TESCO

Registered number 00445790

Serving
our customers,
communities
and planet
a little better
every day.

Annual Report and Financial Statements 2022

Contents

Strategic report

Introduction	2
2022 highlights	3
Tesco at a glance	4
Our purpose	5
Our purpose in action	6
Chairman's statement	7
Group Chief Executive's review	10
Our market context	13
Our strategic priorities and performance framework	14
Key performance indicators	16
Our business model	17
Our colleagues	19
Engaging with our stakeholders	20
Section 172 statement	22
Financial review	23
Principal risks and uncertainties	32
Longer term viability statement	38
Climate	40
Task Force on Climate-related Financial Disclosures	41
Non-financial information statement	45

Corporate governance

Chairman's letter	46
Compliance with the UK Corporate Governance Code	47
Board of Directors	48
Executive Committee	52
Division of responsibilities	53
Board leadership and company purpose	55
Board activity	58
Composition, succession and evaluation	61
Nominations and Governance Committee	63
Corporate Responsibility Committee	66
Audit Committee	68
Directors' remuneration report	74
Directors' report	100

Financial statements and Other information

Index	105

Visit www.tescoplc.com/ar2022 for more information.

Serving our customers, communities and planet a little better every day.

Hello.

Tesco was built to be a champion for customers, serving them every day with affordable, healthy and sustainable food.

Our commitment to our customers extends beyond our stores, and into every local community we serve – in the UK, Ireland, Slovakia, Czech Republic and Hungary. We provide extra support to those that need it, through food banks, donation schemes and community grants.

This is a critical time for our planet and so we are finding new ways to reduce our impact on the environment and collaborate with our suppliers and customers to help them do the same.

At the heart of Tesco is our fantastic team of 345,000 colleagues, who go above and beyond to make a difference. We work hard to be an inclusive workplace, where all colleagues can be at their best and build the skills to grow their careers.

This year, we refreshed our purpose to reflect the way we serve our communities and the planet more broadly, as well as our continued commitment to customers in every part of our Group, from Booker to Tesco Bank. Serving our customers, communities and planet a little better every day is what we do.

2022 highlights.

Performance highlights

Group sales[Δ]	Adjusted diluted EPS[Δ(a)(b)(c)]	Adjusted operating profit[Δ(a)(c)]	Retail free cash flow[Δ(d)]
2.5%	**88.8%**	**58.0%**	**69.9%**
£54.8bn	**21.86p**	**£2,825m**	**£2,277m**
(2021: £53.4bn)	(2021: 11.58p)	(2021: £1,788m)	(2021: £1,340m)

Dividend per share	Net debt[Δ(d)]	UK market share (sales value)	Group net promoter score
19.1%	**(12)%**	**+30bps**	**+3pts**
10.90p	**£(10.5)bn**	**27.7%**	**18 pts**
(2021: 9.15p)	(2021: £(12.0)bn)	(2021: 27.4%)	(2021: 15 pts)

Statutory measures

Statutory revenue	Operating profit[(c)]	Statutory profit before tax[(c)]	Statutory diluted EPS[(c)(e)]
6.0%	**65.5%**	**219.7%**	**252.0%**
£61.3bn	**£2,560m**	**£2,033m**	**19.64p**
(2021: £57.9bn)	(2021: £1,547m)	(2021: £636m)	(2021: 5.58p)

Δ Alternative performance measures (APMs)

All measures apart from Net debt are shown on a continuing operations basis unless otherwise stated

The Group has defined and outlined the purpose of its APMs in the Glossary starting on page 207 During the year the operating profit and EPS APMs were renamed 'Operating profit before exceptional items and amortisation of acquired intangibles' has changed to 'Adjusted operating profit' 'Diluted EPS before exceptional and other items' has changed to 'Adjusted diluted EPS The Retail free cash flow APM was amended in order to provide a more consistent and predictable view of free cash flow generated by the Group's retail operation 'Exceptional items and amortisation of acquired intangibles' within operating profit along with net pension finance costs, fair value remeasurements of financial instruments, and the tax impact of such items (below operating profit) are now called 'Adjusting items' The policy for determining adjusting items, and the items adjusted for are unchanged from the prior year and hence there is no impact on previously reported APMs

(a) Adjusted operating profit and Adjusted diluted EPS exclude the impact of adjusting items
(b) The share base used in Adjusted diluted EPS in the prior year is adjusted to capture the full impact of the share consolidation which followed the sale of our businesses in Thailand and Malaysia as if it took place at the start of the 2020/21 financial year As such Adjusted diluted EPS (adjusted for share consolidation) is presented on a basis other than in accordance with IAS 33
(c) The Group has changed its accounting policy for property buybacks in light of an evolution of accepted practice in relation to the application of IFRS 16 'Leases' to such transactions Comparatives have been restated for this change in accounting policy (see Note 1 on page 122 for further details)
(d) Net debt and Retail free cash flow exclude the impact of Tesco Bank
(e) Statutory diluted EPS from continuing operations

The Tesco Group.

Tesco is a British grocery retailer, with its headquarters in the United Kingdom. We serve millions of customers every week, in stores and online and provide additional services across the Tesco family.

Founded in 1919, Tesco began as a market stall in the East End of London. Today we operate [illegible] stores in five markets: the UK, Ireland, Czech Republic, Slovakia and Hungary, serving millions of customers every week in stores and online.

The Tesco group also includes Tesco Bank, Tesco Mobile, a network of One Stop convenience stores, the UK's leading wholesale business, Booker, and our data science business, dunnhumby.

Tesco is one of the leading food retailers in Europe. It serves customers in its stores as well as online.

www.tesco.com

dunnhumby is a global leader in customer data science, working with brands, grocery retail, retail pharmacy and retail financial services to provide technology, software and consultancy services.

www.dunnhumby.com

Booker is the UK's leading food and drink wholesaler, serving caterers, independent retailers and other businesses. Booker also owns symbol brands including Budgens, Londis and Premier.

www.booker.co.uk

Tesco Bank aims to make banking and insurance easier and better value for people who shop at Tesco. Founded in 1997, today the Bank helps more than five million customers manage their money every day.

www.tescobank.com

One Stop has been a subsidiary of Tesco since 2003, with convenience stores serving communities across the UK.

www.onestop.co.uk

Tesco Mobile offers supermarket value for more than five million UK customers. Established in 2003 as a joint venture between Tesco and O2, Tesco Mobile has grown into an award-winning network with more than 500 phone shops.

www.tescomobile.com

Our purpose

Serving our customers, communities and planet a little better every day.

A clear purpose unites the Tesco Group and supports our ambitions and commitments as we enter our next chapter. This year, we refreshed our purpose to reflect the dedication and passion that Tesco colleagues put in to serving customers, supporting local communities and the contribution we want to make to the wider world and beyond.

Our values

Our three values underpin our purpose, setting out how we work together as a team and guiding the decisions and choices we make across the Group.

1 No one tries harder for customers

We listen to our customers, our communities and each other, and use this information to make better decisions as a business. With the expertise and knowledge of our colleagues, we change, innovate and adapt to meet customer needs.

2 We treat people how they want to be treated

People will always be at the heart of Tesco, a place where everyone is welcome. An inclusive, supportive workplace for our colleagues, where they feel recognised and rewarded for the work they do and have opportunities to get on. A business where we build strong, long-term relationships with our suppliers and external partners. Respect, trust and understanding is in our culture.

3 Every little help makes a big difference

Help comes in all shapes and sizes. From supporting a local food bank, raising money in a sponsored charity walk, or delivering great service, our colleagues continue to make a difference to those around them. When we add up the many things we do at a local level, we make a big difference.

Serving our customers.

Tesco is a champion for customers. We provide brilliant, helpful service in every corner of our business, with products and services that are accessible for everyone.

Value

Our commitment to great value at Tesco is unwavering. Value of course includes price – but today, it also means more. It is the combination of price and quality across a wide range of healthy and sustainable products. Our three different product tiers – Exclusively at Tesco, Core and Finest – ensure everyone who shops with us can find the best value to suit them and removes reasons to shop elsewhere. In the UK, we offer Aldi Price Match, Low Everyday Prices and Clubcard Prices. We have extended Clubcard Prices to stores in Ireland and Central Europe and have also recently introduced Aldi Price Match in Ireland.

Quality

We are always looking at how we can keep making the quality of our products that little bit better, working with suppliers to sell fresh, seasonal produce and innovating to create new delicious ranges. Through our Quality Promise seal, customers can easily see in store our freshest and highest quality products. This year we have made mealtimes easier for customers with our new Wicked Kitchen meal deal, Fire Pit BBQ range and Jamie Oliver Traybake partnership. We have also extended Wicked Kitchen products to Booker retailers for the first time.

Convenience

The scale of our store and online network is unrivalled in the UK, enabling us to serve customers wherever, whenever and however they want. Our growing online offer serves more than 99% of UK postcodes and the launch of Tesco Whoosh enables us to capture the growing demand for rapid delivery, with similar trials taking place in Central Europe. In Ireland, we have agreed to acquire 10 Joyce's Supermarkets in Galway (subject to approval from the Competition and Consumer Protection Commission).

Service

Through the pandemic, our colleagues went above and beyond to serve customers. It is a testament to their hard work that customer satisfaction scores continue to increase. We are always looking for little helps to support our customers, including Changing Places facilities for those with complex disabilities, sunflower lanyards for non-visible disabilities and a permanent quiet hour for those who would benefit from a calmer shopping experience.

Voted Britain's Favourite Supermarket

7 years running

by customers in the Grocer Gold Awards.

Serving our communities.

We are empowering our stores, our colleagues and our customers to make a bigger difference locally and finding new ways we can all play our part.

Supporting local groups and projects

In all our markets, we operate community grant schemes, supporting thousands of charities and community organisations every year. Since 2016, we have awarded more than £93m of UK funding to more than 46,000 local community projects and charities. The Tesco Community Fund has donated €6m to more than 21,000 local projects in Ireland since 2014, and community groups across Central Europe have benefited from our You Choose, We Help grant programme.

Food redistribution

Every day, Tesco stores and distribution centres donate surplus food to local charities through our Community Food Connection scheme. This year, we donated 27.8 million meals from our UK business, 17.8 million in Central Europe, 4.1 million meals through Booker and 2.9 million in Ireland. We also partner with food banks and local charities through our in-store customer food donation points, and through our Food Collection programme.

Supporting communities globally

We help create jobs and opportunities for people and communities across the world. Our aim is that all the jobs throughout our supply chain are decent, fair and safe and that human rights are always respected. We take a zero tolerance approach to any breach of human rights. This year, we started working with our banana producers to close the living wage gap for workers. We responded quickly to the war in Ukraine, with our first donations of food, hygiene products and clothing leaving our depots in Hungary, Czech Republic and Slovakia just 48 hours after the conflict started.

Making Tesco a great place to work for all

Our colleagues are at the heart of how we serve our customers, communities and the planet a little better every day. We recognise our colleagues through highly competitive reward packages, offering skills training and flexibility, supporting their physical and mental wellbeing and building an inclusive culture where everyone feels truly welcome. We have committed to jumpstart the careers of more than 45,000 young people in the UK, providing skills through our apprenticeships, internships and graduate programmes as well as placements through the UK Government's Kickstart programme.

52.6 million

meals provided to local charities across the Group through our food redistribution programmes.

Serving our planet.

As a food industry, we need to find ways to feed our growing population more sustainably – using less land and fewer natural resources. For Tesco, this is crucial in order to retain the ability to serve customers affordable, healthy and sustainable food.

Greener energy and transport

We already use 100% renewable electricity in the UK and Europe and we are helping to create the UK's largest supermarket electric vehicle charging network, installing 2,400 charging points across our stores. By 2028, we have committed to making all our UK home delivery fleet fully electric. We are investing more in rail freight to make food transportation more sustainable and – in a UK first – we have introduced commercial fully electric HGV lorries.

Use of plastics and packaging

When it comes to plastic packaging, we are committed to our 4Rs strategy: Remove where we can, Reduce where we can't, Reuse more, and Recycle what's left. Since we launched our 4Rs strategy in 2019, we have removed more than 1.6 billion pieces of plastic. In our UK and Ireland stores, we have introduced soft plastic recycling facilities and launched a UK partnership with Loop to offer more sustainable packaging alternatives.

Supporting healthy, sustainable diets

Working in partnership with WWF, we are on a journey to halve the environmental impact of the average UK shopping basket – a partnership which has now been extended to Central Europe. In November 2021, we became proud signatories to WWF's Retailers' Commitment for Nature. Tesco is the UK's number one plant-based retailer, and we are aiming to increase the sales of our plant-based products by 300% by 2025 versus a 2018 baseline. We are also reformulating products to remove salt, fat and sugar from products without affecting taste. Since 2018, we have removed more than 59 billion calories from our products.

Reducing food waste

In our own operations, we have reduced food waste by 45% since 2016/17 and we are looking for new innovations to go further. For example, we have been working to explore how insects, like Black Soldier Fly larvae, could potentially be used as a replacement for meat-based protein in pet food or as a replacement for soy in chicken and fish meal.

2035

Committed to be carbon neutral in our own operations across the Group by 2035.

2050

Committed to achieve net zero emissions across our entire value chain by 2050.

Chairman's statement

Creating long-term sustainable value.

This has been an important year for Tesco. Not only have we managed the ongoing impact of the COVID-19 pandemic, but we have also been looking forward, setting out our new multi-year performance framework and the strategic priorities that will support us to deliver against it. I would like to thank every Tesco colleague in every market and every business, for their hard work and for never losing sight of our purpose and values.

Living our new purpose

Having a strong purpose is essential to the running of our business. It is what drives us forward and guides the decisions we make. Reflecting our commitment to the communities we serve and the wider environment, it is right that we have evolved our purpose: 'Serving our customers, communities and planet a little better every day'.

A recent example of this is in response to the war in Ukraine. It is deeply sad to see the impact on the people of Ukraine and our thoughts are with everyone affected. As a business, we responded quickly, leveraging our partnership with the British Red Cross to provide help where it was needed. Thanks to the generosity of our customers and colleagues, together we have raised almost £4m to help the Red Cross get vital support to those affected. While Tesco has no direct operations in either Russia or Ukraine, we are keeping a close eye on the evolving situation and its effect on the wider global economy.

Everyone plays an important role in delivering on this purpose. It guides the discussions we have as a Board and we have played an active role in supporting the work of the Executive team when it comes to key issues such as health and the environment. This year, we are introducing new remuneration performance targets specifically related to our progress on key sustainability measures. This means that 25% of the Performance Share Plan awards will depend on our progress on gender and ethnicity representation, carbon reduction and food waste reduction in our own operations, subject to approval at the AGM (see more on pages [illegible] to 87).

The Board continues to engage with stakeholders both inside and outside the business (see more on pages 20 to 22). As a business, we have a deep understanding of our customers and the expertise in our teams to help drive progress. For example, our team of chefs and product developers have been working to improve the health profile of our products without affecting taste as we work to increase the number of healthy products as a proportion of sales to 65% by 2025.

A new chapter

In October 2021, we set out the new strategic priorities and performance framework for the business (see pages 14 and 15). In this next chapter, Tesco will focus on driving greater value for all stakeholders by doing the basics brilliantly and leveraging our many unique advantages across the Tesco Group to enhance competitiveness, accelerate growth and generate cash.

We will also deliver ongoing capital returns to shareholders through our progressive dividend policy and share buyback programme. We have set a full-year dividend of 10.90p and a commitment to repurchase shares worth £750m over the next 12 months.

Strong growth

By remaining customer-focused at all times, Tesco has delivered a strong full-year performance, with Group sales increasing 2.5% at actual rates and adjusted operating profit reaching £2.8bn. The work we have done in the UK last year means we are winning customers from our competitors, with overall customer perception of the brand stepping forward once again across value and quality. Our Brand Index stepped forward by 5pts in the year, on top of exceptional growth last year.

This year has demonstrated the resilience of our supply chains and strong partnerships we have built with suppliers. Many businesses experienced disruption in their supply chains including from COVID-19, labour shortages and post-Brexit restrictions. These have all impacted the way we work, but thanks to extensive planning and an agile response, we were able to protect availability for customers.

Board changes

In January, we announced that Steve Golsby and Simon Patterson will retire from the Board at this year's AGM. Both Steve and Simon have made valuable contributions to the Tesco team over many years and I wish them all the best in the future. Steve Golsby will also step down from his role as Chair of the Remuneration Committee and will be succeeded by Alison Platt.

Looking ahead

On behalf of myself and the Board, I would like to thank colleagues across the Group for their continued commitment and hard work over the past 12 months. We have overcome many obstacles together and I am sure there will be more to come, but the new purpose and strategic priorities will steer us on the path of building a stronger and more sustainable business that we can continue to be proud of.

John Allan CBE
Non-executive Chairman
12 April 2022

A new chapter.

The momentum in our business is strong and with a refreshed purpose and new strategic priorities, there is energy and drive to keep growing and innovating.

This year, we have turned the pages on a new chapter. Our new purpose and strategic priorities will set us up to be even more competitive in the future, building on the fantastic work done to date.

I want to thank the Tesco team for their hard work and for the way colleagues have supported each other through the challenges of the last year. The culture within Tesco is one of our unique strengths, guided by our values that no one tries harder for customers, we treat people how they want to be treated and every little help makes a big difference.

Driven by our strengths

As we developed the plans that will enable our next chapter, we wanted to truly understand what our strengths are, how the market is moving and what we need to do to better serve customers in the future. The result is a new set of strategic priorities for the Group and a performance framework to help track our progress over the coming years. We have the right plans in place, and our colleagues have embraced them wholeheartedly.

Our new purpose

Tesco is more than a supermarket to its customers, and colleagues agreed that we needed to broaden our purpose for a world where our customers still expect us to serve them as shoppers, but also as contributors to their community and to the wider world.

We have therefore updated our purpose to be 'Serving our customers, communities and planet a little better every day'. The word 'customer' better encompasses how we serve people across the Tesco Group – from Tesco shoppers and Bank customers to Booker retail partners and dunnhumby's global clients. By acknowledging our communities and the planet within our purpose, we ensure they are factored into every decision we make.

With the COP26 Climate Conference hosted in Glasgow in 2021, we set out our own Climate Manifesto (Tesco PLC: A Better Basket). Tesco's journey on climate action started many years ago, but this year we have worked to be even more ambitious and accelerate our progress. Our UK target to be carbon neutral in our own operations by 2035 was this year extended to cover the whole Group and we committed to achieving net zero emissions across our entire value chain by 2050, including those generated by the products we sell and across our supply chains. Meeting these targets will be challenging. It will need transformational change as well as close collaboration with our suppliers and customers, but it is essential if we are to tackle the climate crisis (see more on page 40).

In February 2022, we were all deeply distressed to see the crisis unfold in Ukraine. Our hearts go out to everyone affected. We have been working alongside the British Red Cross to offer help in the most practical ways we can. Together with customers, we have raised almost £4m to the British Red Cross, as well as £500,000 to humanitarian organisations in Central Europe. We are also leveraging our distribution network in Central Europe to get supplies where they are most needed, supporting Ukrainian refugees to access Tesco jobs in all our markets, and removing fees from Tesco Bank transfers to Ukraine or Tesco mobile calls to Ukraine. We will continue to respond to the evolving situation.

Our strategic priorities

The new strategic priorities and performance framework for the Group are set out in more detail on pages 14 and 15.

Magnetic value for customers
Magnetic value is the combination of price, quality, range, customer experience – and it is also the work we do to bring value to communities and the planet more broadly, through our work on health and sustainability. This strategic priority is all about providing reliable value that removes customers' needs to shop elsewhere, combined with positive reasons to shop more with us.

I love my Tesco Clubcard
More than 20 million households have a Clubcard, and going forward, we will be making even greater use of insight to make the shopping experience more personalised and relevant. Combining Clubcard with our online grocery business, our nine million regular app users and the capability offered by dunnhumby, we have the opportunity to create additional value and increase loyalty.

Easily the most convenient
To be convenient now means serving customers wherever, whenever and however they want to be served. We believe we can do that better than anyone by leveraging our existing reach and strong network. We will continue to adapt, while at the same time seeking capital-light growth opportunities in the two key growth channels of online and convenience.

Save to invest
To give us the fuel to invest in our priorities and to offset inflationary pressures, we need to continue our longstanding approach of being as simple, agile and productive as we can be. We want to make sure we only spend money where it adds value for customers and, in total, we are aiming for around £1bn of savings across a range of areas over the next three years.

Taken together, these priorities will ensure we do the basics brilliantly, operate as efficiently as possible, embed sustainability in every decision we make and grow our business by building on our unique strengths. Our colleagues will be pivotal in delivering our strategic priorities and bringing them to life in a way that makes a difference for our customers and stakeholders.

Performance framework

To track our progress, we set out measures in a multi-year performance framework. We are seeking to grow the top line underpinned by increasing customer satisfaction and adopting a capital-light approach to driving convenience and online. We are aiming to grow, or at least maintain, market share in our core UK market. We are also seeking to grow absolute profit in quantum terms. We will target productivity savings to at least offset inflation in the medium term and ideally create headroom to reinvest into our other strategic priorities. By doing this, we are clear that we can generate between £1.4bn and £1.8bn of Retail free cash flow each year.

Significant progress

As we developed and set out our strategic priorities, we did not take our foot off the pedal for our customers. After a challenging few years, we know that rising inflation is really at the front of customers' minds. Our commitment to value is unwavering, and now more than ever, it is essential that customers can rely on Tesco for value. Through our powerful combination of Aldi Price Match, Low Everyday Prices and Clubcard Prices, we are making more products more affordable, in more places than anyone else in the market.

Clubcard remains a key driver of loyalty, used by more than 20 million UK households. 100% of UK promotions are through Clubcard Prices and we are bringing the benefits of the Tesco family to Clubcard holders, with Tesco Bank recently launching Clubcard Pay+, a new way to pay, save and pick up extra Clubcard points. As we aim to be even more convenient for our customers, we have grown our online businesses in every region and introduced rapid delivery in the UK through Tesco Whoosh, now available in over 200 stores.

We have also demonstrated innovation in the way we improve the quality and sustainability of our products. We have increased the number of vegetables in our ready meals, introduced sustainable packaging solutions including refillable cleaning products and, in partnership with WWF, launched the Tesco Innovation Fund, enabling start-ups to get vital seed funding for ideas that make food production more sustainable. I would like to thank our suppliers for embracing innovation with us and working towards an even stronger partnership. We are pleased that suppliers have voted Tesco top of the independent Advantage survey for six years running.

From a team perspective, I am delighted that Guus Dekkers, our Chief Technology Officer, has been appointed to the Executive Committee. As technology plays a more central role in our business, his appointment reiterates the growing importance we assign to technology and digitalisation going forward.

I am also delighted to welcome Emma Taylor to the Executive Committee as Chief People Officer. Emma has been promoted from her role as People Director UK & ROI and will take over from Natasha Adams as Chief People Officer. Natasha will stay on the Executive Committee, and relocate to Ireland in her new role as CEO of Tesco Ireland.

Well positioned to deliver for our stakeholders

For shareholders, our strong performance to date and our confidence in our ability to generate cash in the coming years have enabled us to announce the start of a share buyback programme that will balance the maintenance of a strong capital structure with returning surplus cash.

Recognised for our efforts on sustainability

Our sustainability efforts are grounded in doing the right thing for our customers, communities and the planet and we were pleased to be recognised with numerous awards this year. Highlights included qualifying for the Top 100 Stonewall Equality Index, being named the MSC Supermarket of the Year 2021 and achieving leading retailer status within the World Benchmarking Alliance Food and Agriculture Benchmark. In November 2021, we were proud to be awarded the Terra Carta seal in recognition of our leadership role in transitioning towards a net zero future.

Visit www.tescoplc.com/sustainability

We are also committed to our progressive dividend policy and I am pleased to pay a full-year dividend of 10.90p.

The work we have done this year and the progress we have made with our customers gives me confidence that we are on the right path to achieve sustainable growth in the future. Together, we will build on our success over the past year, sustain our position, deliver against our strategic priorities and in doing so, accelerate our momentum. Above all, we will make the most of our unique strengths and the fantastic team of colleagues helping us to serve our customers, communities and planet a little better every day.

Ken Murphy
Group Chief Executive
12 April 2022

Q & A with Ken.

What is your highlight this year?
We hosted an event for colleagues in September to talk about the new strategic priorities and purpose. During the Q&A session, the questions really struck me. Colleagues asked 'How can I get involved personally and make more of a contribution to my community and the planet?' or 'I have so many ideas – how can I share them?' I have been humbled by the positive engagement from colleagues and knowing they feel connected with the new purpose and strategy.

How are you embedding the new purpose across the business?
In lots of ways. It is a core part of delivering our strategy and it needs to happen at every level – from shop floor to boardroom. The Group Leadership Team was heavily involved in the journey as we set out our strategy and after we launched our purpose, myself, Jason Tarry and other Exec members travelled around the UK and Ireland to host townhall sessions with colleagues, to hear their feedback and respond to questions.

Why was it important to call out Communities and Planet in the purpose?
For a long time, Tesco has been an active member in local communities and our work to reduce our environmental impact started many years ago. We recognise that the future of our business depends not only on the actions we take, but also on the world around us. With the urgent need to tackle the climate crisis and address big social issues like food poverty and inclusion, it was right to reflect these commitments in our everyday decision making.

Why is there no Little Helps Plan report this year?
We want to seize the opportunity of the new purpose and strategy to reset our sustainability reporting and reflect the deeper integration of sustainability across our business and the needs of our stakeholders. So, from now on, we will report progress on our material sustainability issues within our Annual Report and provide comprehensive updates across the full breadth of sustainability issues on our dedicated online reporting hub. To find out more, please visit www.tescoplc.com/sustainability

What are Tesco's sustainability priorities and why?
We always listen to our customers, colleagues and wider stakeholders to understand which sustainability issues matter most and where Tesco can make the greatest difference and drive transformative change. In adopting the principles of double materiality, we have identified four broad issue areas we want to lead on: climate change; healthy, sustainable diets; packaging & waste; and diversity & inclusion.

Is Tesco doing enough to combat climate change?
As part of our commitment to be carbon neutral in our own Group operations by 2035 and across our entire value chain by 2050, we are working to drive improvements at every point in our food system – in our own operations, in our supply chain, and in our customers' homes. We know there is more to do and we are building decarbonisation pathways, identifying the actions required to achieve our net zero ambition.

What progress have you made towards your health targets?
We are constantly reformulating our products to improve the health profile and in the last year we have taken out a further 7.7 billion calories. Our new ranges make it easier for customers to eat more fruit and veg, such as our Meat & Veg range, but there's plenty more to do across our markets as we work towards our target to increase sales of healthy products. This year, performance has not progressed, as a result of some product consolidation to keep supply moving as well as the transfer of less healthy choices from hospitality to retailers.

What are the key priorities for the year ahead?
I'm excited about the momentum we are building. We have a formula that is working and that we can build on and accelerate. For me, it's about really making progress against those key strategic priorities. There's plenty of exciting innovation in the pipeline – in product development, channels and customer experience. For example, we are aiming to extend our Whoosh rapid delivery service to 600 Express stores by the end of the year.

