans to related parties (net of deferred profits)*	138	–
Loans from related parties	6	–

* Loans to related parties of £138 million are presented net of deferred profits of £(54)m historically arising from the sale of property assets to joint ventures.

Booker

Save:

(a) as described in note 26 of Booker's audited financial statement for the 52 weeks ended 24 March 2017 as set out in Part 9 ("Booker Historical Financial Information") of this Prospectus;

(b) as described in note 26 of Booker's audited financial statement for the 52 weeks ended 25 March 2016 as set out in Part 9 ("Booker Historical Financial Information") of this Prospectus;

(c) as described in note 27 of Booker's audited financial statement for the 52 weeks ended 27 March 2015 as set out in Part 9 ("Booker Historical Financial Information") of this Prospectus;

(d) as set out in the tables below describing total remuneration received by the directors of the Booker Group for the 52 weeks ended 25 March 2016 and 24 March 2017:

(i) in respect of the executive directors:

Executive Director	Salary £'000 2017	Salary £'000 2016	Taxable Benefits £'000 2017	Taxable Benefits £'000 2016	Bonus £'000 2017	Bonus £'000 2016	PSP (value of shares) £'000 2017	PSP (value of shares) £'000 2016	Pension Benefits £'000 2017	Pension Benefits £'000 2016	Total £'000 2017	Total £'000 2016
Charles Wilson	510	510	1	1	–	–	–	–	77	77	588	588
Jonathan Prentis	435	418	35	39	213	207	686	939	63	59	1,432	1,662
Mark Aylwin	–	4	–	–	–	–	–	–	–	–	–	4
Guy Farrant	430	413	32	18	210	205	666	966	62	58	1,400	1,660
Bryn Satherley	–	343	–	34	–	166	449	762	–	50	449	1,355

(ii) in respect of the non-executive directors:

Non-Executive Director	Fees £'000 2017	Fees £'000 2016	Benefits £'000 2017	Benefits £'000 2016	Total £'000 2017	Total £'000 2016
Richard Rose	–	48	Nil	Nil	–	48
Stewart Gilliland	186	144	Nil	Nil	186	144
Lord Bilimoria	18	53	Nil	Nil	18	53
Helena Andreas	45	42	Nil	Nil	45	42
Andrew Cripps	57	52	Nil	Nil	57	52
Gary Hughes	59	18	Nil	Nil	59	18
Karen Jones	67	51	Nil	Nil	67	51

(e) as set out in the table below describing total remuneration received by the directors of the Booker Group for the 52 weeks ended 27 March 2015:

(i) in respect of the executive directors:

Executive Director	Salary £'000 2015	Taxable Benefits £'000 2015	Bonus £'000 2015	PSP (value of shares) £'000 2015	Pension Benefits £'000 2015	Total £'000 2015
Charles Wilson	510	1	–	–	77	588
Jonathan Prentis	389	33	205	838	53	1,518
Mark Aylwin	337	15	174	737	47	1,310
Guy Farrant	382	22	203	806	50	1,463
Bryn Satherley	325	32	174	772	42	1,345

(ii) in respect of the non-executive directors:

Non-Executive Director	Fees £'000 2015	Benefits £'000 2015	Total £'000 2015
Richard Rose	141	Nil	141
Lord Bilimoria	46	Nil	46
Helena Andreas	43	Nil	43
Andrew Cripps	52	Nil	52
Stewart Gilliland	44	Nil	44
Karen Jones	47	Nil	47

there were no related party transactions entered into by Booker or any member of the Booker Group during the 52 weeks ended 27 March 2015, 25 March 2016 and 24 March 2017, the 24 weeks ended 8 September 2017, and during the period from 9 September 2017 up to the Latest Practicable Date.

Property, plant, and equipment

As at 26 August 2017, the Tesco Group operated from a total of 6,575 stores, operating throughout the UK and ROI from 3,582 stores, throughout Central Europe from 978 stores and throughout Asia from 2,015 stores (the "Property Estate"). The Property Estate comprises a total of 88,320,000 square feet, with 43,416,000 square feet located in UK and ROI, 25,408,000 square feet located in Central Europe and 19,496,000 square feet located in Asia. The Property Estate comprises freehold, long leasehold and short leasehold properties and as at 25 February 2017, 63 per cent. of the Tesco Group's net selling space was freehold.

The Property Estate together with fixtures and fittings, office equipment and motor vehicles comprise the material tangible assets of the Tesco business.

Certain bonds issued by the Tesco Group are secured by a charge over property, plant and equipment held within the Tesco Group. As at 25 February 2017, the carrying amounts of assets pledged as security for secured bonds is £788 million. In addition, property of the Tesco Group with a net carrying value of £411 million as at 25 February 2017 (and market value of £504.3 million as at 31 March 2017) has been held as security in favour of the TPPS. The Tesco Group has agreed to increase the market value of such Tesco Group property held as security in favour of the TPPS to £575 million.

The Tesco Group is not aware of any other material encumbrances that affect the Property Estate.

Information on the Tesco Group's property, plant and equipment is set out at Note 11 of the notes to the audited consolidated financial statements for the 52 weeks ended 25 February 2017, which can be found on pages 116 to 118 of Tesco's 2017 Annual Report and Financial Statements and on pages 38 and 39 of Tesco's 2017/2018 Interim Results Statement.

Material contracts

Tesco

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by the Company or another member of the Tesco Group (a) within the two years immediately preceding the date of this Prospectus which are, or may be, material to the Company or any member of the Tesco Group, and (b) at any time and contain provisions under which the Company or any member of the Tesco Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Tesco Group as at the date of this Prospectus:

Section A: Merger-related contracts

Confidentiality Agreement and Confidentiality and Joint Defense Agreement

On 20 June 2016, Tesco and Booker entered into the Confidentiality Agreement, pursuant to which each of Tesco and Booker has undertaken, amongst other things, to (a) keep confidential information relating to the Merger and the other party and not to disclose it to third parties (other than certain permitted parties) unless required by law or regulation and (b) use the confidential information for the sole purpose of evaluating, negotiating, advising on or implementing the potential Merger. These confidentiality obligations remain in force for a period of 24 months after the date of the Confidentiality Agreement.