How are you delivering value for shareholders?
From our performance this year, we're gaining share against all the key competitors. Customers are recognising the tangible improvements we're making in our offer, which is driving outperformance against the market. I believe that Tesco is an outstanding business and one that can create significant value for shareholders. How we use cash is incredibly important and we have taken great care to test every element of our capital allocation framework – refreshing our leverage target, the application of our dividend policy and launching our first share buyback. We have returned £500m of capital through our share buyback programme to date, and commit to a further £750m by April 2023.

How are you recognising the extraordinary efforts of colleagues this year?
Colleagues truly are at the heart of our business and their skills and capabilities have enabled us to deliver for our customers through the challenges of recent times. We recently reached an agreement with USDAW for a substantial increase in UK base pay – by 5.8% to £10.10 for hourly-paid store and customer fulfilment centre (CFC) colleagues. We have also announced a one-off thank you payment of 1.25% of annual earnings to hourly-paid store, CFC and customer engagement centre colleagues in the UK. This payment recognises the contribution of our colleagues and is part of a wider investment in making Tesco a great place to work, which includes supporting their physical and mental wellbeing, both in and out of work and building an inclusive culture where everyone feels welcome.

What is your outlook for the year ahead?
As we build on our momentum over the coming year, we believe that it's important to remain focused on championing great value. We expect to see a normalisation in customer behaviour as we come out of the pandemic, but the exact scale and timing of this is difficult to assess. We're also expecting continued cost inflation through the year. Overall, we expect to deliver retail adjusted operating profit of between £2.4bn and £2.6bn for FY 2022/23.

Our market context

Meeting the needs of the market.

Market drivers		How we are responding
Concerns over cost of living	As people in the UK face rising living costs, more customers are concerned about their finances, with 20% of UK customers saying they are financially worse off than this time last year.	For us, that means delivering the best quality at the best price is critical. Our commitment to value is unwavering, and our powerful combination of Aldi Price Match, Low Everyday Prices, and Clubcard Prices provides reliable value and removes reasons to shop elsewhere with Aldi Price Match featuring in 99% of customers' weekly shops in large stores.
Healthier mealtimes	The pandemic brought health to the front of mind for customers, but it also got more people cooking at home. There has been 10% growth in home meal occasions since 2020; that is half a billion more meals eaten at home. Our customers want to make healthy choices but we know that when it comes to choosing dinner for tonight, ease is still the number one driver.	This year, we launched a new campaign 'That's Dinner Sorted', including an easy traybake in partnership with Jamie Oliver – helping to feed families with easy, healthy and affordable meals. We have also launched our Meat & Veg range across 300 stores in the UK, with all products containing at least 30% vegetable content.
Doing my bit for the planet	This is a critical time for action on climate change and our customers agree. 90% of our customers want to lead more sustainable lives but they are also looking to organisations like Tesco to help them do that.	To help our customers shop more sustainably, we are taking action – including with our range of 450 plant-based products; our work to remove 1.6 billion pieces of plastic since 2019; our network of soft plastic recycling points; and our partnership with Loop to reuse packaging.
Personalised shopping experience	As retail technology becomes more sophisticated, the personalisation trend is accelerating. Research shows that 70% of UK consumers expect personalised experiences from brands they shop with and 54% expect to receive a personalised discount within 24 hours of interacting with a brand.	More than 20 million UK households have a Clubcard, and nine million access Clubcard via app. Initiatives like Clubcard Prices provide immediate reward for customer loyalty, with lower prices at the checkout. But there is more we can do. Going forward we will be making greater use of our Clubcard insights to offer enhanced and personalised rewards to our most loyal customers.
On demand	The pandemic accelerated a customer trend to online shopping, but more than that, as customer behaviour has transitioned to more hybrid routines and our lives blend between online and offline, the 'off button' is ever more elusive and convenience is key.	Tesco is well set up to serve customers wherever, whenever and however they want. With the largest network of stores, an online footprint that serves more than 99% of UK postcodes and new initiatives like Tesco Whoosh, Tesco has never been a more convenient place to shop.
Communities coming together	During the pandemic, customers spent more time at home and really valued their local communities as well as the businesses that made a positive contribution.	Tesco stores are more than just places where people buy food; they are critical local hubs, providing essential community services including 3,300 ATMs, 370 pharmacies, 200 opticians and 80 Post Offices. 72% of the population agree that a supermarket, like Tesco, is an important part of the community and we are doing everything we can to live up to that. This can be seen in our support for local groups and projects, our food redistribution schemes and the job opportunities we provide for our colleagues and in the broader supply chain.

Our strategic priorities.

Magnetic value for customers

Redefining value to become the customer's favourite

I love my Tesco Clubcard

Increase loyalty and access new sources of revenue

Principles

Magnetic value for customers

- Demonstrating value as the intersection between price, quality and sustainability
- Removing price as a reason to shop elsewhere
- Making high quality, healthy and sustainably sourced food easily available and affordable to everyone
- Making further improvements to our food quality by continuing to innovate with our supplier partners from farm to fork
- Working hard to reduce the environmental impact of both our own and our supplier partners' operations
- Continuing to make a positive contribution to the communities we operate in

I love my Tesco Clubcard

- Leveraging unique insight offered by one of the leading digital retail platforms in the UK
- Personalised offers for our most frequent Clubcard customers
- Delighting customers with a richer and more personalised shopping experience
- Incremental revenue opportunities with suppliers to help them to offer tailored and relevant products

Progress

Magnetic value for customers

- Strengthened value proposition: Aldi Price Match (650 lines), relaunched Low Everyday Prices (1,600 lines) and 100% of promotions are now on Clubcard Prices
- We launched over 300 new products in the year with a focus on quality. Tesco Finest is the UK's largest premium food brand, with sales up 9.3% in the last year
- Introduced our first plant-based meal deal with Wicked Kitchen
- Continue to offer healthy choices through reformulation
- Initiatives towards net zero include the launch of the first commercial electric HGVs in the UK, with pilots in Hungary and Czech Republic
- Removed 1.6 billion pieces of plastic and introduced soft plastic recycling in 900 UK stores, collecting more than 850 tonnes of soft plastic for recycling

I love my Tesco Clubcard

- Nine million customers now using Clubcard via app, up from around two million in 2020
- Clubcard Prices launched in Tesco Mobile and Tesco Bank in the UK, and extended to Ireland and Central Europe
- Launched Clubcard Pay+ to allow users to collect points on payments and to budget
- In-app personalised digital summary of customers' experience and value with Tesco trialled with one million customers
- Launched Tesco Media and Insights, powered by dunnhumby, the UK's largest closed loop grocery media and insight platform

Performance framework

The framework we will use to guide our actions and track our progress over the coming years

Drive top-line growth, underpinned by:

- Increasing customer satisfaction relative to the market
- Growing or at least maintaining our core UK market share

Grow absolute profits while maintaining sector-leading margins:

- Leverage assets efficiently across all channels
- Access new revenue streams across our digital platform
- Target productivity initiatives to at least offset inflation in the medium term

In doing so, generate between £1.4bn and £1.8bn Retail free cash flow per year

Easily the most convenient

Incremental capital-light growth

- Serving customers wherever, whenever and however they want to be served
- Supporting growth of our core online business
- Expanding convenience through capital-light opportunities to maximise return on its current strong growth
- Continued evolution of large stores as the backbone of online grocery business as we maximise our existing assets
- Test and learn from trials of new on-demand services to develop the right offer focused on convenience stores, to complement our existing online business

- Online sales remain significantly ahead of pre-COVID-19 levels; orders holding at c.1.2 million slots a week
- Three new urban fulfilment stores (UFCs) opened this year in Lakeside, Bradford and Horwich
- 102 new Click & Collect sites added in the UK
- Continuing to test and learn from on-demand with Whoosh now available from more than 200 stores
- Launched our frictionless store, GetGo in High Holborn
- Announced our intention to acquire 10 Joyce's Supermarkets in the Republic of Ireland, subject to approval from the Competition and Consumer Protection Commission

Save to invest

A cost-efficient retailer

- Our aim is to simplify, be more productive and reduce costs
- We want to at least offset inflation in the medium term and create headroom to fund investments
- Our target is to only spend money where it adds value for customers and will make a real difference

- Strong track record of savings delivery
- New three-year savings plan underway with a target of c.£1bn through four streams – goods & services not for resale (GSNFR), property, store and distribution operations, and central costs
- Announced removal of counters in 317 stores in February, repurposing space to better reflect customers' needs
- Simpler supplier arrangements and improved procurement processes underway for GSNFR

See pages 31 to 37 for details of our principal risks

Our Big 6 KPIs.

Grow sales

Why it is important

Sustainable growth in sales is important to our business model.

What we measure

Group sales is a measure of revenue excluding sales made at petrol filling stations. It demonstrates the Group's performance in the retail and financial services businesses by removing volatilities outside of the control of management, associated with the movement in fuel prices.

How we performed

Group sales rose 3% at constant rates, driven by continued growth in the UK and double-digit growth at Booker.

Group sales^

£54.8bn ▲ 3.0%[a]

(2021: £53.4bn)

Deliver profit

Why it is important

Delivering profitable growth is essential as we aim to create value for all stakeholders over the long term.

What we measure

Adjusted operating profit is the headline measure of the Group's performance.

How we performed

Adjusted operating profit was up 58.9% at constant rates to £2.8bn, reflecting strong sales performance, a reduction in COVID-19 costs and a profit at Tesco Bank.

Adjusted operating profit^

£2.8bn ▲ 58.9%[b]

(2021: £1.8bn)

Improve operating cash flow

Why it is important

Strong cash generation is an important part of our underlying philosophy as we manage our business.

What we measure

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

How we performed

Thanks to an improved profit performance, cash flow increased 22.5%.

Retail operating cash flow

£4.5bn ▲ 22.5%[c]

(2021: £3.6bn)

Customers recommend us and come back time and again

Why it is important

Customers are at the heart of everything we do, and customer satisfaction is an important driver of loyalty.

What we measure

Reflects the percentage of Fans minus Critics answering the question 'How likely is it that you would recommend Tesco to a friend or colleague?'

How we performed

Our net promoter score for the Group increased by three points to 18 points. Customers have recognised the way Tesco maintained good availability through industry challenges this year and maintained our commitment to offering value.

Group net promoter score

18 pts ▲ 3 pts[e]

(2021: 15 pts)

Colleagues recommend us as a great place to work and shop

Why it is important

When we get things right for our 345,000 colleagues, we make it even easier for them to do what they do best – serving our customers, communities and planet a little better every day.

What we measure

Our 'Great place to work' (GPTW) measure is the percentage of colleagues who agree or strongly agree with the statement 'I would recommend Tesco as a great place to work'.

'Great place to shop' is a net promoter score, answering the question 'I would recommend Tesco as a place to shop'.

How we performed

There has been a small decline in colleagues recommending Tesco as a great place to work and shop, but it remains high at 80.4%.

Recommend as a place to shop

41 pts ▼ (3) pts[f]

(2021: 44 pts)

Great place to work

80% ▼ (2) pts[f][g]

(2021: 82%)

Build trusted partnerships

Why it is important

Close and trusted partnerships with our suppliers allow us to source the best quality products for our customers at the best prices.

What we measure

Our supplier satisfaction measure reflects the percentage of suppliers across the Group (excluding Tesco Bank and Booker) who responded positively when asked 'Overall how satisfied are you with your experience of working with Tesco?' in our Supplier Viewpoint survey.

How we performed

Overall Group supplier satisfaction reached another record score of 86.4%. Over 93% of suppliers are satisfied with prompt payments and there has been significant improvement in suppliers agreeing with the statement 'Tesco listens to me, is open to change and new ideas'.

Group supplier satisfaction

86% ▲ 1 pts[f]

(2021: 85%)

[illegible]

Our business model

Our business model.

Unique combination of strengths

Understanding customers
We use our expertise to understand and meet our customers' needs better than anybody else.

Our colleagues
We have around 345,000 colleagues who all share our purpose and live by our values.

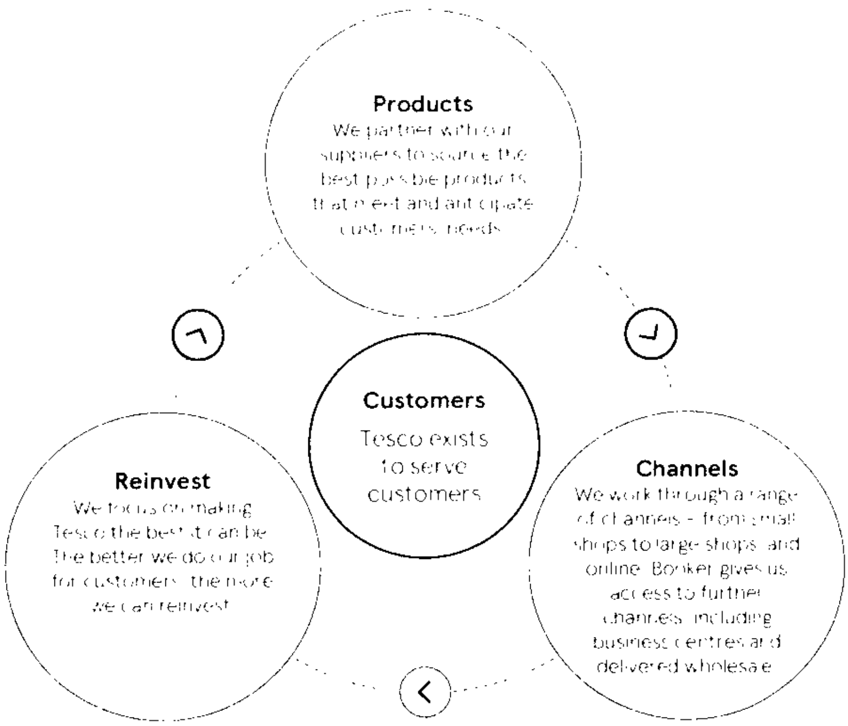
Scale and reach
Our unparalleled reach allows us to bring great quality products to more customers.

Own Brand products
We source quality products with expert teams and close supplier partnerships.

Services
Services such as mobile and banking focus on the needs of Tesco shoppers and enable us to earn and retain their loyalty.

Innovation
We encourage a culture of innovation so that our business remains at the cutting edge of new trends and demand.

Business model



To create value for all

Customers
Our business model allows us to bring our customers the very best products at the best possible prices, however they choose to shop with us.

Voted Britain's Favourite Supermarket* by customers for

7 years

Colleagues
The expertise of our colleagues drives every part of our business model – from our store teams to product development.

Colleagues feel able to be themselves at Tesco without fear of judgement

83%

Suppliers
Our conversations with suppliers focus on delivering great value, great quality products for our customers. When we get it right, our business grows.

Record level of Group supplier satisfaction

86%

Communities
Our commitment to our customers goes beyond stores and into every community we serve.

Number of meals donated across the Group

52.6m

Planet
At this critical time for our planet, we are working to reduce our impact on the planet and help suppliers and customers to do the same.

Reduced Scope 1 & 2 GHG emissions vs 2015 baseline

52%

Shareholders
We work to maintain a strong and efficient balance sheet, invest for growth and deliver improved returns for our shareholders.

Full year dividend

10.90p

* [illegible]

A great place to work.

Our hardworking colleagues are the drivers of our success and we are committed to ensuring everyone feels welcome and has the support they need to be at their best.

It's part of what makes Tesco a great place to work and has been recognised in our annual colleague engagement survey, Every Voice Matters, where 81% of colleagues would recommend us as a great place to work. For details of our engagement with colleagues see our stakeholder section on page 30.

Health, safety and wellbeing

The health, safety and wellbeing of our 345,000 colleagues is a top priority for us. This year, we have enhanced sick pay for colleagues who have needed to self-isolate and we collaborated with USDAW on the campaign to protect retail workers from abuse, threats and violence and invested in new equipment to keep our colleagues safe, including body-worn cameras and safety screens.

We continue to enhance our health and wellness programme, ensuring colleagues get the support they need, when they need it. This year has continued to present challenges for our colleagues but their dedication to serving our customers, communities and supporting each other has remained steadfast with 1,000 colleagues volunteering to become wellbeing champions. These champions promote and encourage wellbeing activities in the workplace and help colleagues find wellbeing resources and support.

As we embrace a wellbeing culture, we have expanded measures to ensure everyone feels supported, both physically and mentally. The updated employee assistance programme in the UK gives colleagues, and their immediate family, access to even more emotional and practical support services including counselling, life coaching and mindfulness programmes. In Ireland, we launched mental health first aid courses for managers and at Tesco Bank we rolled out our 'be well building blocks' to all colleagues, helping to drive better working practices and healthy living advice for our colleagues.

In February 2022 we partnered with Vitality, a points-based reward programme, to help our colleagues be at their best in and outside of work. The easy to use app and inspiring programme of events supports colleagues across the UK to get more active and healthy, making long-term positive habits easier to achieve. To date, over 11,000 colleagues have enrolled.

Investing in our people

People are at the heart of our business and ensuring they succeed helps us succeed. We are pleased to have reached an agreement with USDAW in the UK that sees a substantial increase in base pay, an extension of the colleague discount and new training and technology to upskill colleagues, giving them more flexibility in their work and potential to access more hours.

From July 2022, store and customer fulfilment centre (CFC) colleagues will see their hourly rates increase 5.5% from £9.55 to £10.10. This represents a £200m investment in our colleagues, the biggest single-year investment in pay for hourly-paid store and CFC colleagues in at least a decade. In addition, we have made a commitment to all colleagues who are contracted to fewer than 16 hours per week that if they would like more contracted hours, they will always be offered any vacant hours first, before we recruit externally.

When we do recruit externally, all new contracts will be offered at a minimum of 16 hours per week, with the exception of our lowest turnover stores and where candidates want fewer contractual hours.

This new deal recognises the contribution our colleagues make to our business at a time when household budgets are under pressure. We also want to equip colleagues with future-fit skills to help them continue to build long-term careers. We are investing more in skills and training in areas of growth and ensuring colleagues can increase their earning potential by accessing work where and when they want it. This means all colleagues will gain the skills to serve on a checkout or self-service, pick an online order and replenish the shelves, if applicable in their local store or CFC.

Store colleagues have access to a digital learning platform that contains modules that allow them to build broad, future-fit skills across each of the core areas of our store operation. This new learning journey allows colleagues to access a broader range of career and learning opportunities at Tesco. We are also continuing to support our colleagues to build their digital confidence. Since October 2020, we have invested in 795 future skills partners who have supported our colleagues in UK stores to develop their digital skills and confidence, access information about their work and pay using self-serve technology.

This year, we continued to roll out our manager development programme, with 774 in the UK and 334 in Tesco Ireland attending courses on being an inclusive manager, adaptable thinking and mastering conversations. In Central Europe, 314 store managers and deputy managers participated in our manager capability training.

We are proud to be the UK's largest private sector employer and this year, hired colleagues across all of our business areas, including 35,000 temporary colleagues in the UK over Christmas. Over the course of 2021, Tesco Ireland hired over 4,000 colleagues and Central Europe recruited nearly 6,000 colleagues into the business.

Brexit-related restrictions along with COVID-19 presented challenges requiring a more agile and innovative recruitment approach. In the UK we have added 960 HGV drivers via recruitment, conversion courses and apprenticeships. During 2021, across the Tesco Group we welcomed around 7,000 new home delivery drivers in response to increased demand for home shopping during COVID-19 restrictions.

Jobs, skills and training for young people

With people under 25 disproportionately affected by the pandemic, it has never been more important to support young job seekers from all backgrounds. The first cohort of our six-month work placement in support of the Government's Kickstart scheme completed in May 2021, 47% of those completing the placement went on to secure permanent employment.

In 2021, we extended our partnership with leading youth charity The Prince's Trust for a further five years with the ambition of reaching 200,000 young people most in need. As part of this partnership, we are committed to helping 45,000 young people to build their employability skills and jumpstart their careers over the next year, whatever their background, through permanent employment opportunities, pre-employment and work placement programmes, apprenticeships, internships and graduate programmes and wider partnerships.

Diversity and inclusion

Being an inclusive place to work and shop is embedded in our values – we treat people how they want to be treated. We firmly believe that embracing diversity and building inclusion into everything we do is key to our business success and helps us connect with the communities we serve. We strive to make progress year on year and are proud that 8?% of colleagues feel they can be themselves without fear of judgement.

To support our aspirations and commitment to equality of representation, we focus on attracting, developing and retaining diverse talent. This year, this has included:

- Setting targets for gender and ethnic representation among our top global leaders.
- Through our diverse talent communities, supporting high potential colleagues from ethnically diverse backgrounds with career planning, sponsorship and networking. We have seen 2?% of the community promoted to the next work level.
- Alongside demanding more diverse shortlists for senior vacancies, we have implemented positive changes to our hiring practices, resulting in 54% of external senior appointments and 38% of internal promotions at Director level being female this year.
- Continuing to work with Arrival Education with our business leaders participating in a mentoring programme to understand the barriers faced by diverse talent and take action to drive meaningful change, giving mentees inspiration, insight and helping build skills.
- Relaunching our Tesco Health services and Workplace Adjustment services, making it simpler for colleagues to access support as well as guidance for managers to help give them the confidence to offer the right support or options for their team. To date, 1,621 colleagues have used the service.
- At Tesco Bank, launching a diversity and inclusion training module with completion rates of 95% and 98% for the colleague and manager modules respectively.

Our colleague networks, with executive-level sponsorship, continue to underpin our strategy, offering colleague support while also acting as strategic business advisors to ensure we are creating an environment where diverse talent can thrive. In the UK, we have colleague networks on Armed Forces, Disability, LGBTQ+, Race & Ethnicity, Women at Tesco and Parents & Carers at Tesco. In September 2021, Tesco Ireland launched six new Colleague Communities: Enabled at Tesco, Gender Balance at Tesco, LGBTQ+ at Tesco, Carers at Tesco, Young People at Tesco, and Ethnicity at Tesco.

Alongside our colleague networks, we continue listening to and elevating diverse voices, utilising our colleague engagement survey Every Voice Matters results and feedback from executive-led colleague listening sessions, to understand where we can do more.

We know that Black voices are under-represented throughout society, and aggregated terms such as BAME do not help drive progress. We are a proud signatory of the 'If Not Now, When?' campaign and in October 2021 publicly reported progress against the six commitments to Black inclusion. Our Black colleagues have set up a dedicated Black Voices Advisory Group to act as a consultative body and sounding board to test ideas and contribute to improving the experiences of colleagues at Tesco. They have also created a Black action plan which has launched across the business to achieve fair and equitable representation across four key pillars: talent, commercial, brand and community.

Collecting diversity data from our colleagues will enable us to identify additional areas for improvement, make more inclusive decisions, and support our ambition to participate in voluntary reporting, such as the ethnicity pay gap. While we recognise that this is a choice for our colleagues, we continue to encourage colleagues to participate in our 'This is Me' campaign.

Working with the Black British Network

"Hearing the real lived experiences of Black people, and the commitment from our leaders to role model and support the change that we need to see to break down the huge barrier of systemic racism, is such a positive start on this journey."

Linda Begnor
Assistant Merchandise Planner

We are committed to creating a more inclusive workplace and remain focused on increasing the racial diversity of our business. In April 2021 we became a founding member of the Black British Network, which focuses on understanding the disparities and challenges faced by the Black community. Black colleagues, allies and leaders have attended a series of round table discussions with other organisations.

This year we are reporting the diversity of our top global leaders for the first time, alongside our Board, and have set new targets that 35% of our global leaders will be female and 14% will be from an ethnically diverse background by 2025. We will report our progress annually.

	Male		Female		Ethnically diverse	
Board	9	69%	4	31%	[illegible]	15%
Executive Committee	9	69%	4	31%	[illegible]	[illegible]
Top global leaders	209	74%	74	26%	29	[illegible]
All colleagues	16?,272	47%	18?,4??	53%	Not reported	

Stakeholders.

We strive to create value for each of our stakeholders. In addition to those detailed below, as part of our purpose and strategic priorities, we also factor communities and the planet into every decision we make.

Customers

For 7 years
voted Britain's Favourite Supermarket* by customers

Priorities

Our customers want high-quality, healthy, sustainable, affordable food, produced with respect for farmers and suppliers, which they can buy easily. They also want an excellent service and for all our colleagues to be treated fairly.

Company engagement actions and outcomes

- Our Insight team listens to customers every day to gain a deep understanding of customers' needs, which helps us to make the right decisions as a business.
- We strengthened our price position. To offer customers great value in challenging times, we have invested in Aldi Price Match, Low Everyday Prices, and Clubcard Prices – a powerful combination that removes reasons to shop elsewhere.
- As part of our focus on quality, we have launched over 300 new products and improved the quality of over 500 lines.
- Over 59 billion calories have been removed from our products since 2018 through reformulation, as part of our commitment to increase sales of healthy products to 65% by 2025.
- Introduced rapid delivery through Tesco Whoosh, a 60-minute grocery delivery service, which is now in 200 stores.
- Clubcard Prices were introduced in Ireland and Central Europe and also for Tesco Mobile customers. Tesco Bank introduced Clubcard Pay, a new way to pay, save and pick up points.
- We made our stores less stressful, helping customers with disabilities by the introduction of a permanent quiet hour.
- We supported catering customers as restrictions lifted on the hospitality industry.
- Introduced checkout-free store using the 'GetGo' app giving customers the opportunity to shop and pay without scanning a product or using a checkout.

How the Board engaged

The Board uses customer engagement surveys and data analysis to listen to customer views and act on what is most important to deliver the best possible products and services. We work hard to make sustainable products accessible and affordable for all. The Board receives regular updates on customer insights to understand our customers' needs.

Colleagues

83%
Colleagues feel able to be themselves at Tesco without fear of judgement

Priorities

Colleagues want to be treated fairly and feel supported with their health, safety and wellbeing while being recognised and rewarded for their contribution.

Company engagement actions and outcomes

- We have reached a deal with USDAW in the UK and announced a £200m investment in our colleagues, through a substantial increase in base pay from July 2022, an extension of the colleague discount and new training and technology to upskill colleagues, giving them more flexibility in their work and potential to access more hours.
- We continue to support young people with jobs and skills and extended our partnership with the Prince's Trust for a further five years with the ambition of reaching 200,000 young people most in need.
- Offering training and development opportunities to colleagues to allow them to build future fit skills, including building their digital confidence with future skills partners.
- In February 2022, we placed 2nd on Stonewall's Top 100 Workplace Equality Index which shows our commitment to being an LGBTQ+ inclusive employer. We are founding members of the Black British Network which was set up to help bring about lasting systemic change for the Black community. Following a series of powerful round tables, our colleagues were inspired to create a Black Action Plan, driven by colleagues from our Black Advisory Group.

How the Board engaged

Through 'Every Voice Matters' colleague engagement surveys, regular pulse surveys, twice-yearly colleague engagement panels and regular updates on people initiatives, the Board has the oversight to understand what is important to our colleagues and what is required to create the workforce of the future. More information on our Colleague Contribution Panels can be found on page 57.

Suppliers

86%

Record level of Group supplier satisfaction

(based on Viewpoint Survey)

Priorities

Suppliers welcome our collaborative approach. We work to develop long-term partnerships to unlock value, differentiation and innovation for our customers and support our ambitions to reduce the environmental impact of our supply chains.