Tesco and Booker also entered into the Confidentiality and Joint Defense Agreement to ensure that any exchange and/or disclosure of confidential information which was required for the purpose of applying for CMA approval to satisfy the CMA Pre-Condition did not diminish in any way the confidentiality of such information and does not constitute a waiver of any privilege, right or immunity otherwise available. Either party may terminate the Confidentiality and Joint Defense Agreement by serving notice on the other party. The confidentiality obligations of each party will remain in place for a period of two years following such termination.

Clean Team Confidentiality Agreement

On 12 December 2016, Tesco and Booker also entered into the Clean Team Confidentiality Agreement, which sets out how any confidential information that is competitively sensitive can be disclosed, used or shared for the purposes of due diligence, synergies evaluation, planning transition and integration and regulatory clearance.

Additional Confidentiality Agreements

The General Counsel of Booker entered into a confidentiality agreement with Tesco dated 19 December 2016 and two legal advisers to Booker have each entered into a confidentiality agreement with Tesco dated 15 December 2016 (together, the "Additional Confidentiality Agreements") pursuant to which they have agreed, in relation to information provided to them around certain legal and regulatory issues relating to Tesco (the "Information"), that (a) they will keep confidential any Information provided to them, whether verbally or in written form, during or shortly after a meeting at Freshfields Bruckhaus Deringer LLP on 15 December 2016, and (b) the provision of any Information to them shall not waive any privilege in relation to such Information.

Lock-up Agreement

On 27 January 2017, Charles Wilson, Booker's Chief Executive, and Tesco entered into the Lock-up Agreement, pursuant to which Charles Wilson agreed that he will not, without Tesco's consent, dispose of any Tesco Shares at any time during the lock-up period of five years commencing on the Effective Date (subject to certain customary carve-outs). The Lock-up Agreement is conditional upon and shall come into force upon the Effective Date, and the lock-up period continues until the date falling five years following the Effective Date.

Service Agreement Amendment Deed

On 27 January 2017, Charles Wilson, Booker's Chief Executive, Tesco and Booker entered into an agreement to amend Charles Wilson's service agreement with Booker in which Charles Wilson waived his right to rely on (a) in connection with the Merger, or (b) in the event of an intra-group transfer of Booker following the Effective Date, the change of control provision contained in his existing service contract with Booker.

Co-operation Agreement

Tesco and Booker entered into the Co-operation Agreement on 27 January 2017, pursuant to which Tesco and Booker agreed to use their reasonable endeavours to secure the regulatory clearances and authorisations necessary to satisfy the CMA Pre-Condition and the Regulatory Conditions.

Tesco and Booker have agreed to certain undertakings to co-operate and provide each other with reasonable information, assistance and access in relation to the filings, submissions and notifications to be made in relation to such regulatory clearances and authorisations. Tesco and Booker have also agreed to provide each other with reasonable information, assistance and access for the preparation of the key shareholder documentation.

The Co-operation Agreement shall be terminated with immediate effect if (a) Tesco and Booker so agree in writing, (b) if the Merger is, with the permission of the Takeover Panel, withdrawn or lapses in accordance with its terms prior to the Longstop Date, (c) if the Scheme has not become effective by the Longstop Date, or (d) on the Effective Date.

Tesco has the right to terminate the Co-operation Agreement if (a) the Booker Board withdraws, intends to modify or modifies its recommendation of the Scheme (or it fails to publicly reaffirm or re-issue its recommendation when requested by Tesco), (b) Booker announces that it will not convene the Booker Meetings or that it does not intend to post the Scheme Document, (c) where a competing proposal is recommended by the Booker Directors or effected, or (d) any

Condition is not satisfied or waived or becomes incapable of satisfaction or waiver (where such invocation has been permitted by the Takeover Panel) by the Longstop Date.

Booker has the right to terminate the Co-operation Agreement if (a) the Tesco Board withdraws, intends to modify or modifies its recommendation (or it fails to publicly reaffirm or re-issue its recommendation when requested by Booker), (b) Tesco announces that it will not convene the Tesco General Meeting or that it does not intend to post the Circular, or (c) where the Merger is implemented by way of the Scheme, the Tesco General Meeting is not held within five Business Days of the Booker Meetings.

In addition, either party has the right to terminate the Co-operation Agreement if the requisite resolutions are not passed at the Booker Meetings or the Tesco General Meeting.

The Co-operation Agreement records Tesco's and Booker's intention to implement the Merger by way of the Scheme, subject to the ability of Tesco to proceed by way of a Takeover Offer in the circumstances described in the Merger Announcement.

The Co-operation Agreement also contains provisions that will apply in respect of the Booker Share Schemes and certain other employee incentive arrangements.

Section B: Other

Tender offer

In June 2017, Tesco conducted a liability management exercise pursuant to which noteholders were invited to tender for purchase by Tesco outstanding US dollar denominated notes issued by Tesco (the "US Notes"), simultaneously with an invitation to tender for purchase by Tesco certain euro and sterling denominated notes from five series of outstanding notes issued by Tesco (the "Non-US Notes"). Tesco accepted and settled $300,000,000 aggregate principal amount of its US Notes and, across two series, £268,974,989 of aggregate principal amount of its Non-US Notes.

In October 2017, a further liability management exercise was conducted by Tesco pursuant to which noteholders were invited to tender for purchase by Tesco notes from six selected series of outstanding sterling denominated notes issued by Tesco (the "Sterling Notes"), simultaneously with a liability management exercise conducted by Tesco Corporate Treasury Services PLC, a wholly owned subsidiary of Tesco (Tesco being guarantor of such notes) pursuant to which noteholders were invited to tender for purchase by Tesco selected series of euro denominated notes issued by Tesco Corporate Treasury Services PLC (the "Euro Notes"). Tesco accepted and settled £671,830,393 aggregate principal amount of its Sterling Notes and £128,171,000 aggregate principal amount of the Euro Notes.

See further '*Historic accounting practices and overstatement of expected profits*' section below for details of two additional material contracts: (i) a Deferred Prosecution Agreement; and (ii) Tesco Compensation Scheme, entered into by Tesco or another member of the Tesco Group.

Booker

The following contracts (not being contracts entered into in the ordinary course of business) have been entered into by Booker or another member of the Booker Group (a) within the two years immediately preceding the date of this Prospectus which are, or may be, material to Booker or any member of the Booker Group, and (b) at any time and contain provisions under which the Company or any member of the Booker Group has an obligation or entitlement which is, or may be, material to the Company or any member of the Booker Group as at the date of this Prospectus:

Merger related agreements

Booker is party to each of the Confidentiality Agreement and Confidentiality and Joint Defense Agreement; Clean Team Confidentiality Agreement; Service Agreement Amendment Deed; and Co-operation Agreement described above.

Other

Except for the Transaction Documents, no contract has been entered into by any member of the Booker Group within the two years immediately preceding the date of this Prospectus, which is, or may be, material to the Booker Group or which has been entered into outside the ordinary course of business and no contract has been entered into at any time by any member of the Booker Group which contains any provision under which any member of the Booker Group has any obligation or entitlement which is material to the Booker Group as at the date of this Prospectus.

Litigation

Tesco

Historic accounting practices and overstatement of expected profits

On 10 April 2017, the Tesco Group announced that its subsidiary, TSL, had obtained Court approval and entered into a DPA with the UK Serious Fraud Office ("SFO") regarding historic accounting practices. The DPA relates to false accounting by Tesco's subsidiary, TSL, between February 2014 and September 2014. The DPA is a voluntary agreement under which TSL will not be prosecuted provided the business fulfils certain requirements, including paying a financial penalty of £129 million.

On 23 August 2017 the Tesco Compensation Scheme ("Compensation Scheme") opened for eligible shareholders and bondholders. The establishment of the Compensation Scheme followed an agreement between the Tesco Group and the FCA to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA expressly stated that it is not suggesting that the Tesco Board knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Tesco Group agreed with the FCA (under its statutory powers) to establish the Compensation Scheme which will compensate certain net purchasers of Tesco Shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The cost of the compensation payable is estimated by both Tesco and the FCA to be in the region of £85 million excluding interest. Tesco has appointed KPMG to administer the Compensation Scheme, with oversight from the FCA.

Additionally, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Tesco Group for matters arising out of or in connection with this overstatement of expected profits, and purport to have secured or to be seeking third party funding for such litigation. In this regard, the Tesco Group has received two High Court claims against Tesco. The first was received on 31 October 2016 from a group of 112 investors, 35 of whom have now discontinued their claim, and the second was received on 5 December 2016 from an investment company and a trust company. The merit, likely outcome and potential impact on the Tesco Group of any such litigation that either has been or might potentially be brought against the Tesco Group is subject to a number of significant uncertainties and therefore, the Tesco Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this Prospectus.

Claims in respect of Homeplus sale

Following the disposal of its Korean operations ("Homeplus"), Tesco received claims from the purchasers, comprising two investment vehicles controlled by MBK Partners and one investment vehicle controlled by Canada Pension Plan Investment Board, relating to the sale of

Homeplus. The claims are being vigorously defended. The merit, likely outcome and potential impact on the Tesco Group of the claims is subject to a number of significant uncertainties. Consequently, the Tesco Group cannot make any assessment of the likely outcome or quantum of the claims as at the date of this Prospectus.

VAT costs relating to Clubcard rewards

The Tesco Group has recently been successful in an appeal to the First-Tier Tribunal (Tax) on a dispute with HMRC relating to VAT on costs incurred to reward partners under the Tesco Clubcard scheme. The amount in dispute (which HMRC has now repaid) in respect of the periods currently included in the appeal is approximately £166 million (plus interest). HMRC has commenced an appeal against the decision of the First-Tier Tribunal (Tax) and, if HMRC is ultimately successful, amounts repaid will fall to be returned by the Tesco Group, with interest. Later periods than those under the existing appeal will also be affected. The ultimate outcome of the litigation remains uncertain.

Tesco Bank fraudulent attack

In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. Tesco Bank was informed that the incident had been referred to the FCA's Enforcement Division for investigation. Whilst this investigation may lead to a public censure and a penalty, such amount is not known at the current time as the investigation is still ongoing. Tesco Bank is working closely with the FCA and will update the market on the outcome as and when appropriate.

Save as disclosed above, there are no other governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened, of which Tesco is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on Tesco's and/or the Tesco Group's financial position or profitability.

Booker

There are no governmental, legal or arbitration proceedings (including such proceedings which are pending or threatened, of which Tesco is aware) during the 12 months preceding the date of this Prospectus which may have, or have had in the recent past, a significant effect on Booker's and/or the Booker Group's financial position or profitability.

Working capital

In the opinion of Tesco, the working capital available to the Tesco Group is sufficient for its present requirements, that is for at least the next 12 months following the date of this Prospectus.

No significant change

Tesco

There has been no significant change in the financial or trading position of the Tesco Group since 26 August 2017, the date to which the interim financial statements of Tesco were prepared.

Booker

There has been no significant change in the financial or trading position of the Booker Group since 8 September 2017, the date to which Booker's last published unaudited interim financial statements were prepared.

Consents

Barclays, who has acted as sponsor, financial adviser and corporate broker and whose registered address is at 1 Churchill Place, London, E15 5HP, has given and has not withdrawn its written consent to the inclusion in this Prospectus of references to its name in the form and context in which it appears.