Company engagement actions and outcomes

- The past two years have been challenging for our supply base managing the impacts of Brexit and the pandemic. During this time we sought to work even more collaboratively with our supply base, leveraging our partnerships, capability and multi-channel scale to protect availability and value for customers.
- Our buying teams host regular seminars and updates with their supplier partners and our leadership team hosts a supplier event in partnership with the Institute of Grocery Distribution every year. In addition, we welcomed our largest suppliers to a climate summit in October 2021. Our suppliers have played a key role in helping us work towards our ambitious target of removing plastic.
- We have published a full list of our first-tier food and grocery/non-food suppliers. Transparency across our supply chains plays a key part in our human rights strategy and allows us to continually improve the way we source our products.
- We launched the 'Tesco Media and Insight powered by dunnhumby' platform to help suppliers and agencies engage more effectively with customers and understand their evolving needs.
- Our incubator programme, now in its fifth year, supports small, entrepreneurial brands to succeed in Tesco through nurturing and coaching to drive forward an innovation pipeline.

How the Board engaged

Our suppliers can provide feedback through day-to-day contact with senior management, our product teams and through our Supplier Viewpoint feedback channel. The Board receives regular updates on our supplier strategy and engagement, and understands the key sourcing issues. The Corporate Responsibility Committee has responsibility for and oversight of our sustainability strategy.

Shareholders

10.90p

Full-year dividend

Priorities

Our shareholders want to work with us to achieve positive long-term, sustainable growth and returns. We aim to secure these outcomes by delivering our strategy and business objectives.

Company engagement actions and outcomes

- Shared the multi-year performance framework we will use to guide our actions and track our progress in creating sustainable, long-term value for every stakeholder, and the four strategic priorities that will enable delivery against the framework.
- Refreshed our capital allocation framework including our intention to pay a progressive dividend.
- Launched an ongoing share buyback programme, with the first tranche of £500m in shares to be repurchased by no later than October 2022.
- Proposing a final dividend of 7.70p per share taking the full-year dividend to 10.90p per share.
- Completion of the sale of the Poland business in March 2021.
- Issued our second sustainability-linked bond of £400m.
- In June 2021 we held a virtual shareholder engagement event allowing shareholders to ask questions of the Board ahead of the 2021 AGM.
- The Group Company Secretary's team engages with private shareholders. Through Equiniti, our registrars, we provide services to private shareholders.
- Senior management maintains regular dialogue with our relationship banks.

How the Board engaged

Members of the Board, senior management and Investor Relations hold regular meetings with existing and potential institutional investors and analysts to understand their views and policies. The Board receives regular updates to ensure it considers the views of shareholders to provide expected returns, ensure sufficient capital is retained to invest in the customer offer and grow the business in line with strategy.

Matters considered during strategic review

During the year, the Board undertook a review of our purpose and strategic priorities. The Board's focus was on strengthening our customer proposition and creating long-term, sustainable value for all of Tesco's stakeholders. We have developed a multi-year performance framework supported by four strategic priorities which will be reported on twice-yearly. Through the process, the Board considered each of our stakeholder groups focusing on the following priorities:

Customers: increasing customer satisfaction by providing them with what they want and need from Tesco. We aim be the easiest place to shop for healthy and sustainable foods. Through our digital platforms we have the ability to manage vast amounts of data, gain unique insights and respond quickly and effectively to a changing market. With market-leading positions across all channels, we have the insight to be able to understand and anticipate customers' changing needs and provide them with a richer experience.

Colleagues: building on the experience, expertise and commitment of our colleagues. This is essential in the delivery of our strategic priorities. The Board will continue to assess and monitor the culture in which our colleagues operate, to ensure it is a conducive working environment and a place to develop and grow.

Suppliers: building on the strong relationships developed with our supplier partners. This will allow us to further improve the quality of our products through joint innovation. Through our sustainability strategy, which underpins our refreshed purpose, we will work with our suppliers to reduce the environmental impact of both our own and their operations.

Shareholders: growing our market share and delivering improved returns. Our refreshed capital allocation framework will allow us to reinvest in the business, maintain a solid balance sheet, consider organic growth opportunities, pay a progressive dividend and return surplus cash to shareholders.

Communities: continuing to make a positive contribution to the communities we serve and society more broadly, which is reflected in the evolution of our purpose. We are working hard to make a bigger difference locally through supporting charities and community organisations, including through our surplus food redistribution programmes, helping to create jobs and opportunities to progress and making Tesco a great place to work for all.

Section 172 statement

The needs of our stakeholders and the consequences of any decision in the long term are taken into consideration by the Board when making decisions. Details of our key stakeholders are set out on pages 20 and 21. In addition, the interests and views of Tesco pensioners and our relationship with regulators and NGOs are taken into consideration. The differing interests of stakeholders are considered in the business decisions we make across Tesco at all levels and are reinforced by the Board setting the right tone from the top.

In performing their duties during the year, the Directors have had regard for the matters set out in Section 172(1) of the Companies Act 2006. Examples of how the Directors have oversight of stakeholder matters and had regard for these matters when making decisions is included throughout this Annual Report.

s172 factor	Relevant disclosures	Page
Consequences of any decisions in the long term	Chairman's statement	9
	Group Chief Executive's review	10
	Key performance indicators	16
	Our business model	17
	Engaging with our stakeholders	20
	Financial review	23
	Principal risks and uncertainties	31
	Longer term viability statement	38
	Chairman's governance letter	46
	Board leadership and company purpose	55
	Board leadership: Board activity	58
	Directors' remuneration report	74
Interests of the employees	Our purpose in action	6
	Group Chief Executive's review	10
	Key performance indicators	16
	Our business model	17
	Our colleagues	18
	Engaging with our stakeholders	20
	Colleague engagement	57
	Board leadership: Board activity	58
	Directors' remuneration report	74
Foster business relationships with suppliers, customers and others	Our purpose in action	6
	Group Chief Executive's review	10
	Meeting the needs of the market	13
	Our strategic priorities and performance framework	14
	Key performance indicators	16
	Engaging with our stakeholders	20
	Board leadership: Board activity	58
Impact of our operations on the community and environment	Our purpose in action	6
	Group Chief Executive's review	10
	Principal risks and uncertainties	31
	Climate	40
	Task Force on Climate-related Financial Disclosures	41
	Board leadership: Board activity	58
	Corporate Responsibility Committee	66
Maintain a reputation for high standards of business conduct	Our purpose	5
	Our purpose in action	6
	Our strategic priorities and performance framework	14
	Key performance indicators	16
	Engaging with our stakeholders	20
	Principal risks and uncertainties	31
	Non-financial information statement	45
	Chairman's governance letter	46
	Division of responsibilities	53
	Board leadership and company purpose	55
	Board leadership: Board activity	58
	Composition, succession and evaluation	61
	Nominations and Governance Committee	63
	Directors' remuneration report	74
Acting fairly between members	Engaging with our stakeholders	20
	Board leadership: Board activity	58
	Audit Committee	68

Financial review

Group review of performance.

Group sales[illegible] increased by +3[illegible] at constant rates, with growth across all regions on top of exceptionally strong sales last year. Revenue increased by +6.4[illegible] at constant rates including fuel sales growth of +48.1% as customers travelled more following the easing of government restrictions. While two-year like-for-like[illegible] fuel sales growth was negative at (6.4)%, this primarily reflects lower demand in the first half, with fuel sales ahead of pre-pandemic levels by the end of the year.

Group adjusted operating profit[illegible] grew by +58.9[illegible] at constant rates, reflecting the strong sales performance across the retail businesses, a reduction in COVID-19 related costs and a return to profitability in Tesco Bank. These benefits were partially offset by inflationary pressures in the cost base, particularly in distribution costs. Group statutory operating profit, which includes adjusting items related to the costs of historical shareholder litigation claims, grew by +65.5[illegible].

Finance income and finance costs reduced year-on-year primarily due to fair value remeasurement gains related to the mark-to-market movement on inflation-linked swaps, which were a £12[illegible]m benefit this year compared to a £(214)m charge in the prior year. The reduction in our share of profit from joint ventures and associates was principally due to profit from Tesco Underwriting being recognised within Tesco Bank operating profit following its full acquisition in May. The increase in tax this year primarily reflects higher levels of both retail and Tesco Bank operating profit, in addition to the revaluation of deferred tax relating to the announced change in the UK corporation tax rate from 19% to 25%, effective 1 April 20[illegible].

Our adjusted diluted EPS[illegible] rose by +88.8[illegible], reflecting the increase in retail and Tesco Bank operating profit and a reduction in net finance costs. We have proposed a final dividend of [illegible] pence per ordinary share, taking the full year dividend to 10.90 pence per ordinary share, an increase of 19.1% year-on-year.

Net debt[illegible] reduced by £1.4bn year-on-year, primarily driven by strong free cash flow generation. Retail free cash flow[illegible] increased by £0.9bn year-on-year due to higher retail operating profits, the elimination of UK pension contributions (following the £2.5bn one-off contribution last year from the Asia disposal proceeds) and a working capital benefit from higher sales. These benefits were partly offset by an increase in capital expenditure. The Net debt/EBITDA ratio was 2.5 times at the year end, compared to 3.3 times last year.

Further commentary on all of these metrics can be found below and a full income statement can be found on page 116.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group sales (exc. VAT, exc. fuel)[d]	**£54,768m**	**£53,445m**	**2.5%**	**3.0%**
Fuel	£6,576m	£4,442m	48.1%	48.1%
Revenue (exc. VAT, inc. fuel)	**£61,344m**	**£57,887m**	**6.0%**	**6.4%**
Adjusted operating profit[e]	**£2,825m**	**£1,788m**	**58.0%**	**58.9%**
Adjusting items	£(265)m	£(241)m		
Group statutory operating profit	**£2,560m**	**£1,547m**	**65.5%**	
Net finance costs	£(542)m	£(937)m		
Joint ventures and associates	£15m	£26m		
Group statutory profit before tax	**£2,033m**	**£636m**	**219.7%**	
Group tax	£(510)m	£(104)m		
Group statutory profit after tax	**£1,523m**	**£532m**	**186.3%**	
Adjusted diluted EPS[illegible]	21.86p	11.58p	88.8%	
Statutory diluted EPS	19.64p	5.58p	252.0%	
Dividend per share	**10.90p**	**9.15p**	**19.1%**	
Net debt[b] [f]	**£(10.5)bn**	**£(12.0)bn**		
Retail free cash flow[f]	**£2.3bn**	**£1.3bn**		
Capex[f]	**£1.1bn**	**£1.0bn**		

[illegible]

Segmental review of performance
Sales performance: (exc. VAT, exc. fuel)[d]

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROI	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK & ROI	**£49,984m**	**2.2%**	**8.8%**	**2.3%**	**2.6%**
Central Europe	**£3,862m**	**2.9%**	**2.5%**	**(0.0)%**	**3.7%**
Retail	**£53,846m**	**2.3%**	**8.3%**	**2.2%**	**2.7%**
Bank	[illegible]			[illegible]	[illegible]
Group Sales	**£54,768m**	**2.3%**	**8.3%**	**2.5%**	**3.0%**
Fuel	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group Revenue	**£61,344m**	**5.9%**	**6.4%**	**6.0%**	**6.4%**

Further information on sales performance is included in supplementary information starting on page 204.

Adjusted operating profit[e] performance

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK & ROI	£2,481m	[illegible]	35.4%	4.40%	+94bps
Central Europe	£168m	[illegible]	[illegible]	[illegible]	[illegible]
Retail	**£2,649m**	**34.9%**	**35.8%**	**4.38%**	**+95bps**
Bank	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group	**£2,825m**	**58.0%**	**58.9%**	**4.61%**	**+152bps**

Further information on operating profit performance is included in Note 2 starting on page 140.

UK & ROI overview

In the UK & ROI, one-year like-for-like sales increased by +2.2% on top of exceptional growth last year, driven by a sharp recovery in Booker catering sales, strong non-food sales in the UK & ROI and sustained market outperformance in the UK. Two-year like-for-like sales increased by +8.8%, with all businesses growing versus pre-pandemic levels.

UK & ROI adjusted operating profit was £2,481m, up +35.4% at constant rates as higher sales volumes and lower COVID-19 costs year-on-year offset underlying operating cost inflation.

In the UK, we continued to incur COVID-19 related costs, primarily relating to colleague absence for those colleagues who were sick or self-isolating and additional costs related to sustained elevated online sales. Total COVID-19 related costs were £(220)m, significantly less than the £(892)m incurred last year. Our assumption for the current year is that we will incur a significantly lower level of COVID-19 costs as colleague absence rates return to pre-pandemic levels. Around £(60)m of residual costs will remain, relating to increased online demand, however we do not plan to report these separately going forwards.

Adjusted operating margin was up +94 basis points versus last year. Our core UK business benefited from strong growth in higher margin clothing sales, including an increase in full price sales from 77% last year to 86% this year, and Booker profitability recovered as catering demand increased following the reopening of the hospitality sector. Lower COVID-19 related costs were partly offset by our investments in value and service. We were able to more than offset inflationary pressures in the cost base this year with cost savings related to further simplifying our operating model.

UK – strong market outperformance, with sales growth on a one-year and two-year basis

One-year like-for-like sales grew by +0.4%, including growth of +1.2% in the first half before sales declined by (0.5)% in the second half as we traded over elevated demand during the second and third national lockdowns in the prior year. First half growth was driven by non-food and increased levels of discretionary spend compared to last year, when footfall in stores was lower and customers prioritised spending on food during the first national lockdown. In the second half, food sales declined as customers were able to return to eating more out of home, and reflected very strong comparatives last year including double-digit growth in the fourth quarter.

We sought to mitigate as much price inflation as possible, ending the year with our strongest relative price position in over six years. Our ongoing value investments and a higher promotional participation meant we saw sales deflation for the year as a whole, but with inflation increasing during the second half of the year, as the grocery market faced significant cost pressures.

Two-year like-for-like sales grew by +8.2%, with growth both in stores and online, and in food and non-food. Average basket sizes across the business remained higher than pre-pandemic levels, partially offset by fewer shopping trips.

Our relentless focus on providing customers with great value and service resulted in consistent outperformance against the market throughout the year. Our UK market share reached its highest level in over four years and we saw 23 consecutive periods of net switching gains. We gained market share in the year on both a value and volume basis, with volume growing ahead of value as we did everything we could to minimise inflation for our customers. We have market leading two-year improvements in brand index (+413bps), value (+483bps) and quality (+385bps) perception. During the year we extended Clubcard Prices to all Express stores, increasing Clubcard sales penetration by +21%pts year-on-year in those stores. Clubcard penetration in large stores was 86%, increasing by +7%pts year-on-year.

Online one-year like-for-like sales declined by (6.5)% as some customers chose to return to shopping in our stores as the pandemic eased. Online sales participation was 14% across the full year, with a peak during the first quarter of 15.5%. Two-year like-for-like sales grew by +66.1% and sales participation in online was 5% higher than before the pandemic, driven by both a sustained increase in orders and higher basket sizes. We have added £2.3bn of online sales and fulfilled an average of over 1.2 million customer orders per week versus 0.7 million pre-pandemic.

We have included the table below to aid understanding of our online performance.

[illegible]	[illegible]	[illegible]	[illegible]
UK sales	£5.9bn	[illegible]	[illegible]
Orders per week	1.22m	[illegible]	[illegible]
Basket size	£94	[illegible]	[illegible]
Online % of UK food sales	14.0%	[illegible]	[illegible]
[illegible]	683k	[illegible]	[illegible]
[illegible]	510	[illegible]	[illegible]

We opened three urban fulfilment centres (UFCs) in the year including Lakeside in the first half and Bradford and Norwich in the second half, taking the total number to four, with pick rates around four times higher than store-based picking. The fifth UFC is expected to open next month in Rutherglen.

Following encouraging initial trials, we expanded 'Tesco Whoosh', our 60-minute delivery service, from 50 stores in the first half to over 200 stores by the end of the year. We offer customers more than 1,200 products, including fresh food, and delivery slots are available between 9am and 10pm every day. We plan to roll the service out to 600 stores over the coming year. In October we launched a pilot with Gorillas in our Thornton Heath store in London, offering customers grocery deliveries within ten minutes on a range of 2,000 products.

Convenience one-year like-for-like sales declined by (0.6)%, with a decline in the first half partially offset by growth of +4.0% in the second half as footfall in city centres recovered. Growth was particularly strong in our 'on the go' stores and in 'food to go' and 'food for tonight' ranges, where sales grew by +34.9% and +21.6% respectively. Sales in our stores in neighbourhood locations declined following very high levels of demand last year as customers shopped closer to home.

Non-food sales growth was particularly strong this year, driven mainly by Clothing +19.4% as customers spent more time shopping our ranges in-store and we responded to changing customer demand in our ranges. Growth was particularly strong in Womenswear and Kids, and benefited from a rebalancing of space between Clothing and General Merchandise, now completed in 116 of our large stores, making Clothing more of a destination shop and making our food-adjacent General Merchandise ranges simpler and easier to shop. Food sales were marginally behind last year, down (0.4)%, driven mainly by lower demand in those categories which benefited from elevated levels of in-home consumption last year, including meat, fish & poultry, and grocery. Demand for plant-based products continues to grow at pace with sales of plant-based meat alternatives growing by 130% since our 2018 baseline. We expanded our plant-based ranges further in the year, launching an additional 173 products, including our Wicked Kitchen meal deal in January on a two-year basis. Total 'UK like-for-like' sales grew across all categories, with a particularly strong contribution from food.

We rolled out soft plastic recycling facilities across all of our large UK stores and launched an innovative Reuse proposition in 10 stores as we continue to tackle plastic waste. We removed an additional 600 million pieces of plastic from our packaging this year, taking the cumulative total pieces of plastic removed over the past two years to 1.6 billion. We removed a further 7.7 billion calories from our own brand ranges as part of our work towards achieving 65% of our sales from healthy products by 2025. Our 'Buy One to Help a Child' campaign – where we gave a donation for every piece of fruit and vegetables purchased across our stores and online – provided FareShare with 3 million meals' worth of food to help charities and community groups.

In September, we announced accelerated climate ambitions, bringing forward our Group own operations net zero target to 2035. We also launched a new goal to be net zero across our entire value chain by 2050, aligned to a 1.5°C pathway. We continued to roll out electric online delivery vans, set up new renewable energy projects and launched our first two electric HGVs in our distribution operations this year. We also launched our sustainability-linked supply chain finance programme and issued our second sustainability-linked bond. In November, we were delighted to be awarded the Prince of Wales's Terra Carta Seal in recognition of our commitment to and momentum towards a climate and nature-positive future.

ROI – one-year LFL (2.9)% reflecting higher demand last year; +10.6% growth on a two-year basis

One-year like-for-like sales declined by (2.9)% as we traded over exceptional COVID-19 demand last year. The COVID-19 impact was particularly strong in ROI as the restrictions on hospitality were in place for a longer period than in the UK. Despite the exceptionally strong comparative, ROI like-for-like sales grew by +0.3% over Christmas and we gained market share in the fourth quarter. Two-year like-for-like sales grew by +10.6%, reflecting a significant benefit from retained levels of higher in-home consumption.

Our online business grew by +5.1% on a one-year basis and now represents 8% of our sales. We have maintained a leading position with a market share of 59%. We expanded our online offering further this year, rolling out an additional 37 Click & Collect locations and increasing our total slot capacity by 6.9%.

We launched Aldi Price Match in ROI in January, with hundreds of products matched. We have started to roll out Clubcard Prices, following successful Clubcard Prices Events. We also focused on making shopping easier for customers, including rolling out 'Scan As You Shop' to all large stores.

We announced an intention to acquire 10 Joyce's Supermarkets in Galway in November. The acquisition is subject to the approval of the Competition and Consumer Protection Commission.

BOOKER – strong sales growth on both a one-year and two-year basis

		[illegible]	
	Sales	One-year	Two-year
Retail	**£4,651m**	**0.7%**	**19.3%**
Retail ex. Tobacco	*£2,631m*	*[illegible]*	*[illegible]*
Tobacco	*£2,020m*	*[illegible]*	*[illegible]*
Catering	**£2,866m**	**56.1%**	**(1.6)%**
Catering ex. BFL	*£1,687m*	*[illegible]*	*[illegible]*
Best Food Logistics (BFL)	*£1,179m*	*[illegible]*	*[illegible]*
Total Booker*	**£7,755m**	**15.3%**	**11.9%**

* [illegible]

Booker delivered double-digit like-for-like sales growth on both a one-year and two-year basis. One-year growth of +15.3% was driven by a sharp recovery in catering sales as hospitality outlets reopened, with a strong contribution from Best Food Logistics, the majority of whose customers are fast-service restaurants. Two-year catering sales declined by (1.6)% in total, impacted by the phased reopening of the hospitality sector in the first half. In the second half, catering sales were ahead of pre-pandemic levels, with growth of +9.6% supported by strong execution and competitive pricing.

In the retail business, one-year like-for-like sales grew +0.7%, primarily due to inflation in tobacco driven by annual duty increases. Retail sales excluding tobacco were marginally lower than last year as we lapped a strong uplift in neighbourhood-based convenience stores as customers shopped closer to home. Despite supply chain challenges, we delivered a resilient performance and gained new customers. Two-year retail like-for-like sales grew +19.3%, driven by strong customer retention.

CENTRAL EUROPE – growth across all channels and categories on a one-year and two-year like-for-like basis

Like-for-like sales grew by +2.5% on a one-year basis and by +2.5% on a two-year basis, with growth across all channels and categories. Growth was particularly strong in Slovakia and Hungary and in our compact hypermarket and supermarket formats as customer footfall improved and we were able to offer our full range following non-food selling restrictions last year. Trading conditions were more challenging in the Czech Republic due to non-food sales restrictions in the first quarter.

Non-food sales grew by +13.3%, with strong growth in both Clothing and General Merchandise. We saw a particularly positive customer response to our seasonal events. Food sales grew by +1.0%.

Customer net promoter score improved significantly across all markets year-on-year, driven by improvements in the shopping trip, with scores almost doubling by the end of the year for the region as a whole. We continued to strengthen our value proposition in the region, including the launch of Clubcard Prices Events in Slovakia and Hungary. Clubcard penetration increased during these events as customers accessed *market-leading prices*. Following the success of these initial events, we will expand Clubcard Prices to all markets and categories in the current year.

Central Europe adjusted operating profit was £[illegible]m, an increase of +41.1% at constant rates. Adjusted operating profit growth was driven by strong sales, lower COVID-19 related costs and higher margins from more full-priced non-food sales.

We have agreed the sale of 17 malls and one retail park in Central Europe. The transaction is expected to complete in the first half of the current year, generating proceeds of c.£200m and resulting in a c.£(12)m impact to adjusted operating profit in the current year, driven by a reduction in mall income. We will continue to operate the Tesco hypermarkets in the malls on a long-term leasehold basis.

TESCO BANK – year-on-year profit increase reflecting prior year COVID-19 impact on potential bad debts

	This year	Last year	Change
Revenue	**£922m**	**£735m**	**25.4%**
Adjusted operating profit/ (loss)	**£176m**	**£(175)m**	**n/m**
Lending to customers	*£6.5bn*	*£6.4bn*	[illegible]
Customer deposits	£6.3bn	£5.[illegible]bn	[illegible]
Net interest margin[a]	[illegible]	4.[illegible]%	[illegible]
Total capital ratio[b]	[illegible]	28.5%	[illegible]

(a) [illegible]
(b) [illegible]

Revenue grew by +25.4%, due to the benefit of the full acquisition of Tesco Underwriting which completed in May 2021. Revenue excluding Tesco Underwriting declined by (9.4)%, primarily as a result of lower income from unsecured lending due to lower average balances as customers paid down their debt during the pandemic or increased savings buffers which reduced the need for new credit. We did however see a strong recovery in credit card customer spending levels and in new business unsecured lending volumes.

ATM transactions increased by 13.6% year-on-year as cash usage recovered post lockdown. Travel Money continued to be impacted by the pandemic and international travel restrictions, although we saw an encouraging increase in demand at the end of the year as restrictions eased.

Tesco Bank adjusted operating profit was £176m, including a £[illegible]m contribution from Tesco Underwriting being fully consolidated. The significant recovery reflects the charge last year related to an increase in the provision for potential bad debts which accounted for the anticipated macroeconomic impact from COVID-19. We released part of this provision in the second half as the macroeconomic outlook improved and customer defaults remained low. We then recognised a separate provision in the second half to reflect the increased risk associated with cost of living pressures.

The Bank's balance sheet remains strong and we continue to have sufficient capital and liquidity to absorb changes in both regulatory and funding requirements. In recognition of the sharp recovery in profitability in the year, the Bank paid a dividend of £87m to the Group. This comprises the typical annual £50m dividend for the 2021/22 financial year and a catch-up of £37m in relation to the reduced payment of £13m in the prior year.

Tesco Bank won 'Best Overall Provider' at the 2021 YourMoney Awards, in recognition of the quality of our customer service and competitive pricing of our products. We introduced a number of new products and services for customers this year, including Clubcard Pay+ in January. We also expanded our offer with the relaunch of travel insurance. Since August, all new and renewing Tesco Bank car and home insurance policies are being underwritten by Tesco Underwriting following the completion of its acquisition in May.

Adjusting items in statutory operating profit

	This year	Last year
Litigation costs	£(193)m	£(92)m
Property transactions	£(18)m	£20m
Net impairment reversal of non-current assets	£115m	£(15)m
Amortisation of acquired intangible assets	£(76)m	£(76)m
Restructuring provision	£(44)m	
Acquiescence fee income	£26m	
Disposal of China associate	£15m	-
Fair value less cost of disposal movements on assets held for sale	£(16)m	
Impairment charge on Tesco Bank goodwill	-	£(295)m
UK – ATM business rates	-	£(15)m
Booker integration costs	-	£(25)m
GMP equalisation	-	£(9)m
Employee share scheme	-	£(14)m
Total adjusting items in statutory operating profit	**£(265)m**	**£(241)m**

Adjusting items are excluded from our adjusted operating profit performance by virtue of their size and nature to provide a helpful alternative perspective of the year-on-year performance of the Group's ongoing trading business. Total adjusting items in statutory operating profit in the year resulted in a charge of £(265)m, compared to a charge of £(241)m in the prior year.

In September 2020, two claimant law firms issued proceedings against us in relation to the overstatement of expected profit announced in 2014. These claims have now been settled and we have recognised an adjusting charge of £(193)m. The settlement of these claims was paid in full in the year, £(105)m in the first half and £(88)m in the second half. This cash outflow is presented within adjusting cash items. Given that the legal timeframe for bringing a claim has now elapsed, no further related claims can be brought by shareholders.

We recognised an adjusting credit of £72m related to the profit generated on disposal of properties in the year. The majority of the property profits recognised related to the sale of our Fenny Lock distribution centre which generated proceeds of £146m and a £63m profit on disposal.

During the year, the Group also recognised a net impairment charge of £(115)m on non-current assets. This includes £(62)m required as a result of the Group's acquisition of our partner's stake in The Tesco Sarum Limited Partnership joint venture which brought into full ownership 11 stores. The remaining charge largely reflects normal fluctuations in store-level performance, property fair values and changes in discount rates, as well as any specific store closures.

Amortisation of acquired intangible assets is excluded from our headline performance measures. We incurred a charge of £(76)m in the period, which primarily relates to our merger with Booker in March 2018, which resulted in the recognition of £758m of intangible assets.

Restructuring provisions of £(44)m were recognised in the second half relating to operational restructuring changes announced in February 2022 as part of our 'Save to Invest' programme.

We received software licence fee income of £26m from services provided to CP Group following the sale of our businesses in Asia.

Further detail on adjusting items can be found in Note 4 starting on page 136.

Joint ventures and associates

Our share of post-tax profits from joint ventures and associates was £15m compared to £26m in the prior year. The year-on-year reduction was primarily due to profits from Tesco Underwriting Limited now being recognised in Tesco Bank adjusted operating profit following its full acquisition in May 2021 and a reduction in profits generated by our Trent Hypermarket Limited joint venture in India due to the adverse trading impacts of COVID-19 in the year.

Net finance costs

	This year	Last year
Net interest on medium term notes, loans and bonds	**£(208)m**	**£(218)m**
Other interest receivable and similar income	£9m	£15m
Other finance charges and interest payable	£(39)m	£(31)m
Finance charges payable on lease liabilities	£(405)m	£(446)m
Net finance costs before net pension finance costs and fair value remeasurements of financial instruments	**£(643)m**	**£(680)m**
Fair value remeasurements of financial instruments	£123m	£(214)m
Net pension finance costs	£(22)m	£(43)m
Net finance costs	**£(542)m**	**£(937)m**

Net interest on medium-term notes, loans and bonds was £(208)m, down £10m year-on-year. The reduction in finance costs from bond maturities, tenders and new debt issuances at lower rates of interest was largely offset by interest payable on the £1,453m of net debt we acquired with The Tesco Property (No. 2) Partnership in September 2020 and with the £1,585m of debt acquired with The Tesco Sarum Limited Partnership in December 2021. The acquisition of The Tesco Sarum Limited Partnership brings into full ownership 11 stores and resulted in a reduction in the lease liability of £355m.

The derecognition of lease liabilities related to these property buybacks and the reducing nature of our total lease liability over time is the primary driver of the £41m reduction in finance charges payable on lease liabilities year-on-year.

A non-cash fair value remeasurement credit of £123m primarily related to the mark-to-market movement on inflation-linked swaps driven by the impact of an increase in expected future inflation rates. These swaps eliminate the impact of future inflation on the Group's cash flows in relation to historical sale and leaseback property transactions.

Net pension finance costs of £(22)m decreased by £21m primarily driven by a reduction in the pension deficit following the £2.5bn one-off contribution made in the prior year from the proceeds from the sale of our businesses in Thailand and Malaysia. We expect net pension finance income of £10m in the current year as a result of the closing IAS 19 pension surplus.

In February, we exercised the option to buy back our partner's equity in the Tesco Dorney Limited Partnership property joint venture. We expect the transaction to complete towards the end of our 2022/23 financial year, bringing seven large stores back into full ownership. This will result in annual cash rental savings of c.£30m and a c.£0.3bn increase in net debt, comprising a c.£0.7bn impact on borrowings, partially offset by a c.£0.4bn reduction in lease liabilities. Following this transaction, we will have five UK property JV structures still in place, from a peak of 13 structures in 2015. These five remaining structures contain property worth £3.2bn and debt of £2.1bn, with £1.9bn of associated lease liabilities on our balance sheet. The three largest of our remaining property JVs are with the Tesco Pension fund.

Further detail on finance income and costs can be found in Note 5 on page 137, as well as further detail on the adjusting items in Note 4 on page 136.

Group tax

	This year	Last year
Tax on adjusted profit	£(602)m	£(249)m
Tax on adjusting items	£92m	£145m
Tax on profit	**£(510)m**	**£(104)m**

Tax on adjusted Group profit was £(602)m, £(353)m higher than last year, reflecting higher levels of both retail and Tesco Bank operating profit, in addition to a one-off charge related to the revaluation of deferred tax, following the announced increase in the corporation tax rate in the UK from 19% to 25%, effective 1 April 2023.

The effective tax rate on adjusted Group profit was 27.8%, higher than the current UK statutory rate of 19%, primarily due to the revaluation of deferred tax. The banking surcharge levied on Tesco Bank profit and depreciation of assets which do not qualify for tax relief also increased the tax rate.

We expect an adjusted effective tax rate of between 21% and 22% in the current financial year. We forecast our adjusted effective tax rate to increase to around 26% from our 2023/24 financial year driven by the increase in the UK corporation tax rate in April 2023. Further detail on Group tax can be found in Note 6 on page 138.

Total Group cash tax paid in the year was £(199)m on a continuing operations basis, which included £(152)m of tax paid in the UK. Tax paid in the year was £(29)m higher than in the prior year, primarily due to higher levels of retail and Tesco Bank operating profit. This was partly offset by prior year tax losses and a benefit from the super-deduction allowance on certain capital investments, introduced in the Chancellor's budget in March 2021, along with £120m in relation to the £2.5bn one-off pension contribution made in the prior year, the relief for which is required to be spread over four years for tax purposes.

Financial review continued

Earnings per share

	2021/22	2020/21
Adjusted diluted EPS	21.86p	11.58p
Statutory diluted earnings per share	19.64p	[illegible]
Statutory basic earnings per share	19.86p	[illegible]

[illegible]

Adjusted diluted EPS was 21.86p (2020/21: 11.58p), +88.8% higher year-on-year, as the recovery in retail and Tesco Bank profits, the drivers of which are described more fully in the Group performance review section above, more than offset the higher tax charge.

Statutory diluted earnings per share was 19.64p (2020/21: 15.58p), +26.2% higher year-on-year. In addition to the recovery in adjusted operating profit, we saw a significant reduction in the net finance charge due to an offsetting credit from fair value remeasurement of financial instruments, the drivers of which are described in the net finance costs section. These benefits more than offset a higher charge related to adjusting items and a higher tax charge in year, driven by higher adjusted operating profit.

Discontinued operations

We completed the sale of our business in Poland to Salling Group A/S in March 2021, generating proceeds of £122m and a loss on disposal of £12.3m.

Following the sale of Homeplus for £4.2bn in 2015, we received legal claims from the purchasers. Although the majority of the claims were dismissed, some findings of liability were made. On 17 September 2021, a Final Award to the purchasers of £119m in damages, interest and costs was granted. An adjusting charge increasing the provision held by £3.3m was recognised in the year. The total cash payment of £119m was made in the second half.

Further information on discontinued operations is included in Note 7, starting on page 140.

Dividend

Last year we held the full-year dividend in line with the 2019/20 financial year to recognise the strong cash generation of the business, despite the significant operating profit impact from the COVID-19 pandemic. This represented an exception to our dividend policy and resulted in a dividend per share which exceeded 50% of adjusted diluted EPS.

We propose to pay a final dividend of 7.70 pence per ordinary share, taking the full-year dividend to 10.90 pence per ordinary share, including the payment of an interim dividend of 3.20 pence per ordinary share in November 2021. This year's final dividend is +19.1% higher than last year, reflecting the increase in retail and Tesco Bank adjusted operating profit and the impact from last year's policy exception. It is our intention to pay a progressive dividend going forward – i.e. we aim to grow the dividend per share each year, broadly targeting a pay-out of around 50% of earnings.

The proposed final dividend was approved by the Board of Directors on 12 April 2022 and is subject to the approval of shareholders at this year's Annual General Meeting. The final dividend will be paid on 24 June 2022 to shareholders who are on the register of members at close of business on 20 May 2022 (the record date). Shareholders may elect to reinvest their dividend in the dividend reinvestment plan (DRIP). The last date for receipt of DRIP elections and revocations will be 7 June 2022.

Summary of total indebtedness (excludes Tesco Bank)

	2021/22	2020/21	Movement
Net debt before lease liabilities	£(2,570)m	£(3,449)m	£879m
Lease liabilities	£(7,946)m	£(8,506)m	£560m
Net debt	**£(10,516)m**	**£(11,955)m**	**£1,439m**
Pension deficit (net of deferred tax)	£(242)m	£(1,004)m	£762m
Total indebtedness	**£(10,758)m**	**£(12,959)m**	**£2,201m**
Net debt/EBITDA	**2.5x**	**3.3x**	
Total indebtedness ratio	**2.5x**	**3.6x**	

Total indebtedness was £(10,758)m, down £2,201m year-on-year, primarily driven by strong free cash flow generation leading to a reduction in net debt (net of dividends paid) and a £762m reduction in the IAS 19 pension deficit.

Lease liabilities were £(7,946)m, down £560m year-on-year, largely due to the derecognition of £355m relating to the 31 stores we took back into full ownership following the purchase of our partner's stake in The Tesco Saturn Limited Partnership. We also derecognised £120m of lease liabilities relating to our Polish business following the sale of the business to Salling Group A/S in March 2021.

The acquisition of our partner's stake in The Tesco Saturn Limited Partnership increased net debt by c.£300m, including £585m of borrowings acquired and £64m of derivatives, net of a reduction in the related lease liabilities.

Pension liabilities significantly decreased during the year, primarily due to an increase in discount rates driven by higher corporate bond yields, partially offset by underlying market movements in inflation rates and gilts. The pension assets increased year-on-year due to strong investment returns. As a result, we carried a net IAS 19 pension surplus (post-tax) at the end of the year of £[illegible]m, compared to a net deficit of £(1,004)m last year. The Group IAS 19 pension surplus is disregarded in total indebtedness and only pension schemes which are in a net deficit position are considered.

We had strong levels of liquidity at the end of the year of £3.0bn and our £2.5bn committed facility remained undrawn. Our committed facility currently matures in September 2024 and we have the option to extend this by a further year. The rate of interest payable on this facility is linked to three of our sustainability commitments. As we delivered those sustainability targets, we achieved the corresponding margin reduction in the year. In October, we issued our second sustainability-linked bond raising £400m at a low rate of interest. This was issued to refinance a bond which was approaching maturity and the refinancing will result in an annual interest saving of £18m.

Our net debt to EBITDA ratio was 2.5 times, down from 3.3 times at the prior year end and within our targeted range of 2.8 to 2.3 times. The year-on-year improvement represents both an increase in our retail EBITDA due to higher sales and lower COVID-19 costs, and a reduction in net debt before lease liabilities driven by strong free cash flow generation. The total indebtedness ratio was 2.5 times compared to 3.6 times last year.

Fixed charge cover was 3.5 times this year, compared to 2.9 times last year, reflecting a reduction in net finance costs, lease interest payments, lease principal payments and higher retail EBITDA.

Summary retail cash flow

Our retail free cash flow APM definition was updated at the interim results this year to provide a better view of operational cash performance and excludes cash flows related to acquisitions and disposals, property transactions and adjusting cash items. We continue to fully disclose these lines but they do not form part of the retail free cash flow APM.

The following table reconciles Group adjusted operating profit to retail free cash flow. Further details are included on page 2[illegible].

	[illegible]	[illegible]
Adjusted operating profit	**£2,825m**	**£1,788m**
Less Tesco Bank adjusted operating profit/(loss)	[illegible]	[illegible]
Retail adjusted operating profit	**£2,649m**	**£1,963m**
Add back: Depreciation and amortisation	[illegible]	[illegible]
Other reconciling items	£6[illegible]m	[illegible]
Pension deficit contribution	[illegible]	[illegible]
Decrease in working capital	£5[illegible]m	£4[illegible]m
Retail cash generated from operations before adjusting items	**£4,769m**	**£3,677m**
Cash capex	[illegible]	[illegible]
Net interest	[illegible]	[illegible]
Interest related to Net debt (excl. lease liabilities)	£(239)m	[illegible]
Interest related to lease liabilities	[illegible]	£(44[illegible])m
Tax paid	[illegible]	[illegible]
Dividends received	[illegible]	[illegible]
Repayments of obligations under leases	[illegible]	[illegible]
Own shares purchased for share schemes	£(44)m	[illegible]
Retail free cash flow	**£2,277m**	**£1,340m**
Memo:		
Acquisitions & disposals	[illegible]	[illegible]
Property proceeds & purchases	£2[illegible]m	[illegible]
Cash impact of adjusting items	£(316)m	[illegible]

Retail free cash flow increased by £937m year-on-year to £2,277m, driven by higher retail adjusted operating profit, a reduction in the pension contribution, a benefit from lower working capital and an increase in the dividend received from Tesco Bank following its return to profitability this year.

Following a £2.5bn one-off contribution towards the pension deficit in the prior year, using the proceeds from the sale of our businesses in Thailand and Malaysia, UK pension contributions were eliminated. We expect an annual benefit of c.£260m in retail free cash flow as a result of lower pension deficit contributions. The pension cash outflow of £[illegible]m in the year mainly relates to Booker pension scheme.

Our total working capital inflow was £501m, driven by the sharp recovery in fuel volumes and Booker's catering business in the first half as travel and hospitality sector restrictions were significantly fewer than at the end of the prior year. In the second half, working capital was broadly neutral, as the seasonal unwind we would normally see following peak trading over the summer was offset by strong UK sales and higher fuel payables due to both higher volumes and cost price inflation.

Cash capex increased by £[illegible]m year-on-year as we opened more stores in the UK than in the prior year as a result of COVID-19 and continued to expand our online proposition across the UK & ROI businesses.

Interest paid related to net debt (excl. lease liabilities) of £(239)m was £[illegible]m higher year-on-year. The benefit of bond buybacks and refinancing at lower rates of interest was more than offset by the impact of borrowings acquired as part of The Tesco Property (No. [illegible]) Limited Partnership from September 2020 and The Tesco Sarum Limited Partnership from December 2021. Interest paid related to lease liabilities decreased by £4[illegible]m year-on-year, primarily due to a reduction in the total lease liability following the derecognition of the liabilities related to these properties.

Cash tax paid in the year was £(1[illegible])m compared to £(16[illegible])m last year. The increase reflects higher retail adjusted operating profits year-on-year, which was partially offset by prior year tax losses and a benefit from the super-deduction allowance on certain capital investments, which was introduced in the Chancellor's budget in March 2021. We also continue to receive tax relief in relation to the £2.5bn one-off pension contribution made in the prior year. This amounted to £120m for the full year.

We saw a net cash outflow of £(44)m related to the purchase of our own shares, which includes £(91)m of shares purchased in the market to offset the dilution from the issuance of new shares to satisfy the requirements of share schemes and a £47m cash inflow related to proceeds from colleague share saving schemes. The net impact was £(78)m higher than the prior year, driven by the phasing of purchases to satisfy current year maturities. This will lead to a significant reduction in the net spend in the current year.

Cash flows related to acquisitions and disposals, property transactions and adjusting cash items are now excluded from our simplified definition of retail free cash flow.

The inflow from disposals in the year of £122m includes the proceeds from the sale of our business in Poland to Salling Group A/S, which completed in March 2021.

We generated a net £228m from property transactions, which includes £308m generated from the sale of properties, net of an outflow of £(80)m related to property buybacks. We disposed of our Fenny Lock distribution centre in the second half for proceeds of £146m and generated £109m from the sale of properties in Poland which were not included in the corporate transaction with Salling Group A/S. We bought back one Extra store in Bury for £(37)m and paid cash consideration of £(43)m to buy back a full stake in The Tesco Sarum Limited Partnership.

The cash impact of adjusting items was £(316)m, of which £(212)m related to the settlement of shareholder litigation claims and a legal claim from the purchasers of our Homeplus business during the period.

Financial review continued

Capital expenditure and space

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Capital expenditure	**£963m**	**£875m**	**£91m**	**£85m**	**£47m**	**£55m**	**£1,101m**	**£1,015m**
Openings (k sq. ft.)	[illegible]	[illegible]	[illegible]	-	-		[illegible]	[illegible]
Closures (k sq. ft.)	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]	[illegible]
Repurposed (k sq. ft.)		-	[illegible]	[illegible]			[illegible]	[illegible]
Net space change (k sq. ft.)	**34**	**23**	**(96)**	**(55)**	**-**	**-**	**(62)**	**(32)**

[illegible]

Capital expenditure (capex) shown in the table above reflects expenditure on ongoing business activities across the Group, excluding property buybacks.

Our capital expenditure for the year was £1,101m, £86m higher year-on-year, which primarily relates to the ongoing investment in our online proposition and the opening of new Tesco Express and One Stop stores in the UK. We opened a further three UFCs in the UK and rolled out more delivery vans and an additional 37 Click & Collect sites in ROI. We also purchased an additional 20 electric delivery vans and two electric HGVs in the UK as we continue to work to reduce emissions from our own operations.

We opened two superstores in the UK, with sites in Mablethorpe and Wolverhampton, and a further 21 Tesco Express sites, which was slightly fewer than expected. We expect to open 65 Tesco Express stores in the current year.

We expect 2022/23 full year capital expenditure to be at the top end of our £0.9bn to £1.2bn guidance range.

Statutory capital expenditure of £1.8bn includes £0.6bn relating to the buyback of one UK Extra store in Bury and The Tesco Sarum Limited Partnership property joint venture referred to above.

Further details of current and forecast space can be found in Supplementary information starting on page 205.

Property

	UK & ROI	Central Europe	Group	UK & ROI	Central Europe	Group
Property – fully owned						
Estimated market value	£16.6bn	£1.6bn	£18.1bn	£15.9bn	£2.0bn	£17.9bn
NBV	£15.1bn	£1.4bn	£16.5bn	£14.8bn	£1.7bn	£16.5bn
% net selling space owned	56%	68%	59%	54%	7?%	59%
% property owned by value	58%	64%	58%	57%	63%	58%

[illegible]

The estimated market value of our fully owned property as at the year end increased by £0.2bn to £18.1bn. The market value of £18.1bn represents a surplus of £1.6bn over the net book value.

Our Group freehold property ownership percentage by value was in line with the prior year at 58%. In December, we completed the purchase of our partner's 50% stake in The Tesco Sarum Limited Partnership, bringing back into full ownership seven sites. This acquisition contributed to a 1% increase in the percentage of fully owned properties in the UK & ROI and will deliver an annual cash rental saving of c.£30m. We also repurchased one Extra store in the UK.

In Central Europe, the reduction in the market value of fully owned property year-on-year reflects the reclassification of a number of mall properties which are held for sale. In the year, we released £109m of proceeds through the disposal of properties in Poland which were not included as part of the corporate sale.

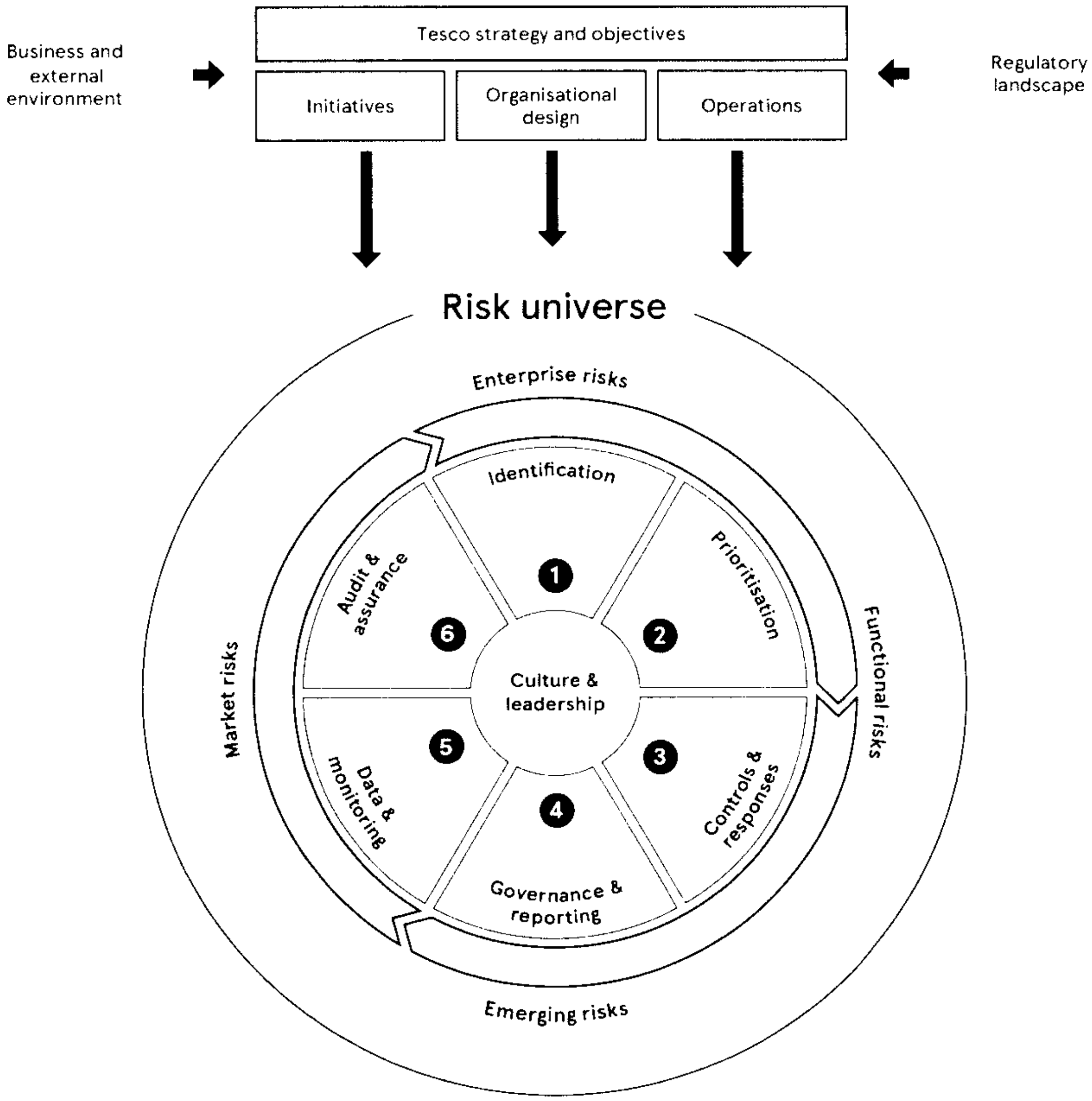
Principal risks and uncertainties

Managing our risks.

Effective risk management is core to our management practices that help deliver our strategy and our commitments to our customers, colleagues, community and the planet. We are focused on conducting our business responsibly, safely and legally, while making risk-informed decisions when responding to opportunities or threats that present themselves. With the leadership of the Board and the Executive Committee, and guided by our risk appetite on a risk-by-risk basis, we understand, prioritise and manage our risks. Our risk management framework, which we have further enhanced this year, enables us to undertake this exercise with structure and rigour.

Risk management framework (RMF)

The diagram below defines our RMF, showing our approach to understanding and defining Tesco's risk universe. Our framework is supported by our refreshed risk methodologies, which enable us to clearly identify, prioritise and monitor our risks through a set of enhanced risk identification, categorisation and prioritisation mechanisms. Our framework builds on [illegible] linked to our risk appetite and improved risk reporting. Culture and leadership are at the heart of our methodology, with a clear tone from the top on the importance of risk management.



Principal risks and uncertainties continued

Risk identification and prioritisation

A complete view of our risk universe starts with the analysis of our business, the external environment within which we operate, the regulatory landscape and our internal operations. This includes the impacts on and of our strategic initiatives, governance and processes. We identify and assess risks at the Group (enterprise), functional and market or business unit level, along with horizon scanning for emerging risks. To enable better prioritisation and decision making, the identified risks are categorised into one or more of the following risk types: strategic, change, operational, financial or compliance.

Management assesses the risks on a continuous basis, taking into account the risk to, and from, our colleagues and our operations, as well as our impact on society and the environment. There is regular formal oversight through clearly defined governance structures.

Risk controls and responses

For risks where our risk appetite is low, we take a robust and standardised approach to risk management with little room for discretion or deviation. Defined as 'risks requiring standards', these risks, should they materialise, could have an impact on our licence to operate. These risks (typically finance, compliance and operational) require policies and control standards. They are formally monitored by one or more of our various governance bodies, such as our Nominations and Governance Committee, Group risk and compliance committee, Group cyber committee, privacy executive committee and investment committee.

For other risks, the risk appetite and risk responses are determined on a case-by-case basis. These risks, termed 'risks requiring judgements', are typically strategic, pervasive or dynamic in nature (strategic or change risks in our methodology) and therefore undergo a considered risk response process. We determine appropriate risk responses by measuring against the target risk score that articulates the risk appetite for that risk after taking any existing risk mitigations into account. Management at the functional, market, and business unit levels own the risks with oversight by the Executive Committee and the Board.

Governance and monitoring

A strong risk culture is at the heart of our RMF with clear risk ownership and proactive leadership. The responsibility for identifying, assessing, and managing risks resides with management at a functional, market, business unit and executive level. The Board has overall responsibility for risk management and is actively engaged in risk discussions. The Audit Committee, on behalf of the Board, undertakes an annual effectiveness assessment of the risks and the RMF. In addition, the Audit Committee undertakes detailed reviews of the risks, twice a year, to support the external reporting process (see page 68).

Audit and assurance

Assurance over risks requiring standards is robust and integrated across all three lines of defence. To mitigate the key finance, compliance and operational risks, second line functions systematically test the processes and controls established by management. Second line functions such as finance controls, ethics and compliance, safety, responsible sourcing, technology compliance and people compliance undertake standardised and programmed testing.

Group Audit undertakes functional reviews on a rotational basis over the effectiveness of the first two lines of defence. It also carries out targeted controls testing for the 'risks requiring standards' key finance, compliance and operational risks. For 'risks requiring judgements', Group Audit undertakes risk-based internal audits to ensure sufficient risk coverage.

Principal risks and uncertainties

The most significant risks – those that could affect our strategic ambitions, future performance, viability, and/or reputation – form our principal risks.

The table sets out our principal risks. This includes a summary of key information including: the type of risk, links to our strategic drivers, risk movement, key responses and controls, and the oversight committees at the Executive Committee and Board levels. Please note, this list does not include all our risks. Additional risks, not presently known or those we currently consider to be less material, may also have adverse effects. We also highlight principal risks that are included in our long-term viability scenarios (see page 38).

At present, there is an increased level of macroeconomic uncertainty, such as cost and wage inflation; this is beginning to show initial signs of impact on our customers' finances and an increase in our own operational costs, particularly in relation to our supply chain. This uncertainty is exacerbated by the war in Ukraine. These inflationary and economic risk factors are key components of our financial performance and the customer principal risks. We are actively monitoring the situations and continue to put contingency measures in place to manage these risks. As such, we believe we understand the short-term risks and impacts and we have controls in place. However, the long-term impacts remain uncertain, and we will continue to monitor the situation closely.

The war in Ukraine has created uncertainty for our colleagues, customers, and the economies in which we operate. Our colleagues and customers in Central Europe, as well as those suppliers who either operate in Ukraine, or rely on imports from Russia and/or Ukraine, may be directly impacted by the war. We continue to have strong governance and monitoring over the evolving issues and are actively providing support. At the time of our risk assessment we determine the war in Ukraine not to be a principal risk. However, due to the unpredictable nature of this risk, we are actively monitoring it at an enterprise level.