Greenhill, who has acted as lead financial adviser and whose registered address is at Lansdowne House, 57 Berkeley Square, London W1J 6ER, has given and has not withdrawn its written consent to the inclusion in this Prospectus of references to its name in the form and context in which it appears.

Citi, who has acted as financial adviser and whose registered address is at Citigroup Centre, Canada Square, Canary Wharf, London E14 5LB, has given and has not withdrawn its written consent to the inclusion in this Prospectus of references to its name in the form and context in which it appears.

Deloitte, who is registered to carry on audit work in the UK and Ireland by the Institute of Chartered Accountants in England and Wales, has acted as auditor and reporting accountant to Tesco and whose registered address is at 2 New Street Square, London, EC4A 3BZ, and has given and has not withdrawn its written consent to the inclusion of its accountant's report on: (i) the unaudited *pro forma* financial information of the Combined Group set out at Part 10 – UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE COMBINED GROUP) in this Prospectus; and (ii) the profit forecast set out at Part 12 – TESCO PROFIT FORECAST of this Prospectus in each case in the form and context in which it appears.

Davy, who has acted as Irish Sponsor and whose registered address is at Davy House, 49 Dawson Street, Dublin 2, D02 PY05, Ireland has given and has not withdrawn its written consent to the inclusion in this Prospectus of references to its name in the form and context in which it appears.

No adviser has an interest in the Merger that is material.

General

The total costs and expenses relating to the issue of this document, the Circular and to the negotiation, preparation and implementation of the Merger are estimated to amount to approximately £65 million (including regulatory fees, the listing fees, professional fees and expenses, the costs of printing and distribution of documents and UK stamp duty but excluding VAT) and are payable by Tesco. There are no net proceeds receivable by Tesco as a result of the Merger.

The financial information contained in this Prospectus does not amount to statutory accounts within the meaning of section 434(3) of the Act. Full audited accounts have been delivered to the Registrar of Companies for the Tesco Group for the 53 week period ended 28 February 2015, the 52 week period ended 27 February 2016, and the 52 week period ended 25 February 2017.

Each New Tesco Share is expected to be issued at a premium of 201.3 pence to its nominal value of five pence.

Save as disclosed in this Prospectus, the Tesco Directors believe that the Tesco Group is not dependent on patents or licences, industrial, commercial or financial contracts or new manufacturing processes which are material to Tesco's business or profitability.

Tesco is subject to the provisions of the City Code, including the rules regarding mandatory takeover offers set out in the City Code. Under Rule 9 of the City Code, when: (i) a person acquires shares which, when taken together with shares already held by him or persons acting in concert with him (as defined in the City Code), carry 30 per cent. or more of the voting rights of a company subject to the City Code; or (ii) any person who, together with persons acting in concert with him, holds not less than 30 per cent. but not more than 50 per cent. of the voting rights of a company subject to the City Code, and such person, or any person acting in concert with him, acquires additional shares which increases his percentage of the voting rights in the company, then, in either case, that person, together with the persons acting in concert with him, is normally required to make a general offer in cash at the highest price paid by him or any person acting in concert with him for shares in the company within the preceding 12 months for all of the remaining equity share capital of the company.

If Tesco were to be subject to a takeover offer (within the meaning of Part 28 of the Act), the Tesco Shares would also be subject to the compulsory acquisition procedures set out in sections 979 to 991 of the Act. Under section 979 of the Act, where an offeror makes a takeover offer and has, by virtue of acceptances of the offer, acquired or unconditionally contracted to acquire not less than 90 per cent. of the shares to which the offer relates and, in a case where the shares to which the offer relates are voting shares, not less than 90 per cent. of the voting rights carried by those shares, that offeror is entitled to compulsorily acquire the shares of any holder who has not acquired the offer on the terms of the offer.

No takeover offer (within the meaning of Part 28 of the Act) was or has been made for any Tesco Shares during the 52 weeks ended on 25 February 2017 or to date during its current 52 week period ending 24 February 2018).

Documents available for inspection

Copies of the following documents are available for inspection for a period of 12 months following the date of this Prospectus, at www.tescoplc.com:

- the Articles;
- the historical financial information of the Tesco Group in respect of the 53 week period ended 28 February 2015, the 52 week period ended 27 February 2016, and the 52 week period ended 25 February 2017 which is incorporated by reference, and forms part of, this Prospectus);
- the Unaudited Interim Historical Financial Information of the Tesco Group in respect of the 26 week period ended 27 August 2016 and the 26 week period ended 26 August 2017 which is incorporated by reference, and forms part of, this Prospectus;
- the report from Deloitte LLP on the pro forma financial information, which is set out in Section B of Part 10 ("*Unaudited pro forma financial information of the Combined Group – Accountants' report on the unaudited pro forma financial information*");
- the report from Deloitte LLP on the Tesco profit forecast, which is set out in Section 2 of Part 12 ("*Tesco Profit Forecast*");
- the consent letters referred to in the paragraph on "Consents" above;
- the Scheme Document;
- the Circular; and
- this Prospectus.