Strategic drivers

- Magnetic Value for Customers
- Easily the Most Convenient
- I love my Tesco Clubcard
- Save to Invest

Risk type

- S Strategic
- Ch Change
- O Operational
- F Finance
- C Compliance

Risk movement

- Risk increasing
- No risk movement
- Risk decreasing
- N New risk

[illegible]

Cyber security[1]

S Strategic
O Operational

[illegible]

Oversight: Cyber risk committee, Group risk and compliance committee, Executive Committee, Audit Committee, Board

[illegible]

N

[illegible]

Data privacy[1]

C Compliance

[illegible]

Oversight: Privacy executive committee, Group risk and compliance committee, Executive Committee, Audit Committee, Board

[illegible]

[illegible]

Pandemics (COVID-19)

O Operational

[illegible]

Oversight: Executive Committee, Audit Committee, Board

[illegible]

[illegible]

Principal risks and uncertainties continued

Climate change[1]

S Strategic

O Operational

[illegible]

Oversight: [illegible]

[illegible]

Technology

S Strategic

O Operational

Ch Change

[illegible]

Oversight: [illegible]

[illegible]

Political, regulatory and compliance[1]

C Compliance

[illegible]

Oversight: [illegible]

[illegible]

People

S Strategic

O Operational

[illegible]

Oversight: [illegible] Committee, Executive Committee, Audit Committee, Board

Market competition [illegible] and specialist talent remains [illegible] with the retail [illegible] challenges [illegible] talent.

We continue to have [illegible]. However, we face [illegible] competition for talent and the continuing [illegible]. We therefore [illegible] compared to the previous year.

[illegible]

Health and safety

C Compliance

Failure to meet safety standards [illegible] could result in death or injury to our customers, colleagues or third parties, or in damage to our operations and reputation, adverse material legal and reputational consequences.

Oversight: Group Risk and Compliance Committee, Executive Committee, Audit Committee, Board

Providing a safe environment for colleagues and customers is of utmost importance to our business. We continue to focus our efforts on controls which ensure colleague and customer safety.

The pandemic has presented a unique challenge to the safety of our customers and colleagues. It has driven the need for a rapid assessment of the [illegible] of new ways of serving customers and of working for colleagues, clear communication and compliance with government guidance.

- Our business-wide risk-based safety framework defines how we implement a range of safety controls to ensure that colleagues, contractors and customers have a safe place to work and shop. The health and safety framework is regularly reviewed and refreshed to ensure we continue to address any complexities arising due to operational changes. This includes implementing enhanced control and safety measures to ensure colleague wellbeing [illegible] security controls to protect colleagues against increased threat of violence and abuse.
- We require each business to maintain a comprehensive risk register and safety improvement plan to document and track improvements.
- Governance and oversight are established in the form of our Group Risk and Compliance Committee and business unit-level health and safety committees. These committees review critical metrics and monitor the effectiveness of related controls.
- Our safety audits. Protection arrangements, and the results of our annual colleague surveys inform management on the delivery of targeted safety initiatives, including communication plans. Our assurance activities, such as store and distribution compliance reviews, safety health checks and audits, help us assess our compliance with established policies and processes. They also enable us to continuously seek and identify areas for potential improvement.

Product safety and food integrity

C Compliance

Failure to meet regulatory standards and customer expectations related to product safety, traceability and integrity could result in [illegible] injury or death, damage to our relationships with customers, with negative effects on our performance and corporate reputation.

Oversight: Group Risk and Compliance Committee, Executive Committee, Audit Committee, Board

Given the changes in the regulatory landscape, evolution in consumer preferences, and the impact of macroeconomic conditions on our supplier base, the specific nature of this risk warrants separate and clear articulation.

We are therefore reporting this risk separately. Last year we reported it as part of the responsible sourcing and supply chain risk.

We continue to have well-established and comprehensive food safety and quality management systems to manage this risk.

- Our product standards, policies and guidance help ensure that products are safe, legal and of the required quality. They cover food and non-food, as well as goods and services not for resale.
- We closely monitor any updates to product safety regulations to ensure our standards and products continue to conform with all relevant regulations.
- We conduct detailed due diligence of our suppliers prior to onboarding, to ensure that adequate infrastructure, capabilities and qualities are in place to meet Tesco's standards.
- We run colleague training programmes on food and product safety, hygiene controls, and also provide support for stores for product safety.
- Our crisis management procedures are embedded within our operations to quickly resolve issues if non-compliant products are produced or sold. Clear escalation protocols include the product recall procedures.
- We operate supplier audit and product analysis programmes to monitor product safety, traceability and integrity. These include unannounced audits of suppliers' sites and facilities.
- We operate a risk-based quality assurance programme, which includes regular sample-based testing of our products to ensure compliance with our standards and regulations.

Principal risks and uncertainties continued

Responsible sourcing[1]

S Strategic

C Compliance

Failure to ensure that our products are sourced responsibly and in compliance with standards of human rights, health and safety and environmental laws may lead to harm to workers, which could result in legal, financial, regulatory, health and safety and reputational impact.

Oversight: Group Risk and Compliance Committee; Corporate Responsibility Committee; Executive Committee; Audit Committee; Board

Risk movement:

Expectations of workers and human rights protection remain the key drivers of this risk.

In the current period, we are seeing global economic pressures that have resulted in an increase in risk of worker exploitation, particularly in some of our key sourcing countries. We continue to implement targeted response strategies, including the implementation of the relevant monitoring mechanisms to ensure our standards are met.

Key controls and mitigating factors:

- We have policies and guidance that help ensure human rights are respected across our supply chain. These include a focus on appropriate remedy for any violations, and progress tracking, emphasis on tackling risks and addressing wider community needs.
- Our contractual agreements with suppliers clearly articulate the expected standards related to human rights and modern slavery. These commitments are monitored and discussed as part of regular governance meetings. We are increasing transparency in our supply chain to drive up standards, such as by publishing our tier 1 supplier list.
- We also provide targeted training for colleagues and suppliers dealing with specific regulations related to human rights and modern slavery.
- We operate ethical audit programmes to monitor supplier compliance with our standards related to human rights. These include unannounced audits of supplier sites, and the review of any remediation action plans.
- We qualify and review supplier facilities through due diligence before use, to ensure they can meet our standards. We use certification schemes and participate in voluntary industry schemes to drive up our standards.

Financial performance[1]

F Finance

S Strategic

Our financial performance may be adversely impacted by uncertain macroeconomic conditions, including inflation, volatile commodity prices and currency fluctuations, and unpredictable tax environments, changes in tax laws and their interpretation. These factors may also impact our cash, liquidity and our ability to continue to fund our operations.

Oversight: Executive Committee; Audit Committee; Board

Risk movement:

This risk replaces the previous liquidity risk and summarises the key financial risks we may be exposed to.

Markets around the world are currently experiencing volatility due to changes in macroeconomic conditions, including inflationary pressures, cross-border trade, currency fluctuations in commodity prices and changes to taxation and tariffs.

These uncertain macroeconomic conditions and inflationary pressures may lead to a reduction in customers' disposable income and could pose a risk to the financial performance of the retail sector.

Key controls and mitigating factors:

- We maintain an infrastructure of systems, policies and reporting to ensure discipline and oversight on all financial matters, including tax, treasury, financial reporting and performance. The policies are reviewed and annually approved by the Executive Committee, Audit Committee and the Group PLC Board.
- The Chief Financial Officer and Group Finance Director lead a team of in-house professionals to monitor adherence to our principles and policies.
- We manage market factors such as cost and wage inflation, commodity prices and currency fluctuations in line with our Group Treasury policy.
- Long-term plans are flexed to consider sensitivities and scenario planning that relate to the wider macroeconomic environment.
- We regularly review liquidity levels, sources of cash and access to committed credit facilities and debt capital markets to maintain it.
- We monitor proposed changes in tax legislation and given the complex nature of tax law, seek professional advice when required.
- The Audit Committee maintains regular oversight and governance of key areas including liquidity and funding strategy, Group tax obligations, our viability and going concern statements and Group key financial controls.
- Our Group finance team actively scans the external environment for new regulations and/or requirements, developing detailed plans with specific milestones and dedicated oversight to ensure we can demonstrate compliance.
- We employ a system of financial controls across our business units. The key financial controls are then subjected to rigorous second line and third-line testing.

Tesco Bank

F Finance

C Compliance

Tesco Bank is exposed to several risks, the most significant of which are operational, regulatory, credit, funding and capital adequacy, liquidity, market and business risk. These risks pose a reputational, financial and legal impact for Tesco Group PLC.

Oversight: Tesco Bank board; Executive Committee; Audit Committee; Board

Risk movement:

The Bank performance improved with a return to profit. However, macroeconomic conditions including inflationary pressures present significant cost of living concerns for our customers. Although the short-term impact on Tesco Bank is being managed, given the longer-term uncertainties we have made no change to the risk profile.

Key controls and mitigating factors:

- The Bank has a formal structure for reporting, monitoring and managing risks supported by a robust risk management framework. This comprises, at its highest level, the Bank's risk appetite approved by the Bank risk committee and the Bank board.
- The Tesco PLC board also reviews and approves the Bank's financial risk appetite which defines the type and amount of risk that the Bank is prepared to accept to meet its strategic objectives. It also forms a link between the day-to-day risk management of the business, its objectives, long-term plan, capital planning and stress-testing. We monitor adherence to risk appetite on a monthly basis.
- The risk management framework brings together governance, risk appetite, the three lines of defence, the policy framework and risk management tools to support the business in managing risk as part of its day-to-day activities. The framework includes scenario analysis and regular stress-testing of financial resilience.
- Bank board risk reporting throughout the year includes updates to the Tesco PLC Audit Committee provided by the Bank's Chief Financial Officer and Audit Committee Chairman. A member of the Tesco PLC Executive Committee is also a member of the Bank's board to enhance visibility and knowledge sharing.

Competition and markets[1]

S Strategic

Failure to deliver an effective, coherent and consistent strategy [illegible] market [illegible] may result in a negative impact on our market share, [illegible] damage to our profitability and business performance.

Oversight: Executive Committee, Audit Committee, Board

We continue to face the challenge of [illegible] competitive and [illegible] across our markets. There has been industry-wide restructuring [illegible] across the retail sector.

[illegible] our strategies are well developed and we review them regularly to remain competitive and in line with industry competition and market activity.

The risk is therefore unchanged and in line with the previous year.

- Our Board develops and regularly challenges the strategic direction [illegible] to remain competitive [illegible] develop [illegible] different markets.
- Our Executive Committee and operational management regularly review [illegible] competitor strategy and activity.
- We carry [illegible]
- We are continuously improving [illegible] platform [illegible] the market.
- [illegible]

Brand, reputation, and trust[1]

S Strategic

Failure to [illegible] quality, value and service [illegible] meeting [illegible] expectations in relation to our planet, our communities and fair treatment of colleagues and suppliers results in a negative impact on the trust which our communities and stakeholders place in our brand.

Oversight: Executive Committee, Corporate Responsibility Committee, Audit Committee, Board

There has been widespread [illegible] the nation while keeping customers and colleagues at the heart [illegible] during the year.

We are, however, aware that brand and reputation can be [illegible]. We continue to monitor stakeholder perception to ensure the actions we take are [illegible] public expectations and further the trust placed in our brand. We have a particular focus on health, sustainability, climate change, packaging, food waste and diversity and inclusion.

- [illegible]
- [illegible] Ukraine Humanitarian Appeal.
- The Corporate Responsibility Committee oversees [illegible] climate and sustainability [illegible] strategy.
- We continue to [illegible]
- [illegible] our brand.
- [illegible]
- We [illegible] brand reputation.

Customer[1]

S Strategic

The macroeconomic and geopolitical conditions affecting the countries in which we operate may impact our customers' budgets and force customers to reappraise the concepts of value and loyalty in a way to which we are unable to respond.

Oversight: Executive Committee, Audit Committee, Board

There remains considerable uncertainty as to the further impact on the economy, employment rates and household budgets from the pandemic. Also, the full effects of macroeconomic conditions such as cost and wage inflation on the economy remain unclear.

However, we continue to have the right strategies and processes in place to monitor this risk and manage it as far as circumstances allow. The pandemic has seen a significant shift in consumer focus on value and demand for online shopping. This has led us to enhance our value strategy and to increase our online presence and capacity. The risk is therefore unchanged and in line with the previous year.

- Our refreshed strategy [illegible] promotions [illegible]
- We have a consistent approach [illegible] competitive value while improving the customer experience.
- Our Group-wide customer insight [illegible] dynamically improve our proposition [illegible] behaviour and buying sentiment, including any changes due to external factors such as COVID-19 or increased inflation.
- This approach includes [illegible] customer engagement through tailored campaigns [illegible] customer retention and loyalty.
- Our well-established product development and quality management processes ensure the needs of our customers are [illegible]
- We monitor the effectiveness of our [illegible] our business and competitors against measures that customers tell us are important to their shopping experience.

Emerging risks

Our emerging risks are reported to the Audit Committee alongside our principal risks. We conduct horizon-scanning to enable a medium and longer-term view of potential disruptors or emerging risks to our business. We are currently tracking several emerging risks within the themes of political, economic, technological, environment and talent. We continue to monitor the risk indicators on a periodic basis for these emerging risks. Those emerging risks that have a potential impact and require a response, have been considered as part of our risk assessment process described on pages 31 and 32.

Viability statement.

Assessing the Group's longer-term prospects and viability

The Directors have based their assessment of viability on the Group's current long-term plan, which is updated and approved annually by the Board. The plan delivers the Group's purpose of 'serving our customers, communities and planet a little better every day' and is underpinned by a clear strategic focus on creating sustainable, long-term value for every Tesco stakeholder.

The Group conducts an annual strategic planning process, comprising a comprehensive reassessment of progress against the Group's strategic objectives, alongside an evaluation of the longer-term opportunities and risks in each market in which the Group operates. The consideration of risks, particularly principal and emerging risks, is an important input to this process. Further information about principal risks and uncertainties can be found on pages 31 to 37.

The Group's strategic plan and viability statement are both considered over a three-year period, as this time horizon most appropriately reflects the dynamic and changing retail environment in which the Group operates.

Long-term planning process

The long-term planning process builds from the Group's current position and considers the evolution of the strategic objectives over the next three years. Three years is selected as the Group's planning horizon and viability period based on the pace of change in both the competitive landscape and customer shopping behaviours within the retail sector. Three years is also used as the time period in the Group's capital investment hurdles.

Current position

During the year, the Group announced a new multi-year performance framework which will guide management's actions over the coming years. The framework outlines the objectives of the business: to drive top-line growth, to grow absolute profits while maintaining sector-leading margins throughout and to generate stable Retail free cash flow each year. The delivery of these objectives will enable the Group to maintain a strong balance sheet, invest for growth and deliver improved returns for shareholders. The Group also announced the strategic drivers which would enable the delivery of these objectives, refreshed its capital allocation framework and commenced an ongoing share buyback programme.

The Group continues to invest in delivering great value to help customers in increasingly challenging times, supported by:

- a strategic focus on driving growth and continued focus on cost reduction from simplification of the operating model;
- a clear set of financial priorities to deliver strong profit, free cash flow and earnings per share growth, underpinned by a robust capital allocation framework; and
- a diversified business portfolio covering retail, wholesale, banking and data science.

Refer to the Group Chief Executive's review on pages [illegible] to 12 and the Financial review on pages 22 to 30 for further detail regarding the Group's strategic and financial progress.

Longer-term prospects

The following factors are considered both in the formulation of the Group's strategic plan, and in the longer-term assessment of the Group's prospects:

- the principal risks and uncertainties faced by the Group, as well as emerging risks as they are identified, and the Group's response to these;
- the prevailing economic climate and global economy, competitor activity, market dynamics and changing customer behaviours;
- any structural changes in how customers shop, additional costs incurred by the Group and potential macroeconomic consequences of rising unemployment and inflation due to events such as the COVID-19 pandemic and global supply challenges;
- opportunities for further cost reduction through operational simplification and leveraging technology; and
- the resilience afforded by the Group's operational scale.

Assessing the Group's viability

The viability of the Group has been assessed, considering the Group's current financial position, including external funding in place over the assessment period, and after modelling the impact of certain scenarios arising from the Group's principal risks outlined on pages 31 to 37.

Four 'severe but plausible' scenarios, without considering controls or risk mitigants already in place, have been modelled which address the principal risks that the Group has assessed would have the most direct and material impact on the Group. None of these scenarios, either individually or in aggregate, threaten the viability of the Group. The scenarios described are also used as the basis for the risk-weighted cash flows which are included in our impairment of non-current assets analysis. For more information, please refer to Note 15 on pages 149 to 152.

Scenario	Link to principal risks	Description
Macroeconomic downturn	– Competition and market – Customer – Brand, reputation and trust	Global economies are recovering from the impact of [illegible] consumer confidence [illegible] Covid-19 pandemic [illegible] inflation [illegible] elevated [illegible] the war in Ukraine. These factors [illegible] contribute towards [illegible]. Management has applied a downside scenario which reduces the projected [illegible] three years of the Group's strategic plan [illegible] reflecting [illegible] events. To maintain our competitive position in a [illegible] environment, further investment in our value position will be required which puts pressure on operating margins. In addition, management has considered the potential for customers to manage [illegible] more expensive [illegible] lower priced ranges. Management has applied a downside scenario in this instance which assumes [illegible]% of the existing [illegible] in higher priced ranges transfer to lower priced [illegible] range.
Global supply pressures	– [illegible] financial performance	Supply chain disruption, availability of labour, commodity shortages and the potential macro [illegible] consequences of the war in Ukraine drive higher inflation in the markets in which we operate, which results in significant cost inflation. The Group absorbs elevated levels of cost inflation on goods purchased for sale to customers and the operating cost base, particularly in cost areas such as colleague pay and energy. Management has applied a downside scenario which assumes the Group absorbs further cost inflation in colleague pay, energy and [illegible] at twice the current level assumed in the Group strategic plan. These cost tensions are assumed to be fully absorbed by the Group with no assumed mitigation through additional cost savings or retail pricing. Note the adverse consumer impact from this risk is dealt with in the Macroeconomic downturn scenario which is described above.
Data breach	– Cyber security – Political, regulatory and compliance – Brand, reputation and trust – Data privacy	The volume and nature of the customer and supplier data we hold as a business could result in a serious data or security breach which sees a significant financial penalty levied against the Group aligned to the UK GDPR penalty framework which could see a maximum fine levied of 4% of Group revenue. For the purposes of this stress test, management has included a fine quantified as 2% of Group revenue, being the mid-point of the potential maximum fine. A significant data breach poses a reputational risk, resulting in a decline in customer sentiment and an adverse trading impact. The extent of this trading impact is very uncertain, both in terms of the financial impact and the period it may take to recover customer trust. As such, the potential brand reputation element of this scenario has been modelled via a reverse stress test. This assesses the risk in the context of the residual headroom after all other scenarios have been applied. The resultant like-for-like sales decline which would have to occur to eliminate the residual cash headroom, including all other scenarios happening in aggregate, is around twice as severe as any decline the Group has faced in recent years.
Climate change	– Climate change – Responsible sourcing – Political, regulatory and compliance	Rising global temperatures result in an increasing incidence and severity of extreme weather events leading to a higher incidence of store closures due to flooding and disruption to our global supply chain, predominantly in produce and protein categories. The costs associated with these risks are based on our Task Force on Climate-related Financial Disclosures scenario modelling, which projects the annual financial impact by 2030 from these key climate-related exposure areas. Management has included 10% of the modelled impacts per year within the viability stress-testing scenarios. A fuller assessment of the climate-related risks the Group faces, and our actions to mitigate these risks, is provided in the Task Force on Climate-related Financial Disclosures section of this Annual Report, starting on page 41.

We expect to be able to refinance external debt and renew committed facilities as they become due, which is the assumption made in the viability scenario modelling. Our committed facilities remain undrawn as at the end of the financial year. Please refer to Note 24 on page 159 for further details on our debt profile, including maturity dates. The scenarios above are hypothetical and purposefully severe with the aim of creating outcomes that could threaten the viability of the Group. In the case of these scenarios arising, various options are available to the Group in order to maintain liquidity to continue in operation, such as: (i) accessing new external funding early, (ii) reducing shareholder returns, (iii) short-term cost reduction actions, and (iv) reducing capital expenditure. None of these mitigating actions is assumed in our current scenario modelling.

Viability statement

Based on these severe but plausible scenarios, the Directors have a reasonable expectation that the Company will continue in operation and meet its liabilities as they fall due over the three-year period considered.

Climate.

Commitment

To be carbon neutral across our Group operations by 2035 and net zero across our full value chain aligned to 1.5°C by 2050.

Climate change remains the greatest environmental threat we face, and as such, it is recognised as one of the Group's principal risks. The effects of climate change have the potential to threaten our own business operations, the operations of our suppliers' businesses and the livelihoods of the farmers and workers in our supply chains, in addition to changing the way customers shop and eat. We must play a leading role in helping to avoid the most severe consequences. Urgent, collective action is required to meet global climate goals and protect the health of the natural environment upon which we all rely.

The food sector is responsible for over one third of greenhouse gas (GHG) emissions and as a business, we impact the climate in both our own operations and our supply chains. In 2021, we completed a new cradle-to-customer carbon footprint analysis for our Group operations to understand the main sources of emissions and to help us develop reduction strategies, aligned with our net zero commitment. More than 90% of our total emissions footprint lies within our value chain – our Scope 3 indirect emissions. This includes emissions associated with producing the things we sell and customers using what they buy from us. While reducing Scope 3 emissions represents a significant challenge, we must drive transformative action across the food system.

In 2021/22, our direct GHG emissions (Scope 1 and 2) increased slightly on the previous year due to methodology improvements in our data collection and operational changes resulting from the easing of COVID-19 restrictions also adversely impacting our emissions.

Despite a step back from last year's performance, we remain on track to meet our target of becoming carbon neutral across our Group operations by 2035, aligned to a 1.5°C trajectory. This year we achieved a 5_% absolute reduction in our own operations emissions on a 2015 baseline. Further information on the steps we have taken to drive energy efficiency and transition to renewable sources are contained within the Streamlined Energy and Carbon Reporting disclosure on page 103.

In September 2021, we announced our extended commitment to be net zero across our value chain, aligned to a 1.5°C trajectory by 2050, covering all indirect Scope 3 emissions. This was informed by updating our Group carbon footprint to align with new methodology developments and the inclusion of new data points such as deforestation and land conversion. Further information on our 2019/20 carbon footprint can be found on page 42. Through this process, we have been able to identify our material emissions hotspots and focus on modelling decarbonisation interventions relevant to each hotspot. This work will be concluded in 2022/23 and support the revalidation of our expanded science-based targets.

We continue to engage our direct suppliers, requesting that all of our direct suppliers report on emissions to help us co-design our decarbonisation pathways. This year, to support these efforts we undertook webinars and online training to support suppliers on their decarbonisation journeys. Through the Tesco Supplier Network, we also provide bespoke services and online tools to all Tesco suppliers.

Recognising that we cannot achieve our climate ambitions alone, we have continued to promote cross-industry action through our partnership with WWF and involvement in industry initiatives such as the Courtauld Commitment 2030, The Aldersgate Group and The Climate Group. Together we are supporting the development of positive public policy mechanisms to deliver low-carbon economies in the countries where we operate.

For more information on our approach to climate and energy management please visit www.tescoplc.com/sustainability/reporting-hub.

Greenhouse gas emissions and energy consumption*

	2021/22	2020/21	2019/20	Baseline 2015/16
Scope 1 (tonnes of CO_2e)	**1,110,098◊**	1,053,131	1,105,183	1,240,8[illegible]
Scope 2				
Market-based method (tonnes of CO_2e)	**16,107◊**	13,631	81,531	1,095,6[illegible]
Location-based method (tonnes of CO_2e)	**642,337◊**	[illegible]	859,583	1,651,396
Total Scope 1 and 2, market-based (tonnes of CO_2e)	**1,126,205◊**	1,066,762	1,186,714	2,336,542
Scope 1 and 2 carbon intensity (kg CO_2e/sq ft of stores and DCs)	**12.16◊**	11.63	13.14	26.24
Selected Scope 3 (tonnes of CO_2e)	**593,405◊**	471,195	557,111	684,079
Total gross emissions (tonnes of CO_2e)	**1,719,610◊**	1,537,957	1,743,925	[illegible]
CO_2e from renewable energy exported to the National Grid (tonnes of CO_2e)	**279◊**	366	635	
Total net emissions (tonnes of CO_2e)	**1,719,331◊**	[illegible]	[illegible]	[illegible]
Overall net carbon intensity				
(total net emissions kg CO_2e/sq ft of stores and DCs)	**18.56◊**	[illegible]	19.46	33.98
Total annual energy consumption (GWh)	**6,263**	6,159	6,443	6,803
UK only total Scope 1 and 2 (tonnes of CO_2e) market-based	**936,257**	880,039	905,052	1,751,5[illegible]
UK only Scope 1 and 2 intensity (kg CO_2e per sq ft of store and DCs)	**13.67**	12.99	13.92	26.98
UK only annual energy consumption (GWh)	**5,203**	5,031	5,306	5,512

Task Force on Climate-related Financial Disclosures

TCFD.

Climate-related financial disclosures

In addition to this TCFD report, we provide further information on climate change in the Principal risks and uncertainties section on page 34 and details of our greenhouse gas emissions can be found on page 40. We continue to consider the potential financial impacts of climate change in the cash flow scenario modelling within our viability statement on page 10 and impairment note on page 54.

Governance

We have implemented an enhanced climate governance framework this year, encompassing the Board, its associated Committees and the Executive Committee.

The Board is responsible for the long-term success of the Group and has ultimate responsibility for climate-related risks and opportunities. The Board most recently discussed climate-related risks in March 2022. The Corporate Responsibility Committee oversees the Group's social and environmental obligations, including climate-related matters and is responsible for monitoring progress towards our commitments. The Corporate Responsibility Committee meets four times each year and has discussed climate on every occasion during 2021/22, with similar plans to discuss at all 2022/23 meetings. Further information about the activities discussed at the Corporate Responsibility Committee can be found on page 66. In addition to the Corporate Responsibility Committee, the Audit Committee also monitors climate-related risk management, internal controls and reporting requirements.

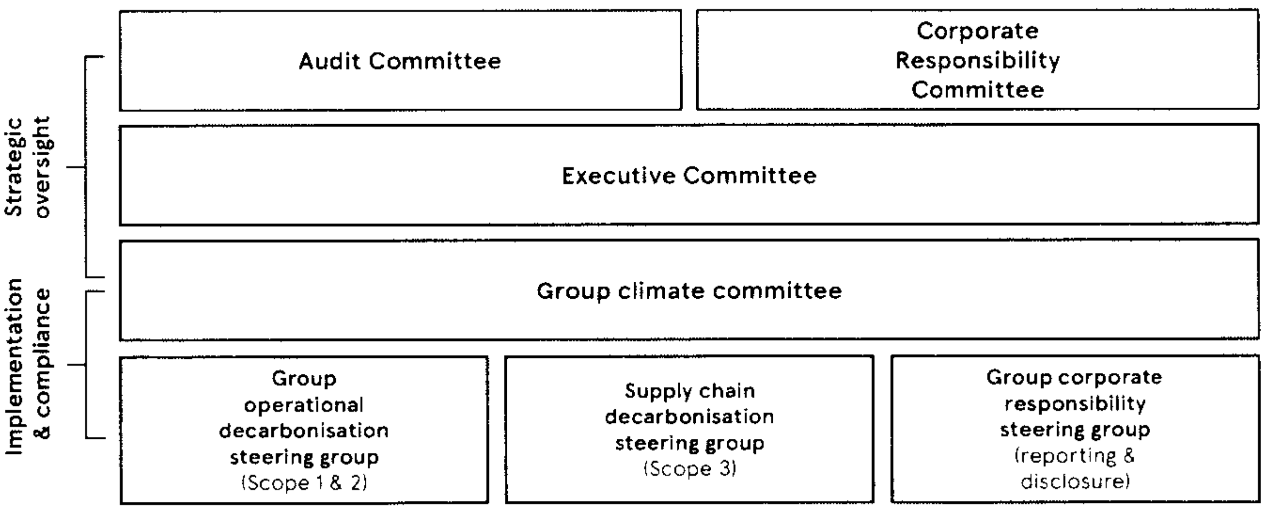
From 2022, the Executive Committee will review our progress against our climate targets twice each year, supported by an integrated performance dashboard. The Executive Committee will next discuss climate change in June 2022 to conduct a retrospective review of 2021/22 and in December 2022, to facilitate a forward-looking discussion of our climate-related plans for 2023/24. These discussions are led by the Chief Product Officer, as executive sponsor of our net zero climate commitment. Strategic investments considered to advance the achievement of our climate objectives will be discussed and approved by the Executive Committee.