Dated: 5 February 2018

PART 16

DEFINITIONS AND GLOSSARY

The following definitions apply throughout this Prospectus unless the context requires otherwise:

"£", "Sterling", "GBP", "pence" or "p"	pound sterling, the lawful currency of the UK;
"€","EURO"	euro, the lawful currency of the European Union;
"$","USD"	United States dollar, the lawful currency of the United States of America;
"2009 Act"	the Banking Act 2009;
"2014 EIP"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"2016/17 Final Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"2016/17 Special Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"2017/18 Final Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"2017/18 Interim Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"2018/19 Interim Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"3Q and Christmas Trading Update"	the Tesco third quarter and Christmas trading statement 2017/18 which was released on 11 January 2018;
"Accrued Booker Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"Accrued Tesco Dividend"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"Act"	the Companies Act 2006, as amended from time to time;
"Additional Confidentiality Agreements"	has the meaning set out in Part 13 ('*Closing Dividend*') of this Prospectus;
"Admission"	UK Admission and Irish Admission;
"ADR"	American Depositary Receipt;
"AMS"	AMS Sourcing B.V;
"APMs"	the alternative performance measures defined in the ESMA Guidelines on Alternative Performance Measures and described in the Important Information section of this Prospectus;
"Approved Options"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;

"Approved Part"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"Articles"	the Articles of Association of the Company from time to time;
"AS Buy-Out Awards"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"ATM"	Automated Teller Machine;
"Aviva"	Aviva Insurance, part of the Aviva plc group of companies;
"Barclays"	Barclays Bank PLC, acting through its Investment Bank;
"BCOBS"	the Banking Conduct of Business Sourcebook;
"Booker"	Booker Group plc, incorporated in England and Wales with registered number 05145685;
"Booker 2017 Annual Report and Financial Statements"	the annual report and audited financial statements of Booker for the 52 weeks ended 24 March 2017
"Booker Board"	the Booker Directors collectively;
"Booker Board Recommendation"	has the meaning set out in Part 1 ('*Information on the Merger*') of this Prospectus;
"Booker Court Meeting"	The meeting of the holders of the Booker Shares, convened by order of the Court pursuant to Part 26 of the Companies Act 2006 to consider and, if thought fit, approve the Scheme with or without modification, including any adjournment thereof;
"Booker Directors"	the directors of Booker as at the date of this Prospectus or, where the context so requires, the directors of Booker from time to time;
"Booker Employee Benefit Trusts"	the Booker Employee Benefit Trust and the Booker Group 2010 Employee Benefit Trust;
"Booker General Meeting"	the general meeting of Booker to be convened in connection with the Scheme and the Merger, notice of which will be set out in the Scheme Document, including any adjournment thereof;
"Booker Group"	Booker, its subsidiaries and its subsidiary undertakings from time to time;
"Booker Historical Financial Information"	the historical financial information in this Prospectus relating to the Booker Group referred to in Part 10 ('*Unaudited pro forma financial information of the Combined Group*');
"Booker Meetings"	the Scheme Court Meeting and the Booker General Meeting;
"Booker PSP"	the Booker Performance Share Plan 2008 (including the tax-favoured appendix as amended from time to time);
"Booker Scheme Shareholders"	holders of Booker Scheme Shares;

"Booker Scheme Shares"	Booker Shares: • in issue as at the date of the Scheme Document; • (if any) issued after the date of the Scheme Document and prior to the Scheme Voting Record Time; and • (if any) issued on or after the Scheme Voting Record Time and before the Scheme Record Time, either on terms that the original or any subsequent holders thereof shall be bound by the Scheme or in respect of which the holders thereof shall have agreed in writing to be bound by the Scheme, but in each case other than the Excluded Shares;
"Booker Share Schemes"	the Booker PSP and the SAYE Scheme as amended from time to time;
"Booker Shareholders"	the registered holders of Booker Shares from time to time;
"Booker Shares"	ordinary shares of one penny each in the capital of Booker;
"Bonus Plan"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"BRP"	Booker Retail Partners (GB) Limited;
"Business Day"	a day, other than a Saturday, Sunday or public or bank holiday, when banks are open for business in London;
"Cash Award"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"CBI"	the Central Bank of Ireland;
"CCA"	the Consumer Credit Act 1974;
"CCPC"	Competition and Consumer Protection Commission;
"Circular"	the circular to be sent by Tesco to Tesco Shareholders summarising the background to and reasons for the Merger which includes a notice convening the Tesco General Meeting;
"Citi"	Citigroup Global Markets Limited;
"City Code"	the UK City Code on Takeovers and Mergers as issued from time to time by or on behalf of the Takeover Panel;
"Clean Team Confidentiality Agreement"	the clean team confidentiality agreement between Tesco and Booker dated 12 December 2016;
"Closing Dividend"	has the meaning set out in Part of 1 ('*Information on the Merger*') of this Prospectus;
"CMA"	the Competition and Markets Authority;
"CMA Pre-Condition"	the CMA deciding, as a pre-condition to the Merger, in terms reasonably satisfactory to Tesco: (a) not to make a Phase 2 CMA Reference (pursuant to sections 33 or 73 of the Enterprise Act 2002); or (b) where the CMA has made a Phase 2 CMA Reference, confirmation having been received by Tesco from the CMA that: (i) the Merger may proceed

	without any undertakings, conditions or orders; or (ii) the Merger may proceed subject to the giving of such undertakings by, or the imposition of such conditions or orders on, Tesco and/or Booker, on terms reasonably satisfactory to Tesco, and all necessary approvals or consents for clearance having been provided by the CMA;
"CODM"	Chief Operating Decision Maker;
"Co-operation Agreement"	the co-operation agreement between Tesco and Booker dated 27 January 2017;
"Combined Group's Board"	the directors comprising the Tesco Board as at the date of completion of the Merger, Stewart Gilliland and Charles Wilson;
"Combined Group's Executive Committee"	the executive committee of Tesco as at the date of completion of the Merger and Charles Wilson;
"Combined Group"	the enlarged group following the Merger comprising the Tesco Group and the Booker Group;
"Company"	Tesco PLC, incorporated in England and Wales with registered number 00445790;
"Compensation Scheme"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"Compulsory Share Award"	has the meaning set out in Part 15 ('*Additional Information*') of this Prospectus;
"Conditions"	the conditions to the implementation of the Merger (including the Scheme) as set out in the Merger Agreement;
"Confidentiality Agreement"	the confidentiality agreement between Tesco and Booker dated 20 June 2016;
"Confidentiality and Joint Defense Agreement"	the confidentiality and joint defense agreement between Tesco and Booker dated 28 June 2016;
"Consideration"	the basic consideration payable to Booker Shareholders in connection with the Merger comprising a share component of 0.861 New Tesco Shares per Booker Share and a cash component of 42.6 pence per Booker Share, subject to final allocations under the Mix and Match Facility;
"Court"	the High Court of Justice of England and Wales;
"CREST"	the relevant system (as defined in the Uncertificated Securities Regulations 2001 (SI 2001/3755)) in respect of which Euroclear UK & Ireland Limited is the Operator (as defined in such Regulations) in accordance with which securities may be held and transferred in uncertificated form;
"CREST Regulations"	the Uncertificated Securities Regulations 2001 (SI 2001 No. 3755);
"CRH"	China Resources (Holdings) Company Limited;
"Data Protection Act"	the Data Protection Act 1998;