Our updated governance structure builds upon the previously mentioned forums and is divided into two streams: strategic oversight and implementation and compliance, both of which feed into the newly created Group climate committee, chaired by the Chief Product Officer, with the aim of enabling the Group to accelerate decarbonisation initiatives and further embed climate in our corporate strategy.

The Group climate committee, which meets quarterly, is responsible for maintaining oversight of progress made against our interim decarbonisation milestones, and for holding the new steering groups to account for delivery of the operational and supply chain decarbonisation roadmaps. The committee is also responsible for oversight of climate risk management including assessing and managing climate-related risks and opportunities on the Group risk register, where climate is a principal risk, and for our climate-related disclosures.

The Group climate committee comprises representatives from significant business functions which materially influence our ability to achieve both our climate targets and regulatory obligations.

Three steering groups underpin the implementation and compliance component of our climate governance structure. They are responsible for delivering initiatives to meet operational climate targets and interim milestones, propel decarbonisation in our supply chain and enable the business to report our progress. These steering groups are chaired by senior leaders: our Chief Property Officer leads operational decarbonisation (Scope 1 and Scope 2), our Group Quality Director leads Scope 3 value chain decarbonisation and our Group Communications Director leads reporting and disclosure. The steering groups are more broadly supported by a number of cooperative workstreams that each focus on carbon reduction within material emissions hotspots across the business.



Task Force on Climate-related Financial Disclosures continued

Our total emissions footprint

Strategy

As part of our commitment to reach operational carbon neutrality by 2035 on a 1.5°C pathway for Scope 1 and 2, we have set a target to reduce our absolute carbon emissions by 60% by 2025 compared to a 2015 baseline.

Since setting our operational science-based target in 2017, we have realised opportunities through driving greater efficiency in key processes across operations, including improving the efficiency of our refrigeration units and reducing refrigerant emissions across the store and distribution centre network through switching from fluorinated gas to CO_2 systems. In addition to reducing emissions from logistics through a range of fuel efficiency maximisation initiatives, such as improved route planning, we are also committed to the electrification of transport. As signatories to the Clean Van Commitment and EV100, Tesco has committed to a fully electric home delivery fleet by 2028, with almost 50 vans rolled out at the end of 2021, including in Glasgow at the time of COP26. Alongside this continued rollout, we are exploring the opportunity to electrify more of our heavy goods vehicles (HGVs) including a current pilot involving two electric HGVs, which we expect to replace 65,000 diesel-fuelled road miles with clean energy. We are utilising greener distribution beyond the road and have partnered with Direct Rail Services (DRS) to use refrigerated rail freight in the UK, in addition to our existing rail service from Spain. The new service operates twice a day, seven days a week and will save Tesco 7.3 million road miles per year.

We met our 2030 ambition to switch to 100% renewable electricity in our own operations across the Group 10 years early, through a combination of direct sourcing and renewable certificates. We are now moving to ensure the majority of this renewable electricity comes from direct sourcing, thereby boosting the UK's overall renewable capacity. In support of this, in 2019, we announced a major project to source renewable electricity directly from five windfarms and four solar farms. In July 2021 the third of these windfarms opened in Halsary, Scotland. Once all renewable energy sites are operational, they will strengthen our energy resilience and supply around 26% of our electricity from renewable sources, strengthening our current position of 100% renewable electricity usage across the Group based on certificates.

We quantified and disclosed our 2015 baseline Scope 3 emissions footprint in September 2021, accompanying our 2050 commitment to achieve net zero emissions across the entire value chain. We have subsequently calculated our Group carbon footprint for 2019/20, covering Scope 1, 2 and 3 emissions which includes the sourcing of raw materials and food production, where emissions are generated both upstream in activities such as agriculture, manufacturing and logistics, and downstream, through the use of Tesco products, including food waste and end-of-life disposal, all of which are affected by customers' dietary choices and consumption patterns. Following expansion of our net zero commitment, we are currently revalidating our updated science-based targets with the Science Based Targets initiative (SBTi).

The emissions from Tesco's products and supply chain comprise more than 90% of our total emissions footprint. Upstream activities account for 50% of our total carbon footprint, of which 30% is driven by emissions generated by the rearing, growing and transportation of agricultural products, mainly within the animal protein categories. The remaining 20% is linked to the manufacture of our product ranges, including packaging, and production of the fuel that we sell. Downstream activities, on the other hand, represent around 40% of our footprint, primarily emissions resulting from customers using our products, cooking at home, preparational processes including washing and drying products, and the emissions associated with the fuel that customers buy from our petrol filling stations. Consequently, we identify our emission hotspots to be the production of our most emission intensive, high-demand products (by volume and in particular animal protein, grains and fresh produce), consumer use of products and consumer use of fuel that we sell.

Given that we do not control our Scope 3 emissions, due to their indirect nature, achieving net zero across our value chain will entail Government intervention, substantive coordination and collaboration with suppliers, as well as strategic communication with our customers. As such, our ability to influence carbon reduction presents both a risk and an opportunity to our decarbonisation strategy and net zero commitment – the success of our relationships both upstream and downstream will prove critical. We already actively engage with our key suppliers to press for change, and currently over 300 suppliers are reporting emissions data on a yearly basis.

Additionally, we have engaged with external climate consultants to leverage their expertise and model key mitigation interventions enabling us to understand both the mitigation potential and associated cost over time in order to build long-term decarbonisation pathways, in alignment with the UK Government requirement for listed companies to submit transition pathways by 2023. These decarbonisation pathways assess both active reductions, including GHG mitigation activities implemented jointly with our supplier base, as well as assumptions on passive reductions, including processes beyond our direct or indirect control that will ultimately contribute to the abatement of our footprint (such as policy changes, greening of the grid etc.).

Although Tesco's expanded net zero commitment was announced in 2021, our ambition to build a more sustainable supply chain has existed for many years. For example, deforestation-linked soy is a major contributor to the emissions associated with beef, pork and poultry. The complexity of the global supply chain means collaboration is essential and we have been at the forefront of industry action, advocating for change and spearheading the UK Soy Manifesto, where retailers, along with other leaders in the food, beverage and consumer goods industries which together represent almost 60% of all UK soy bought each year, agreed to remove deforestation-linked soy and feed from the supply chain by 2025.

In 2017 we committed to implement the TCFD recommendations and we developed our initial scenario analysis based on a materiality assessment of the areas of the business most exposed to the effects of climate change. The table below summarises the potential impacts to our animal protein categories and UK property estate by 2030 under both a physical and transition risk scenario, including the annual operating profit impact. These impacts are before mitigating actions and represent the majority of the risks quantified in our initial scenario modelling work. The time horizon over which the risks described impact the business largely depends on the timing of any introduction of tax legislation. Further context is provided in last year's TCFD disclosure starting on page 26 of our 2020/21 Annual Report.

[illegible]	[illegible]
Animal protein	The primary risk relates to the potential [illegible] carbon tax or levies [illegible] calculated based on an externally sourced estimated carbon price and historical [illegible] volumes, with the largest impacts from beef, milk and cheese. Potential operating profit impact of £[illegible]m–£[illegible]m annually [illegible] mitigating actions.
Property	Higher [illegible] due to more stringent carbon pricing [illegible] calculated based on an externally sourced estimated carbon price applied [illegible] Scope [illegible] emissions. Potential operating profit impact of £[illegible]m–£[illegible]m annually [illegible] mitigating actions.

We also quantified the risks described in the table above under a 4°C scenario, which considered 'physical risks' associated with a systemic failure to address climate change. Given that this analysis showed these impacts to be less material to Tesco, and noting the potential for significant variation depending on the assumptions used, we have not separately disclosed the smaller impacts.

In light of our updated carbon footprint and climate ambitions and reflecting the increasing integration of climate change throughout our business, we are now working to further build our internal capabilities in climate-related scenario modelling, and have partnered with Risilience, part of the Centre for Risk Studies at the University of Cambridge Judge Business School to create a digital version of our value chain. We will use this to model several warming scenarios across varying time horizons, enabling us to significantly enhance our climate-related risk modelling, develop effective mitigation plans, stress test organisational resilience and improve the execution of our strategy to deliver net zero.

Climate-related risks and opportunities are increasingly integrated into the business's financial planning, with our multi-year Long Term Plan including capital investments in electric vehicles, regulatory and legislative changes and operational efficiencies. The recently established Group climate committee is responsible for reviewing strategic sustainability investments and as such, the committee comprises members from our Treasury and Group Finance functions. The Executive Committee is responsible for approving all investments, while the Audit Committee maintains its oversight role.

More information on our greenhouse gas emissions can be found on page 40.

Greener transport

As part of our efforts to meet our commitment to net zero emissions in our own operations by 2035 and to keep our products moving across the UK during a year of supply chain challenges, we increased the volumes on our rail distribution network by over 39% to 91,000 containers at the end of 2021.

This switch from road to rail saves about [illegible] million road miles a year and over 37,000 tonnes of CO_2. In December, we announced [illegible] partnership with Direct Rail Services which further expands our use of rail to help distribute [illegible]

Visit www.tescoplc.com/sustainability for more information.

Risk management

Following the establishment of climate change as a standalone principal risk in 2020/21, reviews have been conducted at various levels including the Executive Committee and the Board. This includes the identification and documentation of climate-related risks and the review and consideration of appropriate risk responses. This consolidated view provides an input to our review of the Group risk profile.

The most recent principal risk review was presented to the Executive Committee in November 2021 and the Board in March 2022. The decision was taken to both amend and expand the scope of the risk description to reflect the increased focus on 'Planet' as part of our refreshed purpose and increasingly ambitious sustainability targets. The Board is conscious of the complexity and scale of our value chain, in conjunction with the expectation for progressive regulatory requirements governing climate reporting and the Executive Committee concluded that the risk may accelerate. Further information about principal risks and uncertainties can be found starting on page 31.

Following the expansion of the net zero commitment and establishment of strengthened climate governance, Tesco PLC has reviewed and refreshed the approach to further embed the management of climate-related risk and opportunity into local markets and categories. The business has created climate and sustainability task forces for our ROI, CE and Booker businesses and for categories including non-food and Tesco Mobile.

Metrics & targets

Our net zero strategy is underpinned by three key commitments. We have committed to reduce Scope 1 and 2 market-based emissions by 60% by 2025, to be carbon neutral across our own operations by 2035 and to achieve net zero across our value chain by 2050.

In recognition of how critical sustainability is to our business success, our Long-term Performance Share Plan will, from 2022, consider a number of sustainability metrics for the first time. Our 2025 target to reduce Scope 1 and 2 emissions by 60% will be included. For more information on the sustainability metrics included within our Long-term Performance Share Plan, effective from financial year 2022/23, please refer to page 82.

Detailed greenhouse gas emissions including disclosure across Scope 1, 2 and selected Scope 3 can be found on page 40. The related risks are those set out in the strategy section above.

Next steps

Our priorities in 2022/23 will include further developing our internal capabilities in climate-related scenario modelling through our partnership with Risilience, part of the Centre for Risk Studies at the University of Cambridge Judge Business School, enabling us to disclose the risks and opportunities that the business faces over a variety of time horizons, including how we intend to report and measure our progress.

Listing Rule 9.8.6R Compliance Statement

Tesco PLC has complied with all of the requirements of LR 9.8.6R by including climate-related financial disclosures in this section (and in the information available at the locations referenced therein) consistent with the TCFD recommendations. We will further develop the quantification of climate-related risks and opportunities, including expanding our scenario modelling to cover multiple time horizons in partnership with Risilience, part of the Centre for Risk Studies at the University of Cambridge Judge Business School. The initial output of this work will be disclosed in our 2022/23 Annual Report.

Protein diversification

We want to make it easy and affordable for our customers to eat more sustainably.

We were the first UK retailer to set a target on increasing the sales of plant-based meat alternatives by 300% by 2025 and to publish the sales of plant-based proteins. This year our sales of plant-based meat alternatives grew by 130% vs 2018 and our efforts on protein diversification were recognised as 'Pioneering' within FAIRR's 'Appetite for Disruption: The Last Serving' research.

Visit www.tescoplc.com/sustainability for more information.

Non-financial information statement

The table below constitutes the Company's non-financial information statement as required by sections 414CA and 414CB of the Companies Act 2006. In addition, our website www.tescoplc.com contains a wide range of non-financial information, including actions we take to manage our environmental and social impact and look after our colleagues.

The due diligence carried out for each policy is contained within each respective policy's documentation.

[illegible]	Our approach	[illegible]	[illegible]	
Environmental matters	We are committed to reducing our environmental impact, including by tackling climate change and protecting and restoring nature. Our Group environment policy sets out how we manage our environmental responsibilities and the expectations we have of our suppliers.	- Group environment policy - [illegible] Key commitments [illegible] palm [illegible] - Net zero climate strategy	- Our purpose in action - Principal risks and uncertainties – Climate - Task Force on Climate-related Financial Disclosures Corporate Responsibility Committee Audit Committee – sustainable financing	6 31 40 41 66 70
Colleagues	Our Code of Business Conduct sets the standards of conduct in relation to our colleagues and all our stakeholders. We have a confidential 'Protector Line' allowing any colleague or third party to report a violation of the Code of Business Conduct, law or regulation, or unethical behaviour. In addition, Tesco has policies committing to equal opportunities at work and to providing a safe and healthy working environment.	Code of Business Conduct Health and safety policy Bullying and harassment policy Diversity and inclusion strategy - Group whistleblowing policy - Colleague engagement	Our purpose Key Performance Indicators - Our colleagues - Engaging with our stakeholders - Principal risks and uncertainties - Board leadership and company purpose Colleague engagement Directors' remuneration report Directors' Report – Employment Policies	5 16 18 20 31 55 57 74 101
Social matters	We are proud to be part of thousands of communities around the world. We want to make a positive difference through the local people we employ, the local businesses we work with and the local charities we support. We have policies in place to ensure we act responsibly when it comes to working with suppliers, paying tax, retailing age-restricted products and giving to charities.	Groceries Supply Code of Practice Group whistleblowing policy Our tax principles - Group charitable donations policy Responsible retailing of alcohol, tobacco and other age-restricted products	Our purpose Key Performance Indicators - Engaging with our stakeholders Section 172 statement - Principal risks and uncertainties Task Force on Climate-related Financial Disclosures	5 16 20 22 31 41
Respect for human rights	We are committed to upholding human rights and support in full the United Nations Universal Declaration of Human Rights and the International Labour Organization Core Conventions. We also uphold standards on working hours and health and safety for workers. Our human rights policy sets out how we integrate human rights into our business operations.	- Human rights policy - Group whistleblowing policy	Principal risks and uncertainties Directors' report – Modern Slavery Statement	31 103
Anti-corruption and anti-bribery matters	We take a zero-tolerance approach to bribery and to those involved in bribery. Our policy requires every Tesco business unit to adopt and implement an effective anti-bribery compliance programme and for the policy to be communicated to all colleagues on an annual basis.	- Code of Business Conduct - Groceries Supply Code of Practice - Group anti-bribery policy - Group gift and entertainment policy - Tesco's political donations policy - Cyber security - Data privacy	- Directors' report – Anti-bribery matters - Board leadership and company purpose	103 55
How we manage risk			- Principal risks and uncertainties - TCFD – Climate-related risks	31 41
Business model			- Our purpose Our market context - Our strategic priorities and performance framework Our Business model - Board leadership and company purpose	5 13 14 17 55
Non-financial KPIs	Combining colleague input, customer and stakeholder insight and AI data analysis, we have identified which sustainability issues are most material to Tesco and our stakeholders. Our performance against these issues is tracked using the following KPIs: **Climate:** percentage reduction of Scope 1 and 2 market-based GHG emissions vs 2015 baseline year (see page 40) **Healthy sustainable diets:** percentage of volume sales from products with a healthy health score (see page [illegible]) **Diversity and inclusion:** percentage gender representation and percentage ethnicity representation of our top global leaders (see page [illegible]) **Waste and packaging:** percentage change in tonnes of food wasted as percentage of tonnes of food handled compared with 2016/17 baseline year (see page [illegible]) Tesco discloses more information and data including our SASB disclosure at www.tescoplc.com/sustainability/reporting-hub			

Policies are available on our website.

This Strategic report has been prepared in accordance with the requirements of the Companies Act 2006, has been approved and signed on behalf of the Board.

Robert Welch
Group Company Secretary
12 April 2022

Chairman's letter.

"Our refreshed purpose keeps customers at the heart of what we do, while also reflecting our commitments to the communities we serve and to society more broadly."

As I have said earlier in this report, this has been an important year for the Company and I am particularly proud of the way Tesco colleagues came together to support each other, our customers and other stakeholders.

The global pandemic continued to present major challenges for travel and physical meetings that the Board would have expected to conduct throughout the year, but I am pleased to report that we were able to continue to operate smoothly and effectively through the use of virtual means. However, we were delighted to return to physical meetings towards the end of the year and look forward to visiting more stores and distribution centres in the coming year.

2021/22 saw the Board focus on two key activities: managing the ongoing impact of the COVID-19 pandemic as well as industry and supply chain challenges, and setting out our new multi-year performance framework and the strategic priorities that will help us to deliver against it.

In 2022/23, the Board looks forward to supporting the Company under the leadership of Ken Murphy, as it emerges even stronger from the recent period of profound change to capitalise on the opportunities presented by evolving trends in our markets. To that end, the Board unanimously supports the focus on the strategic priorities that will enable Tesco to build on its unique strengths and to stay competitive, accelerate growth and generate free cash flow. Further details on our strategic priorities can be found on page 14.

My role as Chairman is to maintain high standards of corporate governance and ensure the Board is equipped to carry out its duties, spending sufficient time on key areas that enable the delivery of our strategic priorities. Our corporate governance framework clearly defines responsibilities and ensures that the Group has the right systems and controls to enable the Board and its Committees to effectively oversee the business, providing challenge where necessary.

A refreshed purpose

Our purpose sets out why we exist and drives us to focus on what is important to our stakeholders. This year, we have refreshed our core purpose to reflect our commitment to the communities we serve and the wider environment. As a Board we are responsible for ensuring that the business is purpose-led and our decision making and activities reflect the core purpose and drive the right behaviours. This means that in every decision we take, and every plan we develop, we will be asking ourselves one simple question: how will it help us serve our customers, communities and planet a little better every day?

Culture and stakeholder engagement

How we do business, and the behaviours demonstrated by colleagues across the Group, is of vital importance to the Board. We recognise that culture plays a fundamental role in the delivery of our strategic priorities and the Board is ultimately responsible for ensuring that our activities reflect the culture we wish to instil in our colleagues and other stakeholders to drive the right behaviours. The Board is committed to providing a strong and positive culture and upholding our well-established core values that underline how we run our business:

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

Our Code of Business Conduct defines how we engage with stakeholders, ensuring that the standards and behaviours of our colleagues are consistent across the Group at all levels of the organisation.

One of my goals as Chairman is to build a culture in which we fully understand our stakeholders (customers, colleagues, suppliers, shareholders and our communities) and what matters to them, and then act by changing and innovating to meet their needs. At the Board there is a clear emphasis on setting the tone from the top and leading by example. Further details on our purpose, values and stakeholder engagement can be found on pages 5 to 8 and 20 to 22.

Board deep dives

Throughout the year, the Board calendar includes deep dives into a number of business areas to gain a greater depth of knowledge around the business.

During the year, the Board was due to visit Tesco Ireland to meet with senior management, however due to COVID-19 restrictions on travel, the visit had to be cancelled and the event was held virtually. The senior management team in Ireland hosted a day of presentations on Tesco Ireland, to discuss the financial and operational performance of the business, explore opportunities and challenges, and understand brand perception within the market.

The deep dive provided the Board with a detailed insight into the Ireland business, supporting the Board's role of oversight and challenge.

Further details of the Board's activities during the year can be found on pages 58 to 60.

Evaluating Board performance

Central to setting the right tone from the top and maintaining high standards of corporate governance is the review of the Board's own performance. An external evaluation was conducted in 2021/22 facilitated by Dr Tracy Long of Boardroom Review. The outcomes of this were well received and the findings provide a clear agenda for us to continue to improve as a Board. They include continuing to develop and test risk appetite, further development of the sustainability agenda, reviewing the balance of activities at the Board and its Committees, and a greater focus on training, development and succession planning at Board and executive level.

In addition, Byron Grote, Senior Independent Director, led the Directors in evaluating my performance as Chairman. More information on these review processes and the results are set out on page 62.

Board changes

There were three additions to the Board during 2021. Thierry Garnier joined the Board on 30 April 2021, followed by Bertrand Bodson on 1 June 2021 and Karen Whitworth on 18 June 2021. All are independent Non-executive Directors. After having received a comprehensive induction programme, we look forward to continuing to work with them on the Board and respective Committees. For more details on their appointments, and the work of the Nominations and Governance Committee on succession planning and Board appointments, please refer to pages 63 to 65.

On 30 April 2021, Alan Stewart stepped down from the Board and as Chief Financial Officer and was succeeded by Imran Nawaz. We are delighted to have Imran on the Board and have already benefited from his wealth of skills, experience and knowledge in the food sector. The Board was sorry to see Mark Armour, Mikael Olsson and Deanna Oppenheimer step down from the Board on 25 June 2021 and we express our gratitude for their wise counsel and excellent insights.

As announced on 25 January 2022, Steve Golsby and Simon Patterson will retire from the Board at the conclusion of the forthcoming AGM. I would like to thank Steve and Simon for their outstanding commitment and invaluable contributions during their time as Non-executive Directors.

Following the above changes, the Board comprises 36% female Directors and two from a minority ethnic group. Our approach to driving enduring balance within the Board is set out in the Nominations and Governance Committee report on pages 63 to 65.

Remuneration

As planned, during the year the Remuneration Committee undertook a review of the remuneration policy to ensure it aligns with the new purpose and strategic priorities. We are proposing one change to our remuneration policy, the removal of the financial underpin in the annual bonus. In addition, we are proposing a change in the implementation of our remuneration policy to introduce ESG measures into the long-term Performance Share Plan. The new remuneration policy will be presented to shareholders for approval at the forthcoming AGM. Further details can be found on pages 80 to 82.

I look forward to connecting with you at our AGM this year in June and updating you at that time on our progress. Thank you for your continued support.

John Allan CBE
Non-executive Chairman

Compliance with the UK Corporate Governance Code

The Board is committed to high standards of governance and believes that during the year the Company was in full compliance with all applicable principles and provisions set out in the UK Corporate Governance Code 2018 (Code) with the exception of Provision 38 between February 2021 and April 2021. This is because Alan Stewart's pension contribution rate of 25% of base salary was higher than that of the wider workforce. Once Alan Stewart stepped down from the Board on 30 April 2021, the Company was in full compliance with the Code. The pension contribution rates of Ken Murphy and Imran Nawaz are aligned with those of the wider workforce at 7.5% of base salary.

Pages 46 to 99 of this report form our Corporate Governance Statement. Details of how the principles of the Code have been applied can be found throughout this Corporate governance report, the Strategic report and Committee reports.

Board leadership and company purpose

Chair's overview	46 to 47
Purpose, values and strategy	[illegible] and 55
Corporate governance framework	56
S172 statement	[illegible]
Shareholder engagement	[illegible] and 56 to 57
Board activity	58 to 60
Workforce policies and practices	18 to 19

Division of responsibilities

Role statements and Board Committees	53 to 54
Attendance and matters reserved for the Board	54
Board Committee reports	63 to 99

Composition, succession and evaluation

Board biographies	48 to 51
Board composition and succession planning	61 to 62
Annual Board evaluation	62
Nominations and Governance Committee	63 to 65

Audit, risk and internal control

Audit Committee	68 to 73
Principal risks	31 to 37

Remuneration

Directors' remuneration report	74 to 99

UK Corporate Governance Code

The Financial Reporting Council (FRC) is responsible for the publication and periodic review of the UK Corporate Governance Code, which can be found on the FRC website: www.frc.org.uk

Governance on our website

Visit our website (www.tescoplc.com/investors/corporate-governance) to view more details of our corporate governance framework including the Schedule of Matters reserved for the Board and our Code of Business Conduct.

Board of Directors.

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John Allan CBE
Non-executive Chairman
Appointed March 2015
(Independent upon appointment)

Skills and experience

John has significant board, retail and financial experience gained from both 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. He was also previously a non-executive director of Worldpay Group PLC, National Grid plc, the UK Home Office Supervisory Board, 3i plc, PHS Group plc, Connell plc, Royal Mail plc, Wolseley plc and Hamleys plc, chairman of London First and President of the CBI.

Contribution

John has extensive leadership experience and a wealth of knowledge gained across a number of business sectors, including retail. As Chairman, he has a deep understanding of governance and what is required to lead an effective Board.

External appointments

- Chairman of Barratt Developments PLC
- Chair of the Council of Imperial College, and
- Senior Advisor to PJT Partners

Ken Murphy
Group Chief Executive
Appointed October 2020

Skills and experience

Ken Murphy joined the Board of Tesco PLC on 1 October 2020. Prior to joining Tesco, Ken worked for Walgreens Boots Alliance Inc. for over 20 years in a number of senior management roles across the business. Through his role as executive vice president, chief commercial officer and president global brands at Walgreens Boots Alliance, Ken had overall responsibility for brand strategy and the commercial offer in the retail businesses of Walgreens and Boots. He previously worked for Procter & Gamble and Coopers & Lybrand (now PwC).

Contribution

Ken is a growth-orientated business leader with strong commercial, marketing and brand experience within retail and wholesale businesses. He has experience in global product brand management, product development, sales and marketing, sourcing, manufacturing and distribution.

External appointments

- None

Imran Nawaz
Chief Financial Officer
Appointed May 2021

Skills and experience

Imran has broad financial, strategic and international experience gained across a number of large multinational organisations. Prior to joining Tesco, he was CFO of Tate & Lyle PLC and held a number of senior financial roles across Europe, the Middle East and Africa, with a career of over 16 years at Mondelez International and Kraft Foods. He started his career with Deloitte and Philip Morris in corporate audit.

Contribution

Imran has over 20 years' experience in the global food industry. Imran's financial, strategic leadership and international strengths are a valuable asset to Tesco as we deliver on our strategic priorities.

External appointments

- None

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Melissa Bethell
Independent Non-executive Director
Appointed September 2018

Skills and experience

Melissa brings to the Board a wealth of international business strategy and investment management experience. Melissa is currently a partner of Atairos, an equity investment fund backed by Comcast NBCUniversal. She is managing partner of the London office and responsible for Atairos' investment activities in Europe. Melissa was previously a managing director of Bain Capital, where she worked for over 18 years and was a member of the senior leadership team responsible for strategy setting, fundraising and portfolio management. Prior to joining Bain Capital, Melissa worked in the capital markets group at Goldman Sachs & Co., with a particular focus on media and technology. She was also previously a director of Ship Midco Limited and served as a non-executive director of Samsonite Corporation (Samsonite International S.A.), Worldpay Group PLC and Atento S.A.

Contribution

Melissa's extensive international corporate experience, with a focus in the financial and technology sectors, is invaluable in delivering our strategy.

External appointments

- Non-executive director of Diageo PLC
- Partner at Atairos, an independent private investment firm and managing director of Atairos Europe, and
- Non-executive director of Exor N.V.

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Bertrand Bodson
Independent Non-executive Director

Appointed June 2021

Skills and experience

Bertrand is an accomplished business executive, who has run multi-billion pound businesses, with significant experience of digital transformation, technology and the application of AI. He is chief executive officer of Keywords Studios PLC and was previously chief digital officer at Novartis, chief digital and marketing officer at Sainsbury's Argos, executive vice president for global digital at EMI Music and co-founder and CFO of Bragster.com. He has also held senior roles at Amazon and started his career at Boston Consulting Group.

Contribution

Bertrand brings exceptional leadership and business expertise to the Board, as well as experience in delivering corporate transformation programmes while maintaining a focus on performance. His significant knowledge of digital and technology matters gained across a number of sectors, including retail, enhances the Board's oversight of these areas and the delivery of the strategy.

External appointments

- Chief executive officer of Keywords Studios PLC; and
- Member of the Supervisory Board of Wolters Kluwer NV.

R
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Thierry Garnier
Independent Non-executive Director

Appointed April 2021

Skills and experience

Thierry has significant retail experience both in the UK and internationally. Since 2019 he has been chief executive officer of Kingfisher plc and previously spent over 20 years at Carrefour, the French multi-national retailer. At Carrefour he held a number of senior roles including CEO of Carrefour Asia, CEO of Carrefour International and managing director of supermarkets for Carrefour France and was a member of the Carrefour group executive committee.

Contribution

Thierry brings extensive experience in the retail sector, with a successful track record of implementing business transformation and driving leading-edge digital innovation in competitive and rapidly changing retail environments.

External appointments

- Chief executive officer of Kingfisher plc.

N
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Stewart Gilliland
Independent Non-executive Director

Appointed March 2018

Skills and experience

Stewart has significant business and management experience in international markets, specifically those in Europe, having previously held roles with leading consumer-facing companies, including Whitbread, Mitchells & Butler and Interbrew. He held the position of chief executive of Muller Dairies UK and Ireland until 2010. Prior to joining Tesco, he was chairman of Booker Group plc.

Contribution

Stewart has over 20 years' experience and knowledge in international marketing, logistics and business management having held a number of senior roles predominantly in customer-centric businesses. The breadth and diversity of his experience benefit the Board.

External appointments

- Chairman of C&C Group plc (retiring 7 July 2022);
- Chairman of IG Design Group PLC; and
- Non-executive director of Chapel Down Group plc.

R
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Steve Golsby
Independent Non-executive Director

Appointed October 2018

Skills and experience

Steve has a wealth of knowledge of operating internationally, specifically significant leadership experience in Asia. He has a strong background in consumer marketing and 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. He was president and CEO from 2008 to 2013 and a non-executive director from 2013 to 2017. He was also previously a non-executive director of Beam Inc. His extensive international and board experience give him invaluable insights and understanding as Chair of the Remuneration Committee.

Contribution

Steve's extensive experience of building and developing international businesses, together with his operational experience and strong background in consumer marketing, make him a valuable member of the Board. As Chair of the Remuneration Committee, he is responsible for setting and implementing the remuneration policy.

External appointments

- Advisor to Thai Union Group PLC, a global leader in the seafood industry;
- Honorary investment advisor to the Thailand Board of Investment; and
- External advisor to Bain & Company.

Steve will step down from the Board at the conclusion of the 2022 AGM.

Board of Directors continued

N A R I

Byron Grote
Senior Independent Director
Appointed May 2015

Skills and experience
Byron brings broad financial and international experience to the Board having worked across BP PLC in a variety of commercial, operational and executive roles covering numerous geographies. Byron's strategic focus and financial experience complement the balance of skills on the Board and make him ideal for the role of Chair of the Audit Committee. 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.

Contribution
Byron brings a wide range of experience and skills including finance, strategy, risk and supply chain/logistics through a variety of executive and non-executive roles. He is Chair of the Audit Committee, responsible for leading the Committee to ensure effective internal controls and risk management systems are in place across Tesco.

External appointments
- Vice chairman of the Supervisory Board of Akzo Nobel N.V.
- Senior independent director of Anglo American PLC (retiring 19 April 2022); and
- Non-executive director of Standard Chartered PLC.

A I

Simon Patterson
Independent Non-executive Director
Appointed April 2016

Skills and experience
Simon has extensive knowledge and 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.

Contribution
Simon brings to the Board more than 20 years' experience in senior positions, predominantly in the management consultancy, technology, digital and finance sectors.

External appointments
- Managing director of Silver Lake Partners, a leading global technology investment firm;
- Board member of Dell Technologies, IVC Evidensia Limited, RAC Limited and ZPG Limited;
- Trustee of the Natural History Museum; and
- Vice Chairman of The Royal Foundation of The Duke and Duchess of Cambridge.

Simon will step down from the Board at the conclusion of the 2022 AGM.

N R I

Alison Platt CMG
Independent Non-executive Director
Appointed April 2016

Skills and experience
Alison has extensive experience of leadership in customer-driven organisations across the healthcare, insurance and property sectors. As CEO of Countrywide, a position she held until January 2018, she gained significant business-to-business experience adding this to the international experience she gained while leading a number of Bupa's businesses across Asia, Southern and Eastern Europe and the Middle East. Alison's experience as a CEO enables her to provide challenge and advice to the Board across a range of issues. Alison was previously Chair of Opportunity Now, a non-executive director of the Foreign and Commonwealth Office and Cable and Wireless Communications PLC.

Contribution
Alison has gained significant business-to-business and international commercial experience from working for high profile consumer-facing companies. Her former membership of the steering group of the Hampton-Alexander Review provides strategic insights on diversity and inclusion.

External appointments
- Chair of Dechra Pharmaceuticals PLC;
- Non-executive director of Spectrum Wellness Holdings Limited; and
- Advisor to Huntswood CTC Limited.

Alison will take on the role of Remuneration Committee Chair at the conclusion of the 2022 AGM.

C R I

Lindsey Pownall OBE
Independent Non-executive Director
Appointed April 2016

Skills and experience
Lindsey has substantial experience in food, grocery and retail brand development, having enjoyed a career of more than 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 a passionate advocate of supplier relationships, customers, colleagues and sustainability which directly support Tesco's strategy and her role as Chair of the Corporate Responsibility Committee.

Contribution
Lindsey's in-depth understanding of the food retail sector and stakeholder focus together with her wealth of experience in supply leadership and strategic development make her a valuable member of the Board. As Chair of the Corporate Responsibility Committee, she is responsible for the Group's environmental and social objectives and strategies.

External appointments
- Non-executive director of Story Contracting Limited and Story Contracting Holdings Limited;
- Director of The Hive Initiative Limited; and
- Independent advisor to GrowUp Urban Farms Limited.

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Karen Whitworth
Independent Non-executive Director

Appointed June 2021

Skills and experience

Karen has significant retail, strategic and financial experience gained through a number of commercial, operational and governance roles. Karen was previously a supervisory board member and member of the audit committee at GS1 UK Limited. She spent over 10 years at J Sainsbury plc, latterly as a member of the commercial board and director of non-food, Grocery and new business. Prior to joining J Sainsbury in 2007, she was finance director at online entertainment business BGS Holdings Limited and held a number of senior roles at InterContinental Hotels Group PLC. Her early career was spent at Coopers & Lybrand (now PwC), where she qualified as a Chartered Accountant.

Contribution

Karen brings a wealth of experience and extensive knowledge of the retail sector, in particular logistics and supply chain, finance and risk, to the Board.

External appointments

- Non-executive director of The Rank Group plc
- Non-executive director of Tritax Big Box REIT plc; and
- Independent adviser to GrowUp Urban Farms Limited.

Robert Welch
Group Company Secretary

Appointed August 2016

Skills and experience

Robert provides legal and corporate governance advice to the Board. He has worked as a company secretary for more than 25 years during which time he has held the positions of company secretary at FirstGroup plc and Kazakhmys PLC. Robert has also held senior positions at BPB plc and Kwik Save Group PLC.

He is a member of the executive committee of the Association of General Counsel and Company Secretaries of FTSE 100 companies and the ICSA's Company Secretaries' Forum.

Key to Board Committees

N Nominations and Governance Committee

A Audit Committee

R Remuneration Committee

C Corporate Responsibility Committee

● Chair of Committee

I Independent Board member

[illegible]

Other directors who have served during the year:

Alan Stewart served as a Director and Chief Financial Officer until 30 April 2021. Mark Armour, Mikael Olsson and Deanna Oppenheimer served as independent Non-executive Directors until 25 June 2021.

Executive Committee

Ken Murphy
Group Chief Executive

Ken's full biography appears on page 49.

Imran Nawaz
Chief Financial Officer

Imran's full biography appears on page 49.

Natasha Adams
CEO, Tesco Ireland

Natasha is responsible for Tesco's businesses in ROI.

Natasha joined Tesco in 1998 as a Personnel Manager and then served in a range of store-focused roles. Prior to being appointed to her current role, she was Chief People Officer.

Natasha joined the Executive Committee in June 2015.

Alessandra Bellini
Chief Customer Officer

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

Prior to joining Tesco in 2017, 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.

Alessandra joined the Executive Committee in March 2017.

Guus Dekkers
Chief Technology Officer

Guus is responsible for all consumer-facing, enterprise technologies and related services, spanning stores, online, supply chain and digital across the Group.

Guus joined Tesco in 2018 having previously worked at a number of major international companies, including Airbus, Volkswagen, Siemens, Continental and Johnson Controls, gaining extensive multicultural experience of driving large-scale technology transformation and change programmes.

Guus joined the Executive Committee in May 2021.

Christine Heffernan
Group Communications Director

Christine is responsible for building Tesco's reputation, leading Tesco's external and internal communications, public affairs, community and campaigns agenda.

Christine joined the Executive Committee in March 2019 having joined Tesco in Ireland in 2014 as Corporate Affairs Director. Christine has previously worked in the financial, energy and telecommunications sectors.

Gerry Mallon
Chief Executive, Tesco Bank

Gerry is responsible for leading Tesco Bank.

Gerry has held a number of leadership roles in financial services. Prior to joining Tesco, Gerry served as chief executive officer of Ulster Bank Ireland and was chief executive officer of Danske Bank UK (formerly Northern Bank). Earlier in his career, Gerry held roles at Bank of Ireland, McKinsey & Company and the UK Civil Service.

He joined the Executive Committee in August 2018.

Adrian Morris
Group General Counsel

Adrian is responsible for the legal, company secretarial, group security, resilience, regulatory and compliance functions across Tesco PLC.

Prior to joining 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. He is also a non-executive director of Moorfields Eye Hospital NHS Foundation Trust.

Adrian joined the Executive Committee in September 2012 and joined the Tesco Bank Board in April 2021.

Ashwin Prasad
Chief Product Officer

Ashwin is responsible for the strategy and policy for the planning, ranging, sourcing and supply of the products we sell across the Group. In addition, he has direct responsibility for managing this for the UK.

Ashwin joined Tesco in 2010 from Mars Inc. He has worked across a number of product divisions as a Category Director and Commercial Director.

Ashwin joined the Executive Committee in September 2020.

Matt Simister
CEO, Central Europe

Matt is responsible for all of Tesco's businesses in the Czech Republic, Hungary and Slovakia.

Matt joined Tesco in 1996 as a marketer. He built on his UK experience with three years as Commercial Director for our Czech and Slovak businesses. Following this, he returned to the UK to set up Tesco's Group Food capability. In April 2017 Matt was appointed to his current role as CEO, Central Europe.

Matt joined the Executive Committee in April 2017.

Jason Tarry
CEO, UK & ROI

Jason is responsible for all of Tesco's businesses in the UK & ROI.

Jason joined Tesco in October 1991 on the graduate recruitment programme. He has held a number of positions in the UK and internationally across both food and non-food divisions. Jason became CEO for clothing across the Group in 2012, before being appointed as Chief Product Officer in January 2015. In July 2018, Jason was appointed to his current role of CEO, UK & ROI.

Jason joined the Executive Committee in January 2015.

Emma Taylor
Chief People Officer

Emma is responsible for setting the people strategy and plans at Tesco, including reward, colleague experience and capability.

Emma joined Tesco in 2001 as part of the Tesco graduate scheme, and worked as part of store management teams before following her passion for people and moving into the People team. Emma has worked in a variety of People roles at Tesco, across large stores, convenience and in Head Office, and became People Director, UK and ROI in 2018, also joining the UK Leadership team.

Emma is a Tesco Pension Trustee.

Emma joined the Executive Committee in March 2022.

Andrew Yaxley
CEO, Booker

Andrew is responsible for the Booker business.

Andrew joined Tesco in 2001 from Mars Inc. He has worked across a number of product divisions, including as Commercial Director for our Czech and Slovak businesses. He became Managing Director of the London business in 2013 and then CEO, ROI in 2015. In 2018 Andrew returned to the UK to take up the role of Chief Product Officer and in 2020 was appointed CEO, Booker.

Andrew joined the Executive Committee in July 2018.

Division of responsibilities.

The Board

The Board has a clear division of responsibilities between the running of the Board and running the business of the Group. The roles of the Chairman, Group Chief Executive, Senior Independent Director and independent Non-executive Director are set out in separate role statements.

Chairman

The Chairman is responsible for the effective leadership of the Board and maintaining a culture of openness and transparency at Board meetings. The Chairman also promotes effective communication between Executive and Non-executive Directors and ensures all Directors effectively contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chairman ensures all Directors receive accurate, timely and clear information to assist them to make their decisions, identifies training and development needs as required, and ensures new Directors receive appropriately tailored induction programmes.

Group Chief Executive

The Group Chief Executive has day-to-day responsibility for the effective management of the Group and for ensuring that Board decisions are implemented. They play a key role in developing and reviewing Group strategies for discussion and approval by the Board. The Group Chief Executive is also tasked with providing regular operational updates to the Board on all matters of significance relating to the Group's businesses or reputation, and for ensuring effective communication with shareholders and other key stakeholders.

Senior Independent Director

The Senior Independent Director provides a sounding board for the Chairman and acts as an intermediary for the Non-executive Directors. The Senior Independent Director is available to shareholders should they have any concerns where communication through normal channels has not been successful or where such channels are inappropriate. The Senior Independent Director meets with the Non-executive Directors at least annually when leading the Non-executive Directors' appraisal of the Chairman's performance.

Independent Non-executive Director

The Non-executive Directors bring insight and experience to the Board. They have a responsibility to constructively challenge the strategies proposed by the Executive Directors, scrutinise the performance of management in achieving agreed goals and objectives and play leading roles in the functioning of the Board Committees, bringing an independent view to the discussion.

Board Committees

The Board has delegated specific responsibilities to four key Board Committees. These are each chaired by a Non-executive Director, focusing on specific areas of the Board's responsibilities.

Audit Committee

Provides independent assessment and oversight of financial reporting processes. It oversees, on behalf of the Board, the risk management strategy, risk appetite and the effectiveness of internal control processes. It also oversees the effectiveness of the internal and external audit functions.

For more information, see pages 68 to 73

Corporate Responsibility Committee

Oversees and monitors the Group's environmental and social obligations, especially those that support Tesco's sustainability strategy and material issues identified.

For more information, see pages 66 and 67

Nominations and Governance Committee

Reviews the size, composition, tenure and skills of the Board. It also leads the process for new appointments, monitors Board and senior management succession planning, reviewing the talent pipeline and talent management, and considers independence, diversity, inclusion and Group governance matters.

For more information, see pages 63 to 65

Remuneration Committee

Determines remuneration policy and packages for Executive Directors and senior managers, having regard to pay across the Group.

For more information, see pages 74 to 99

Directors' role statements and the Committee terms of reference are available on our website at www.tescoplc.com

Division of responsibilities continued

Board and Committee meetings

Regular Board and Committee meetings are scheduled throughout the year. Wherever possible the Board and Committees met in person but some meetings were also held virtually due to COVID-19 restrictions.

The Board held six scheduled meetings and additional strategy and planning days during the year, which included presentations by senior management on each of the business areas.

Directors are expected to attend all Board and relevant Committee meetings. The table below shows the record of attendance at the scheduled Board and Committee meetings. In the rare event of a Director being unable to attend a Board or Committee meeting, the Chair of the respective meeting discusses the matters proposed with the Director concerned wherever possible, seeking their support and feedback accordingly. The Chair subsequently represents those views at the meeting. During the year, the Non-executive Directors met with the Chairman without the Executive Directors being present on several occasions.

The Board is supported by the activities of the Board Committees, which ensure specific matters receive the right level of attention and consideration. The composition of each Committee is reviewed by the Nominations and Governance Committee at least annually. The Committee also reviews Board composition and succession planning. Cross-Committee membership provides visibility and awareness of matters relevant across the Committees. Each Committee Chair provides a written and verbal update on Committee activities to the Board after each Committee meeting and Committee papers and minutes are shared with all Directors. Matters considered by each of the Committees are set out in the Committee terms of reference. These can be found at www.tescoplc.com/investors/corporate-governance

The Board delegates responsibility for the day-to-day operational management of the Company to the Group Chief Executive, who is supported by the Executive Committee, Group risk and compliance committee and other committees. The Board has delegated authority to the Disclosure committee to consider timely and accurate disclosure of sensitive information. Disclosure committee meetings are convened when the need arises.

Summary of matters reserved for the Board

The Board has adopted a formal schedule of matters reserved for its attention, detailing matters that are considered of significance to the Group owing to their strategic, financial or reputational importance. The Nominations and Governance Committee reviews the schedule of matters reserved for the Board annually and proposes them to the Board for adoption. Below is a summary of matters reserved for the Board:

- Group strategy, operating plans, long-term plans and budget;
- changes to corporate and capital structure;
- major acquisitions, mergers, joint ventures and disposals;
- significant capital expenditure and borrowing;
- material contracts;
- risk management and internal control;
- changes to the pension scheme;
- financial reporting and disclosures;
- review of remuneration policies and share schemes; and
- dividend policy and payment.

The full schedule can be found at www.tescoplc.com/investors/corporate-governance

Board and Committee attendance[a]

● Chair of Committee

	Board	Audit Committee	Nominations and Governance Committee	Corporate Responsibility Committee	Remuneration Committee
John Allan	6/6	-	● 3/4	3/3	4/5
Melissa Bethell	6/6	5/5	-	-	-
Bertrand Bodson	5/5	-	-	3/3	
Thierry Garnier	5/5	-		-	4/4
Stewart Gilliland	6/6	1/1	4/4	3/3	
Steve Golsby	5/6	-	2/3	2/3	● 5/5
Byron Grote	6/6	● 5/5	4/4		5/5
Ken Murphy	6/6		-	-	-
Imran Nawaz	5/5			-	
Simon Patterson	6/6	5/5		-	-
Alison Platt	6/6	-	4/4	-	5/5
Lindsey Pownall	6/6	-	-	● 3/3	4/4
Karen Whitworth	4/4	4/4		3/3	-

Board leadership and company purpose.

Our core purpose of 'Serving our customers, communities and planet a little better every day' keeps customers at the heart of what we do, while also reflecting our responsibilities to the communities we serve and to society more broadly.

The Board has overall responsibility for establishing the Company's purpose, values and strategy to deliver our long-term sustainable success and generate value for shareholders and other stakeholders while being aligned with our culture. In implementing this, the Board ensures the Group is suitably resourced to deliver on its strategic priorities through a culture which drives the right behaviours. The Board receives updates on key elements of the people strategy which provides insight into a variety of areas including culture, diversity, inclusion, talent management, future capability, succession planning and colleague engagement. During the year the Board undertook a strategic review assessing the Company's direction, future priorities and performance framework.

More detail on the activities of the Board can be found on pages 58 to 60.

Our culture drives our behaviour

The Board is responsible for ensuring that the culture in which we operate drives the right behaviours. The Board and senior management set the tone from the top and lead by example. Our Code of Business Conduct defines the standards and behaviours expected of colleagues, and is a fundamental part of our culture and training to support our values. All new colleagues are required to complete training on the Code of Business Conduct within five days of joining Tesco. Annual refresher training is also required. In addition, 'Protector Line' allows colleagues and suppliers to raise concerns regarding misconduct and any breaches of the Code of Business Conduct. The Audit Committee routinely receives updates on compliance with the Code of Business Conduct and matters raised through 'Protector Line'. These are subject to independent investigation and, where necessary, reports are made to the Board.

Reviewing our strategy

Against a backdrop of significant change in the retail sector and increasing importance of environmental and social considerations, the Board reviewed the Company's strategy at a number of meetings during the year.

The Board discussed at length the rationale behind the changes to the purpose and the meaning and drivers behind each word. With input from members of the Executive Team, the Board reviewed the updated ambitions and how progress would be measured. The Board considered the challenges to achieving these ambitions and where improvements would need to be made across the business. Engagement with colleagues was also an important issue, to ensure awareness and understanding of the new purpose and strategy so that colleagues felt part of the journey.

The Board agreed the refreshed purpose and updated strategy in October 2021. The multi-year performance framework, which would be used to guide actions and track progress over the coming years and the four supporting strategic priorities were announced in October 2021.

Following the approval of the new strategy, the Board received further detailed updates on the long-term plan for each of the business areas and continues to receive updates on its delivery.

Further information on the refreshed purpose and strategy can be found on pages 5 to 8 and 14 to 17.

Our values put into practice

Our culture comes to life through our three values, which remain unchanged. These values underpin our purpose and have become a vital part of our culture, supporting our growth and success across the Group. They ensure that every person at Tesco understands what is most important to us – understanding our customers and their needs, working as a team in a respectful and supportive way, and showing that when we add up all the small things we do, Tesco can make a big difference to the issues customers, colleagues, communities and wider society care about.

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

Board leadership and company purpose continued

Corporate governance framework

Having an effective corporate governance framework defines responsibilities, helps the Board to deliver the Group's strategy and is vital to its decision making. It supports long-term sustainable growth while operating within a framework of effective controls. Having the right systems and controls in place ensure the Board and its Committees effectively oversee the business, maintain the highest standards of corporate governance and allow Directors to provide challenge where necessary. The Board has overall responsibility for ensuring adequate resource is available to deliver on its strategic priorities. The Board has a delegation of authority schedule in place to ensure the Board has the right level of oversight for matters that are material to the Group. The Board has established a risk management framework to manage and report the risks we face as a business, which are reviewed on at least an annual basis. The Board also undertakes a robust assessment of the Company's emerging and principal risks. Efficient internal reporting, effective internal controls and oversight of current and emerging risks are embedded into our business processes, which align to our strategic priorities, purpose and values. The Board, with the support of its Committees, places great importance on ensuring we achieve a high level of governance across the Group.

More information on risk management and internal controls can be found on pages 31 to 37 and 72.

If Directors have concerns about the Company or a proposed action which cannot be resolved, it is recorded in the Board minutes. No such concerns were raised in 2021/22. Directors are required to report actual or potential conflicts of interest to the Board for consideration and, if appropriate, authorisation. If such conflicts exist, Directors excuse themselves from consideration of the relevant matter. The Company maintains a register of authorised conflicts of interest which is reviewed annually by the Nominations and Governance Committee.

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

Board visits

Due to ongoing COVID-19 restrictions, the Board has not had the opportunity to undertake overseas visits this year. Instead the Board has received presentations by senior management from all regions and business functions allowing the Board to keep abreast of developments and to continue engaging with local management. On a number of occasions Non-executive Directors visited stores, distribution centres and other sites in the UK with the Chairman and senior management.

Details of the Board's activities during the year can be found on pages 58 to 60.

Stakeholder engagement

The Board is accountable to stakeholders for ensuring the Group is appropriately managed and achieves its objectives in a way that is supported by the right culture and behaviours. The Board spends time listening to and understanding the views of its key stakeholders and, when discussing matters at Board meetings, these views form an integral part of decision making. We also take other factors into account that we consider relevant to our decision making, including the interests and views of the communities we operate in, Tesco pensioners and our relationship with regulators and non-governmental organisations.

A key consideration when making decisions is for the Board to balance the needs of our stakeholders. The Board acknowledges that every decision it makes will not necessarily result in a positive outcome for all stakeholders. However, by considering the Company's purpose, vision and values together with its strategic priorities and decision-making process, the Board aims to ensure that its decisions are consistent and predictable.

The Annual General Meeting provides a valuable opportunity each year for shareholders to hear from the Board, and for the Board to hear from our shareholders. Despite the COVID-19 restrictions, our virtual shareholder event in June 2021 ensured we could continue to engage with our shareholders. The Board looks forward to meeting with and hearing from shareholders at the AGM this year.

In support of Directors' section 172 duties, the Board receives insights through customer, colleague, supplier and shareholder engagement into how we are perceived, what our stakeholders want and how they want to be treated.

Customers: Everything we do begins and ends with our customers. The Board recognises that making a difference starts with listening to customers, so understanding their needs and how they vary across our Group is paramount to our success. Through product development and innovation we can meet the customers' changing needs.

Colleagues: Looking after our colleagues in a culture of trust and respect is essential to the success of Tesco and is embedded in the business. The Board recognises the need to create conditions that foster talent and encourage all colleagues to achieve their full potential in an environment where 'Everyone is Welcome' and colleagues feel recognised and rewarded for the work they do together. The Board is committed to providing an open and inclusive culture, where colleagues have the opportunity to get on and where they are supported in their development.

Suppliers: The Board places great importance on ensuring suppliers are treated fairly in alignment with our values. This is a key aspect of nurturing long-term relationships and building trusted partnerships with our suppliers. It enables us to provide the best products at the best prices for our customers, and a great platform for our suppliers to grow.

Shareholders: The Board makes all decisions with Tesco's success and the interests of its stakeholders in mind. A key objective of the Board is to create value for shareholders and deliver long-term, sustainable growth. Members of the Board, senior management and Investor Relations hold regular meetings with existing and potential institutional investors and analysts to understand their views and policies.

More information on engaging with our stakeholders can be found on pages 20 to 22.

Colleague engagement

The Board engages with colleagues throughout the year receiving feedback from the Colleague Contribution Panels (CCPs) and employee surveys. We have three CCPs representing the workforce across all areas of the Group. Each of these is hosted by an independent Non-executive Director and meets every six months to discuss matters of importance to colleagues and allows the Non-executive Director to share the views and activities of the Board and its Committees. Following Mikael Olsson's retirement from the Board, Alison Platt was appointed to host the Central Europe CCP.