"Davy"	J&E Davy;
"DPA"	Deferred Prosecution Agreement;
"Deloitte"	Deloitte LLP;
"DL Buy-Out Award"	the buy-out award for the Group Chief Executive of Tesco in respect of forfeited awards from his previous employer;
"DSOP"	the Tesco 2004 Discretionary Share Option Plan;
"DTR"	Disclosure Guidance and Transparency Rules;
"E&P"	has the meaning set out in Part 14 ('*Taxation*') of this Prospectus;
"EBITDA"	earnings before interest, tax, depreciation and amortisation;
"EEA"	European Economic Area;
"Effective"	means the completion of the Merger;
"Effective Date"	means the date upon which either: ● the Scheme becomes effective in accordance with its terms; or ● if Tesco elects to implement the Merger by way of an Offer, the date on which the Offer becomes or is declared unconditional in all respects;
"EIP"	the Tesco Executive Incentive Plan 2004;
"Enhancement Share Award"	an additional award of Tesco Shares received by participants in the Bonus Plan;
"Excluded Shares"	any Booker Shares beneficially owned by Tesco or any other member of the Tesco Group immediately prior to the Scheme Record Time;
"Euro Notes"	selected series of euro denominated notes issued by Tesco Corporate Treasury Services PLC;
"Euro Shopper Licence"	has the meaning set out in Part 3 – INFORMATION ON THE BOOKER GROUP ('*Information on the Booker Group*') of this Prospectus;
"FCA"	the Financial Conduct Authority of its successor from time to time;
"FCA Handbook"	the FCA Handbook of Rules and Guidance as amended from time to time;
"Forms of Proxy"	the form of proxy in connection with each of the Scheme Court Meeting and the Booker General Meeting, which shall accompany the Scheme Document;
"FRC"	the Financial Reporting Council;
"FSMA"	the Financial Services and Markets Act 2000, as amended from time to time;
"GCA"	the Groceries Code Adjudicator;

"Governance Code"	the UK Corporate Governance Code;
"Greenhill"	Greenhill & Co. International LLP;
"GSCOP"	the Groceries Supply Code of Practice;
"HMRC"	Her Majesty's Revenue and Customs;
"ICA"	the Independent Capital Assessment;
"ICOBS"	the Insurance: Conduct of Business Sourcebook;
"IDD"	the Insurance Distribution Directive;
"IFRS"	the International Financial Reporting Standards;
"Information"	has the meaning set out in Part 15 ("*Additional Information – Material Contracts*") of this Prospectus;
"Irish Admission"	admission of the New Tesco Shares to the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities;
"Irish Application"	application to the Irish Stock Exchange for the New Tesco Shares to be admitted to listing on the secondary listing segment of the Irish Official List and to trading on the Irish Stock Exchange's main market for listed securities;
"Irish Official List"	the Official List maintained by the Irish Stock Exchange;
"Irish Revenue Commission"	the Office of the Revenue Commissioners in the ROI;
"Irish Sharesave"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Irish Sharesave Options"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Irish Stock Exchange"	the Irish Stock Exchange plc;
"IRS"	the US Internal Revenue Service;
"ISA"	individual savings account;
"Joining Forces Team"	has the meaning set out in Part 1 – INFORMATION ON THE MERGER of this Prospectus;
"KPIs"	key performance indicators;
"Latest Practicable Date"	means 1 February 2018, being the latest practicable date prior to publication of this Prospectus;
"Listing Rules"	the listing rules made by the FCA pursuant to Part 6 of the FSMA, referred to in section 73A(2) of the same, and contained in the FCA's publication of the same name;
"Lock-up Agreement"	the lock-up agreement between Charles Wilson, Chief Executive of Booker, and Tesco, entered into on 27 January 2017;
"London Stock Exchange"	London Stock Exchange plc, together with any successors thereto;
"Longstop Date"	30 November 2018 or such later date as may be agreed in writing by Booker and Tesco (with the Takeover Panel's

	consent and as the Court may approve (if such approval(s) are required));
"LTIP"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Main Market"	the Main Market of the London Stock Exchange;
"Makro"	Makro Self Service Wholesalers Limited and Makro Properties Limited;
"Makro Marks"	has the meaning set out in Part 3 ('*Information on the Booker Group*') of this Prospectus;
"MAR"	the Market Abuse Regulation (2014/596/EU);
"MCOB"	the Mortgages and Home Finance: Conduct of Business Sourcebook;
"Merger"	the proposed acquisition of the entire issued and to be issued share capital of Booker by Tesco, to be implemented by way of the Scheme or (should Tesco so elect, subject to the consent of the Takeover Panel) by way of the Offer;
"Merger Announcement"	the announcement of the Merger dated 27 January 2017;
"MIDAS"	has the meaning set out in Part 3 – INFORMATION ON THE BOOKER GROUP of this Prospectus;
"Mix and Match Facility"	the mix and match facility provided for in the Scheme under which Booker Shareholders (other than holders with a registered address in, or who are a citizen, resident or national of, a Restricted Jurisdiction) may, subject to off-setting elections made by other Booker Shareholders, elect to vary the proportion of New Tesco Shares and cash received under the terms of the Merger;
"MPL"	Makro Properties Limited;
"MREL"	minimum requirement for own funds and eligible liabilities;
"MSSWL"	Makro Self Service Wholesalers Limited;
"New Tesco Shares"	the new Tesco Shares which, subject to a valid election to that effect by a Booker Shareholder, are to be issued pursuant to the Merger;
"Non-US Notes"	certain euro and sterling denominated notes issued by Tesco as defined in Part 15 – ADDITIONAL *INFORMATION* of this Prospectus;
"Offer"	should Tesco elect to implement the Merger by way of a takeover offer (as defined in section 974 of the Act), the recommended offer to be made by or on behalf of Tesco to acquire all of the issued and to be issued Booker Shares on the terms and subject to the Conditions set out in Part III (*Conditions to and Further Terms of the Scheme and the Merger*) of the Scheme Document and to be set out in the Offer Document and, where the context admits, any subsequent revision, variation, extension or renewal of such Offer;

"Optional Share Award"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Order"	the Groceries (Supply Chain Practices) Market Investigation Order 2009;
"Overseas Shareholders"	Booker Shareholders who are resident in, ordinarily resident in, or citizens of, jurisdictions outside the United Kingdom or the United States;
"Performance Share Plan"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Permitted Booker Dividend" or "Permitted Booker Dividends"	has the meaning set out in Part 13 ("*Closing Dividend*") of this Prospectus;
"PPI"	payment protection insurance;
"PRA"	the Prudential Regulation Authority or its successor from time to time;
"PRA Rulebook"	the PRA Rulebook;
"Principal Shareholders"	the persons interested, directly or indirectly, in three per cent. or more of the voting rights in respect of the ordinary share capital of Tesco;
"Principles for Businesses"	has the meaning set out in Part 4 ('*Regulatory Overview*') of this Prospectus;
"Proposed Directors"	those Booker Directors, being Stewart Gilliland and Charles Wilson, who as at the date of completion of the Merger will become members of the Combined Group's Board;
"Prospectus"	this document;
"Prospectus Directive Regulation"	Commission Regulation (EC) No. 809/2004, as amended;
"Prospectus Rules"	the prospectus rules made by the FCA pursuant to Part 6 of the FSMA, referred to in section 73A(4) of the same, and contained in the FCA publication of the same name;
"PSP"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"RBS"	The Royal Bank of Scotland;
"Registrar of Companies"	the Registrar of Companies in England and Wales;
"Regulatory Conditions"	the Conditions set out in Part III (*Conditions to and Further Terms of the Scheme and the Merger*) of the Scheme Document;
"Relevant Tesco Directors"	Group Chief Executive of Tesco and the Chief Financial Officer of Tesco;
"Restricted Jurisdiction"	any jurisdiction where local laws or regulations may result in a significant risk of civil, regulatory or criminal exposure if information concerning the Merger is sent or made available to Booker Shareholders in that jurisdiction, or the Mix and Match Facility is made available to Booker Shareholders in that jurisdiction;

"Return on Invested Capital"	the sum of Booker's post-tax earnings and post-tax synergies, divided by the purchase price plus transaction-related costs net of tax;
"ROI"	Republic of Ireland;
"Rolled Over Options"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"RPI"	retail price index;
"SAYE"	save as you earn;
"SAYE Scheme"	has the meaning set out in Part 15 ("*Additional Information"*) of this Prospectus;
"Scheme"	the scheme of arrangement proposed to be made under Part 26 of the Act between Booker and the Booker Scheme Shareholders as set out in the Scheme Document, with or subject to any modification, addition or condition approved or imposed by the Court and agreed to by Booker and Tesco;
"Scheme Court Meeting"	the meeting of the holders of the Booker Shares, convened by order of the Court pursuant to Part 26 of the Act to consider and, if thought fit, approve the Scheme with or without modification, including any adjournment thereof;
"Scheme Court Order"	the order of the Court sanctioning the Scheme under Part 26 of the Act;
"Scheme Document"	the document to be sent to (among others) Booker Shareholders containing and setting out, among other things, the full terms and conditions of the Scheme and containing the notices convening the Scheme Court Meeting and Booker General Meeting;
"Scheme Record Time"	the time and date specified in the Scheme Document, expected to be 6.00 p.m. on the Business Day immediately prior to the Effective Date;
"Scheme Voting Record Time"	the time and date specified in the Scheme Document by reference to which entitlement to vote on the Scheme will be determined;
"SDRT"	stamp duty reserve tax;
"SEC"	the US Securities and Exchange Commission;
"Senior Managers"	Matt Davies; Matt Simister; Tony Hoggett; Benny Higgins; Adrian Morris; Jane Lawrie; Alison Horner; Jason Tarry; and Alessandra Bellini;
"Service Agreement Amendment Deed"	the service agreement amendment deed between Charles Wilson, Tesco and Booker dated 27 January 2017;
"SFO"	the UK Serious Fraud Office;
"Share Award"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;

"Sharesave"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Sharesave Options"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"SIP"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Sponsor"	Barclays Bank PLC, acting through its Investment Bank;
"Sterling Notes"	sterling denominated notes issued by Tesco as defined in ("*Additional Information*") of this Prospectus;
"Synergy Team"	the synergy development team comprising senior personnel representing both Tesco and Booker which was established to evaluate and assess the potential synergies available for the integration and undertake an initial planning exercise;
"Takeover Offer"	a takeover offer as defined in Part 28 of the Act;
"Takeover Panel"	the UK Panel on Takeovers and Mergers;
"TCF"	has the meaning set out in Part 4 ('*Regulatory Overview*') of this Prospectus;
"Tesco"	Tesco, incorporated in England and Wales with registered number 00445790;
"Tesco's 2017/2018 Interim Results Statement"	has the meaning set out in Part 8 ('*Tesco Historical Financial information*') of this Prospectus;
"Tesco 2017 FY"	has the meaning set out in Part 1 ('*Information on the Merger*') of this Prospectus;
"Tesco's 2015 Annual Report and Financial Statements"	the annual report and audited financial statements of Tesco for the year ended 28 February 2015;
"Tesco's 2016 Annual Report and Financial Statements"	the annual report and audited financial statements of Tesco for the year ended 27 February 2016;
"Tesco's 2017 Annual Report and Financial Statements"	the annual report and audited financial statements of Tesco for the year ended 25 February 2017;
"Tesco 2017/18 Final Dividend"	has the meaning set out in Part 1 ('*Information on the Merger*') of this Prospectus;
"Tesco 2017/18 Interim Dividend"	has the meaning set out in Part 1 ('*Information on the Merger*') of this Prospectus;
"Tesco's 2016/2017 Interim Results Statement"	has the meaning set out in Part 8 ('*Tesco Historical Financial information*') of this Prospectus;
"Tesco's 2017/2018 Interim Results Statement"	has the meaning set out in Part 8 ('*Tesco Historical Financial information*') of this Prospectus;
"Tesco 2018/19 Interim Dividend"	has the meaning set out in Part 1 ('*Information on the Merger*') of this Prospectus;
"Tesco ADRs"	the ADRs of Tesco, each representing three Tesco Shares;
"Tesco Board Committees"	the committees of the Tesco Board as appointed from time to time in accordance with the Articles including the Audit Committee, Remuneration Committee, Nominations and

	Governance Committee, Corporate Responsibility Committee and Disclosure Committee;
"Tesco Board Recommendation"	the unanimous and unconditional recommendation made by the Tesco Board to Tesco Shareholders to approve the Tesco Resolutions;
"Tesco Board"	the Tesco Directors collectively;
"Tesco Directors"	the directors of Tesco as at the date of this Prospectus or, where the context so requires, the directors of Tesco from time to time;
"Tesco Employee Share Plans"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Tesco Executive Directors"	Dave Lewis and Alan Stewart;
"Tesco General Meeting"	the general meeting of Tesco to be convened in connection with the Merger, notice of which will be sent to Tesco Shareholders, including any adjournment thereof;
"Tesco Group"	Tesco, its subsidiaries and its subsidiary undertakings from time to time;
"Tesco Group Executive Committee"	Dave Lewis; Alan Stewart; Matt Davies; Matt Simister; Tony Hoggett; Benny Higgins; Adrian Morris; Jane Lawrie; Alison Horner; Jason Tarry; and Alessandra Bellini and, with effect from Admission, Charles Wilson;
"Tesco Historical Financial Information"	the historical financial information in this Prospectus relating to the Tesco Group referred to in Part 8 ('*Tesco Historical Financial Information*') of this Prospectus;
"Tesco Non-Executive Directors"	John Allan; Deanna Oppenheimer; Mark Armour; Steve Golsby; Byron Grote; Mikael Olsson; Simon Patterson; Alison Platt; and Lindsey Pownall OBE, and with effect from Admission, Stewart Gilliland;
"Tesco Quantified Financial Benefits Statement"	the statements of estimated cost savings and synergies arising from the Merger described in Part 1 ('*Information on the Merger*') of this Prospectus;
"Tesco Remuneration Committee"	the Remuneration Committee of Tesco from time to time;
"Tesco Resolutions"	such shareholder resolutions of Tesco as are required to approve, implement and effect the Merger, including, a resolution or resolutions to authorise the creation and allotment of New Tesco Shares pursuant to the Merger;
"Tesco Shareholders"	the registered holders of Tesco Shares from time to time;
"Tesco Shares"	ordinary shares of five pence each in the capital of Tesco;
"Tesco's Annual Reports and Financial Statements"	Tesco's 2015 Annual Report and Financial Statements, Tesco's 2016 Annual Report and Financial Statements and Tesco's 2017 Annual Report and Financial Statements;
"Tesco Underwriting"	Tesco Underwriting Limited;
"Threshold Conditions"	has the meaning set out in Part 4 ('*Regulatory Overview*') of this Prospectus;

"TPPS"	as defined in (Part 13 – CLOSING DIVIDEND) of this Prospectus;
"Treasury"	Her Majesty's Treasury;
"TSL"	Tesco Stores Limited, incorporated in England and Wales with registered number 00519500;
"Transformation Programmes"	the Tesco Group's multiple internal, customer facing, and IT transformation programmes designed to improve the shopping experience for Tesco Group customers, simplify the Tesco Group's business, increase the overall level of risk management maturity, control environment maturity and improve consistency across the Tesco Group, clarify accountability and reduce costs so as to enable their businesses to be run in a more sustainable and cost-effective way and to adapt more quickly in a rapidly changing retail environment, including finance, people, IT and service model initiatives.
"TRSP"	Tesco Retirement Savings Plan;
"UK"	the United Kingdom of Great Britain and Northern Ireland;
"UK & ROI"	the United Kingdom of Great Britain and Northern Ireland and the Republic of Ireland;
"UK Admission"	admission of the New Tesco Shares to the premium listing segment of the UK Official List and to trading on the London Stock Exchange's main market for listed securities;
"UK Official List"	the Official List maintained by the FCA;
"UKLA"	UK Listing Authority;
"Unapproved Options"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"Unapproved Part"	has the meaning set out in Part 15 ("*Additional Information*") of this Prospectus;
"US"	the United States of America, its territories and possessions, any state or political subdivision of the United States and the District of Columbia;
"US Exchange Act"	the United States Securities Exchange Act of 1934, as amended, and the rules and regulations promulgated thereunder;
"US Holder"	has the meaning set out in Part 14 ("*Taxation*") of this Prospectus;
"US Person"	a US Person as defined in Regulation S under the US Securities Act;
"US Securities Act"	the United States Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder; and
"VAT"	value added tax and any similar sales or turnover tax.