Board

↕

Central Europe CCP
Chair – Alison Platt
Attended by representatives from Czech Republic, Hungary and Slovakia

UK & ROI CCP
Chair – Byron Grote
Attended by representatives from Stores, Fulfilment, Distribution, Head Office, customer engagement centre and ROI

UK Subsidiaries CCP
Chair – Byron Grote
Attended by representatives from Booker, Tesco Cafe, One Stop, dunnhumby, Tesco Maintenance, Oakwood, Tesco Bank and Tesco Business Services Bengaluru

Colleagues can self-nominate themselves to be a representative, detailing why they would be suitable for the role. Selection is then completed following the individual business area process, with successful representative being appointed for two to three years.

Since the establishment of the CCPs in 2019/20, they have evolved to become a forum for two-way discussion between the Board and colleagues where representatives are comfortable to raise issues and ask questions. The forum facilitates open discussions and ensures that the Board is aware of the views of the workforce. It has provided a platform for colleagues to bring new ideas to the table including improvements for regional communications, safety measures through COVID-19 and creating synergies across the Tesco business.

Last year the CCPs met in June and November. Due to ongoing COVID-19 restrictions, the meetings were held virtually. Over the period, Directors gave an update on Board activity, including the changes to the Group with the sale of the Asia and Poland businesses, repayment of business rates, Board composition changes, and the renewed purpose and strategic priorities.

Themes raised by representatives in the latest CCPs focused on remuneration, innovation and technology. Representatives fed back that colleagues were pleased to see the introduction of the ESG measures in the long-term Performance Share Plan and that the business was moving in the right direction in innovation and technology, although how we promote our initiatives to customers and colleagues could be improved. During each CCP meeting, there is an open 'what's on your mind' session allowing representatives to raise any matters of concern.

In addition to the CCPs, we engage with contractors through a survey to obtain their views. The main focus of contractors related to concerns around the impact of tax legislation IR35, which had recently been extended to cover contractors in the private sector.

Following the CCPs, the Board receives updates directly from each Non-executive Director. The representatives feed back to colleagues within their business units and receive progress updates on identified actions. The Board welcomes the insight the CCPs offer on the views of the workforce and the issues that matter most to our colleagues and contractors.

Alison's appointment as chair of the Central Europe CCP

"I welcomed the opportunity to host the Central Europe CCP which allows me to obtain a greater understanding of the issues, challenges and opportunities in Central Europe.

Having a designated independent Non-executive Director for each region allows a deeper understanding of specific colleague-related matters in each country, ensures continuity for the representatives and allows better, more informed decisions to be made in the long-term interests of the Company and its stakeholders.

Meeting twice-yearly provides a forum for us to exchange insights, perspectives, and ideas as well as giving the representatives the opportunity to provide feedback on topical issues and express any concerns within the business they represent.

I look forward to continuing to work with the representatives in Central Europe in the future."

Alison Platt
Independent Non-executive Director

More information on colleague engagement can be found in Our colleagues section on pages 18 and 19.

In addition to CCPs, the Board receives updates on the colleagues' views, which are measured through the annual Every Voice Matters survey and more regular colleague pulse surveys, with the objective of taking any required action to improve how colleagues feel about Tesco and its direction.

Board activity.

Time spent between activities

Key to stakeholders

- Customers
- Colleagues
- Suppliers
- Shareholders

Key to KPIs

1. Grow sales
2. Deliver profit
3. Improve operating cash flow
4. Customers recommend us and come back time and again
5. Colleagues recommend us as a great place to work and shop
6. Build trusted partnerships

The Board has a detailed programme of activities that ensures operational and financial performance, risk, governance, strategy, culture and stakeholder matters are discussed frequently to support Directors' oversight and understanding. This ensures that any consideration and decision making is appropriate for the business, our stakeholders and the markets in which we operate. During the year, the Board reviewed and approved entry into material contracts taking into consideration the associated operational and financial benefits and risks. It also considered the impact on all stakeholders including financial returns, security of supply, improved pricing and quality of products.

The Board holds an annual strategic planning session at which senior managers present on each of our global business areas. The aim is to better understand market trends, technology developments, innovation and people strategies. It also explores the culture, behaviours, diversity and inclusion, supporting the long-term planning and strategic direction of the Group. Updates to the Board from the Group Chief Executive, the Chief Financial Officer and other members of senior management are scheduled in respect of all material matters to ensure the delivery of strategy in line with our purpose and values.

The table on the following pages sets out the key topics the Board reviewed, discussed and debated during the year. These were in addition to the annual cycle of matters the Board reviews.

Matters considered	Outcome	[illegible]	
- Strategic review	Strategy sessions discussed the proposed updates to the Group strategy and refreshed purpose announced in October 2021. The Board also reviewed the strategy for each of the business areas.	Having a clear strategic direction for the short, medium and long term and understanding our stakeholder expectations is vital for the delivery of our strategic priorities.	Stakeholders: Customers, Colleagues, Suppliers, Shareholders Link to KPIs: 1 2 3 4 5 6
- Group Chief Executive and Chief Financial Officer operational and financial updates	- An overview of the operational and financial performance of the business was provided at each meeting. - Periodic updates on sales, profit, cashflow, stakeholders and progress against the six KPIs.	- The Board has delegated authority to the Group Chief Executive for the day-to-day management of the business. - Performance updates from the Group Chief Executive and Chief Financial Officer provide oversight of the business and the impact actions may have on stakeholders.	Stakeholders: Customers, Colleagues, Suppliers, Shareholders Link to KPIs: 1 2 3 4 5 6
- Business updates from Tesco Bank, Booker, dunnhumby, Tesco Mobile and F&F, including the operational impact of COVID-19 - Regional updates on our businesses in the UK & ROI and Central Europe	- Provided an overview of opportunities and challenges facing the different business areas. - Provided insight into a variety of stakeholder-related matters.	- This oversight supported the Board with its strategic decision making. - Enabled the Board to identify opportunities and risks, and put in place plans as necessary.	Stakeholders: Customers, Colleagues, Suppliers, Shareholders Link to KPIs: 1 2 3 4 5 6

- Review of financial position, going concern and viability of the Group - Progress against the long-term plan and budget - Review of balance sheet and debt metrics - Updates on sales, profit, cashflow and capital expenditure in all regions - Review of funding and liquidity plans	- Refreshed capital allocation framework and review of shareholder returns and dividend policy - Management of the Group's debt capital markets activities including new issuance of a £400m sustainability-linked bond under the Euro Medium Term Note (EMTN) Programme	- Board oversight supports the strategic direction and long-term viability and ensures that future liabilities can be met in line with stakeholder expectations - Through the issuance of sustainability-linked bonds, consideration is given to the Group's decarbonisation commitment and the alignment with the sustainability strategy	Stakeholders Link to KPIs 1 2 3
- Risk management framework - Updates on principal and emerging risks - Risks, including principal risks as appropriate, are also discussed through the other matters considered	- Approval of the outcomes of the risk assessment - Agreement to the principal risks and how our business mitigates or reduces the risks - Validation of the key movements in the risks identified - Understanding of the emerging risks	- The Board reviews the most significant or principal risks facing the Group - Strengthening the risk and internal control environment is fundamental to Tesco's governance framework - The Board and Audit Committee regularly review progress	Stakeholders Link to KPIs 2 4 5 6
- Product supplier and sourcing strategy	- Alignment of our product supplier and sourcing strategy to the refreshed purpose, strategic priorities and sustainability strategy - Established a clear supplier segmentation and engagement strategy - Developed a structured approach to sourcing and strategic partnerships	- Overseen by the Board and Corporate Responsibility Committee, provides visibility of progress against our sustainability strategy and delivery against KPIs - To further build upon open, transparent and trusted partnerships with our suppliers and deliver against our Groceries Supply Code of Practice (GSCOP) commitments	Stakeholders Link to KPIs 4 6
- Technology and innovation deep dives	- Updates included operational infrastructure, technical capabilities, cyber and data privacy - Implementation of improved technology in support of our strategic priorities and alignment of infrastructure across the business - Review of innovation in line with the refreshed purpose and strategic priorities	- The Board's oversight of the data and technology strategy ensures the business moves forward through technology and innovation to meet the needs of customers and colleagues	Stakeholders Link to KPIs 1 4 5 6
- Property review	- Review of property portfolio resulting in the sale of a number of Central Europe shopping malls - Property valuation and portfolio review including a review of property joint venture arrangements	- Updates to the Board provide it with visibility of the property portfolio to ensure it is properly managed and accounted for	Stakeholders Link to KPIs 2 3
- Health and safety updates focusing on people safety and safety framework	- Identification of safety priorities and improvements in overall safety culture and behaviour - Improvements through our transformation programme with a review of data and insights - Development of a broader framework of safety metrics	- The Board places significant importance on looking after the safety of colleagues, customers and anyone else impacted by our business - The Board is responsible for ensuring Tesco is a safe place to work and shop	Stakeholders Link to KPIs 4 5
- Customer Insight update	- Through the use of multiple data sources including trends influencing consumer spend and habits globally, we have an understanding of our customers' needs to develop products and propositions for the future	- This insight into our customers is used to inform our decisions - The Board evaluates propositions to ensure the business learn and improve continuously to meet customers' current and future needs	Stakeholders Link to KPIs 1 2 4 5 6
- Investor Relations: Investor views and key market issues	- Understanding of investors' strategic and performance expectations of Tesco - Visibility of market conditions, share price performance and the future outlook - Feedback on specific investor meetings	- Ensures shareholder sentiment is understood and considered when making decisions	Stakeholders Link to KPIs 1 2 3

Board activity continued

- Culture, diversity and inclusion - Talent, succession and development - Review of annual people plan	- Colleague Contribution Panels improve our understanding of the views of the workforce to strengthen the colleague voice in the Boardroom - Analysis of results and development action plans from the annual Every Voice Matters colleague engagement survey and regular pulse surveys - Oversight of diversity and inclusion, management succession plans and talent management to ensure a continuous level of quality in management - Building leadership capability to develop and grow diverse talent and strengthen future pipeline through tailored development programmes	- Understanding what is important to our colleagues allows the Board to ensure the culture within which we operate and provides colleagues with opportunities to get on - Treating colleagues with respect and compassion is essential to building a culture of trust, a necessary component in our success and the delivery of our purpose and strategy	Stakeholders Link to KPIs 5
- Sustainability	- Oversight of our sustainability strategy by the Corporate Responsibility Committee - Approval of sustainability related initiatives, for example power purchase agreements - Establishment of a refreshed purpose and strategic drivers to include sustainability - Climate change deep dive	- Our commitments to the communities we serve and society more broadly are reflected in our refreshed purpose	Stakeholders Link to KPIs 4 5 6
- Governance matters	- Updates from Chairs of the Committees - Review of audit reform proposals - Discussed the results of the Board effectiveness review and progress against actions - Governance initiatives: share buyback programme, NED fees, cancellation of Tesco's secondary listing from the Euronext Dublin Exchange and share forfeiture programme - Governance updates including Directors' and Officers' insurance, litigation, Modern Slavery, liaison with relevant government and local authorities - Approval of significant contracts - Review and approval of statutory reporting and shareholder documentation	- An important part of the Board's role is the oversight of the Group's activities, ensuring that the Group is properly governed with the required resources. Regular reports from the Group Company Secretary update the Board on governance related matters	Stakeholders Link to KPIs 2 5

UK Soy Manifesto

The Board places great importance on our sustainability strategy and commitments, which has been demonstrated through our refreshed purpose.

The conversion of forests and other ecosystems for agricultural production – including the production of soy – is a major contributor to climate change, as well as driving biodiversity loss.

Soy is the single most impactful forest-risk commodity in Tesco's supply chain, and we're committed to ensuring that all soy comes from whole areas verified as deforestation-free by 2025. The complexity of the global supply chain means collaboration is essential and we were proud to become a signatory, alongside our industry peers representing nearly 60% of all soy used in the UK every year, to the UK Soy Manifesto launched in November 2021. The manifesto calls on the soy sector to only supply deforestation and conversion free soy to the UK by 2025.

For more information visit
www.tescoplc.com/sustainability

Composition, succession and evaluation.

Board composition
The Group is led by an effective and committed Board, with a culture of openness and transparency at Board meetings. As at the date of this report, the Board comprises 13 Directors with a wide range of knowledge and experience from a variety of sectors. Our values and leadership behaviours are a vital part of our culture, helping us ensure that through our conduct we do the right thing for the business and our stakeholders.

All Directors, with the exception of Steve Golsby and Simon Patterson, will submit themselves for re-election at the forthcoming AGM in June 2022. In considering whether each Director should be re-elected, the Board consider the skills and experience each Director brings to the Board. No Director takes part in the discussion involving their own re-election. You can read detailed information on the contribution that each Director brings to the Board in their biographies on pages 48 to 51 and in the 2022 Notice of Annual General Meeting.

Board composition (number of Directors)

Board tenure (number of Directors)

Board expertise
The Board and the Nominations and Governance Committee review the Board skills matrix, ensuring that the Board and its Committees have and maintain the necessary skills to deliver the Group's strategic priorities, taking into account the Board's diversity and inclusion policy. For more information please refer to the Nominations and Governance Committee report on pages 63 to 65.

Appointment, induction and development
Non-executive Directors are appointed on merit, against objective criteria and are initially appointed for a three-year term with an expectation that they will continue for at least a further three years. Directors are nominated by the Nominations and Governance Committee and are subsequently approved by the Board for election or re-election annually by shareholders at our AGM.

Upon appointment, all new Directors receive a comprehensive induction programme over several months. This is designed to facilitate their understanding of the business and is tailored to their individual needs. The Chairman and the Group Company Secretary are responsible for delivering the programme covering the Company's core purpose and values, strategy, key areas of the business and corporate governance.

The Board believes strongly in the development of its Directors and colleagues throughout the Group. The Chairman regularly discusses training requirements with Directors. The Board receives presentations on each business area to understand the market conditions and challenges in the different countries in which the Group operates.

Diversity and inclusion
The Board believes that it is vital to have a diverse Board, with a mix of skills, knowledge and experience across professional backgrounds, gender, tenure, age and ethnicity. A diverse Board with different perspectives, insights and viewpoints in decision making ultimately benefits the Group's stakeholders through better business performance and decision making.

The Board's diversity and inclusion policy was first implemented in July 2019 and is reviewed annually by the Board and the Nominations and Governance Committee. The Board supports the recommendations set out in the recently published FTSE Women Leaders Review and the Parker Review on ethnic diversity. The Nominations and Governance Committee will consider the recommendations from the FTSE Women Leaders Review when conducting its annual review of the Board diversity and inclusion policy. More information on the oversight of diversity and inclusion is set out in the Nominations and Governance Committee report on pages 63 to 65. The Board's diversity and inclusion policy is available at www.tescoplc.com/investors/corporate-governance.

The Board understands that supporting our workforce in a culture of trust and respect is essential to the success of the Company, where colleagues feel valued and rewarded for the work they do. The tone for diversity and inclusion across the Group is set from the top and the Board believes that having a diverse leadership team and an open and inclusive culture where Everyone is Welcome supports one of our core values: We treat people how they want to be treated. The Board's diversity and inclusion policy sits alongside the Company's various diversity and inclusion policies. These policies support the Company's wider commitment to building an increasingly diverse business where all colleagues are given equal opportunities through recruitment, learning and development and actively champion and support our colleague networks and training on the importance of inclusion. See page 19 for further details of the Group's approach to diversity and inclusion and pages 101 and 102 in the Directors' report for detail on the Group's employment policies.

Board evaluation
To ensure the Board remains effective, a performance evaluation is carried out each year to review the effectiveness of the Board, its Committees and Directors. These reviews operate on a three-yearly cycle as shown on page 62. The external evaluation offers an independent review of the Board's effectiveness. After considering proposals from Board evaluation providers, the Nominations and Governance Committee appointed Dr Tracy Long of Boardroom Review to facilitate the external review. Boardroom Review completed the previous external board evaluation in 2018/19, however the Board was satisfied with their independence and thought that Dr Long's existing knowledge could provide insights on progress on the actions identified through the previous review and identify further opportunities for improvement. Neither Dr Long nor Boardroom Review has any other connection to Tesco or any of its Directors.

Composition, succession and evaluation continued

Board effectiveness

2021/22	2022/23	2023/24
Externally facilitated effectiveness survey	**Internal effectiveness survey led by Chairman**	**Internal effectiveness survey led by Senior Independent Director**

Process

The review was designed to assess the strengths of the Board and to raise challenges and opportunities for improvement. Dr Long observed the Board and Committee meetings in October 2021 and reviewed Board and Committee papers. Interviews were held with each of the Board members. Interview topics included:

- the approach to strategy, execution and performance
- finance, audit, risk and control
- remuneration, talent development and executive succession planning
- shareholder and stakeholder engagement, and interaction with the Executive Committee and presenters
- individual Board roles, responsibilities and contribution
- leadership styles, relationships and dynamics
- future composition and succession planning
- agenda setting
- quality and presentation of information, and use of deep dives and training sessions.

Dr Long then provided the Board with a discussion document outlining the current strengths, challenges and recommendations which was discussed collectively.

Results

Boardroom Review's independent review concluded that the Board, its Committees and each of its Directors continue to be effective. Directors are well led by the Chair and the Board and Committees have an open dialogue, drawing upon the diverse range of experience and skills within the Boardroom.

All Directors demonstrated commitment to their roles and the Board's culture was deemed effective and conducive to creating a positive environment for participation and challenge by the Non-executive Directors.

The review identified some opportunities for the Board, including the following key priorities:

- continue to develop and test risk appetite to facilitate the Board's decisions
- continue to develop the sustainability agenda to balance the short, medium and long-term objectives
- reviewing the balance of activities at the Board and its Committees; and
- focus on development and succession plans at Board and Executive Committee level to strengthen the diverse management pipeline.

The Board has considered all of the recommendations contained in the review and has developed an action plan which will be reviewed on a regular basis by the Nominations and Governance Committee.

In accordance with the UK Corporate Governance Code, Byron Grote, as Senior Independent Director, led a review of the Chairman's performance by the Directors. Each Director completed a questionnaire and the results were discussed collectively in March 2022. The review concluded that the Directors were satisfied with the Chairman's performance and that he continues to operate effectively.

Progress against 2020/21 actions

Set out below is the progress made against actions identified through the 2020/21 internal Board effectiveness review. The Nominations and Governance Committee reviewed the progress during the year and discussed any further actions that were needed to address the results of the 2020/21 Board effectiveness review.

Action	Progress
To develop the Group's strategy, taking into account the appointment of the new Group Chief Executive and Chief Financial Officer	The updated strategy was discussed by the Board throughout the year and announced alongside the interim results. More information is available on pages 14, 15 and 55.
To take steps to ensure the culture of openness and constructive debate within the Board is maintained following the appointment of new members	A tailored induction programme, overseen by the Nominations and Governance Committee, focusing on Tesco's purpose, culture, values and behaviours was prepared for Bertrand Bodson, Thierry Garnier and Karen Whitworth. More information is set out on page 65. The Board is satisfied that discussions remain open, collegiate and transparent.
To review succession planning and pipeline for Executive Director and Non-executive Director roles	During the year, the Board and the Nominations and Governance Committee reviewed the succession plans for the business. More information is available on pages 63 and 64.
To continue to shape the agenda and Board focus on the most significant risks and opportunities	The Board forward planner is continually reviewed by the Chairman, CEO and Group Company Secretary. Greater focus was placed on strategy, culture, technology, online, customers and risk during the year.
To continue to ensure awareness of shareholder and government views and opinions	Shareholder and government views have been included in Board updates throughout the year and the Board receive updates from the Government Relations and Investor Relations teams.

Nominations and Governance Committee.

Committee members

Member		Member since
John Allan	Committee Chair	March 2015
Stewart Gilliland	Independent Non-executive Director	April [illegible]
Steve Golsby	Independent Non-executive Director	June 2021
Byron Grote	Senior Independent Director	December 2015
Alison Platt	Independent Non-executive Director	April 2019

Quick facts

The Nominations and Governance Committee regularly reviews the structure, size and composition of the Board and its Committees to ensure they continue to provide informed and constructive support and challenge to the management team. The Committee is responsible for identifying and reviewing suitable candidates through a formal and transparent process, ensuring that plans are in place for orderly succession to the Board. It also oversees the development of a diverse pipeline for succession to senior management roles across immediate, short and longer-term timescales.

Committee membership, together with attendance at meetings is detailed in the table on page 54.

The Committee's full terms of reference are available on our website at www.tescoplc.com/about/board-board-committees-and-executive-committee/board-committees.

"The Committee plays an important role in ensuring that the composition of the Board and its Committees have the balance and diversity of experience and skills to operate effectively, and in the best interests of our stakeholders."

John Allan CBE
Nominations and Governance Committee Chair

Committee responsibilities and key activities

Dear Shareholder

The Committee held four scheduled meetings during the year, both virtually and in person. Throughout the year, the Committee has concentrated on the composition of the Board and its Committees, succession planning, diversity and inclusion, talent pipeline and corporate governance matters.

Board composition, expertise and succession planning

The Committee regularly reviewed detailed succession plans to ensure that plans are in place for orderly succession to the Board. There were several changes to the Board and Executive Committee during the year. In April 2021, Alan Stewart stood down as Chief Financial Officer and was succeeded by Imran Nawaz. Mark Armour, Mikael Olsson and Deanna Oppenheimer retired from the Board at the 2021 AGM. Thierry Garnier, Bertrand Bodson and Karen Whitworth joined the Board as independent Non-executive Directors on 30 April 2021, 1 June 2021 and 18 June 2021 respectively. Steve Golsby and Simon Patterson will retire from the Board at the conclusion of the 2022 AGM.

Lygon Group assisted the Committee in its search for new Directors as part of its succession planning, setting rigorous selection criteria and developing detailed role profiles. Lygon Group has no connection with Tesco or any of its Directors.

Nominations and Governance Committee continued

Board skills and experience

Given the changes to the Company's strategy during the year, the Committee discussed succession planning a number of times, agreeing a more robust and integrated approach that focused on developing and retaining successors, improving diverse representation, and responding to succession risks.

The Committee is focused on ensuring our executive talent pipeline is further developed. During the year, Tony Hoggett, Chief Strategy and Innovation Officer, decided to leave the Group. Guus Dekkers, Chief Technical Officer, joined the Executive Committee in May 2021. Natasha Adams was appointed as CEO, Tesco Ireland in March 2022 and Emma Taylor was promoted to Chief People Officer to succeed Natasha Adams.

The Committee regularly reviews executive succession planning and the talent management pipeline.

Skills matrix

Our Board possesses a wide range of knowledge and experience from a variety of sectors. At Board and Committee level, consideration was given to the skills required to deliver the strategy and objectives in the longer term and to identify the potential skills and experience that may have been lost with the retiring Non-executive Directors. The matrix shown above maps the skills and experience that each Non-executive Director brings to the Board.

Noting the increasing importance of sustainability matters to the Company and its stakeholders and to support the refreshed purpose, the Committee added sustainability expertise to the skills matrix.

The skills matrix above demonstrates the broad diversity and experience of the Board.

Governance and effectiveness

The Nominations and Governance Committee regularly assesses the time commitments of Directors to ensure that they each continue to have sufficient time for their role. It also considers the potential additional time required in the event of corporate stress.

Prior to appointment, the Committee assesses the commitments of a proposed candidate, including other directorships, to ensure they have sufficient time to devote to the role. External appointments, which may affect existing time commitments relevant to the Board, must be agreed with the Chairman in advance.

The Committee formally reviews the independence of each of our Non-executive Directors each year. In accordance with the Non-executive Directors' letters of appointment, the Committee also carries out a rigorous review of performance when a Non-executive Director reaches three years' and six years' service. During the year, the Committee undertook such reviews of Byron Grote, Simon Patterson, Alison Platt and Lindsey Pownall. These performance reviews considered each Director's commitment, contribution and effectiveness, and concluded that they each continued to make a significant contribution to the Board and its Committees.

The Committee oversees the Board effectiveness review, which was externally facilitated during the year by Boardroom Review. The Committee also undertook a review of the actions that arose from the 2020/21 effectiveness review to track progress. Full details are provided on page 62.

The external review of the Committee's effectiveness concluded that the Committee remained effective, members were engaged and feedback provided to the Board was clear.

Board diversity

The Committee oversees the annual review of the Board's diversity and inclusion policy and tracks compliance against the objectives set out therein. All Board appointments are made on merit against a set of objective criteria, in the context of the skills and experience required for the Board to be effective and guard against 'group think'. Following a review, the Committee recommended amendments to the Board's diversity and inclusion policy to state that the Committee will:

- ensure that the search pool is sufficiently wide to reflect the Board's diversity commitments when considering suitable candidates for appointment to the Board;
- assist with the development of a pipeline of high-potential and high-performing candidates from diverse backgrounds to ensure the Group builds a strong pipeline of diverse talent; and
- include in the reporting of the implementation of the Board's diversity and inclusion policy the challenges faced by the Board when considering the diversity of the Board.

Alongside the Board, the Committee continues to champion the benefits of diversity – be it religious, sexual orientation, ethnic or gender diversity, or diversity of social backgrounds or cognitive and personal strengths at Board, Committee and senior management level. The Committee recognises the benefits of having a diverse Board, believing that diversity of all types makes us a better business by enabling enhanced commercial results and better decision making.

Board gender split

Board ethnicity

[illegible]

The Board, supported by the Committee, is focused on development and succession plans at both Board and executive level to strengthen the diverse management pipeline. Through regular reporting to the Board and Committee, and the Committee's oversight of the Board's diversity and inclusion policy, the Board aims to meet recommendations set out in the FTSE Women Leaders Review published in February 2022.

Appointments are always based on merit and relevant experience, while taking into account the broadest definition of diversity. To this end, the Committee continues to challenge the external search consultants, where necessary, to ensure that diversity is always considered when drawing up candidate shortlists. Further information on diversity and inclusion across the Group and the senior management gender split can be found on page 19.

Following the retirements of Steve Golsby and Simon Patterson at the conclusion of the 2022 AGM, female representation on the Board will be 36%. The Board also meets the recommendations of the Parker Review with both Melissa Bethell and Imran Nawaz being from Asian backgrounds.

John Allan CBE
Nominations and Governance Committee Chair

Non-executive Director inductions

Upon their appointment to the Board, Bertrand Bodson, Thierry Garnier and Karen Whitworth each received a tailored induction plan to gain a thorough understanding of the business, their role as Non-executive Directors and our colleagues.

Each Director received an induction pack comprising a broad range of information including Board and Committee papers, meeting minutes and details of operational and financial performance, risk management and internal controls, and key policies to provide an overview of the business.

Introductory meetings were held with each member of the Board and Executive Committee, the Group Company Secretary and key senior managers across the Group including Tesco Bank, Tesco Mobile, dunnhumby and F&F. For the Board Committee that the Directors would be joining, additional time was spent with the Committee Chair and relevant senior managers covering key issues.

The Directors also undertook site visits across different store formats and locations. Karen and Thierry visited an urban fulfilment centre and a Tesco Extra with Jason Tarry. Thierry also visited One Stop and Jack's stores. Although delayed due to COVID-19 restrictions, Bertrand, Thierry and Karen each hope to complete a day's work in one of our stores and undertake additional site visits to complete their induction programmes.

> **"My induction was both tailored and comprehensive, enabling me to understand the operations, strengths and challenges of the Group. The programme included detailed information on Tesco's businesses and the opportunity to meet colleagues from across the Group. This has allowed me to better engage with the business and contribute in a constructive way."**

Karen Whitworth
Independent Non-executive Director

Corporate Responsibility Committee.

"The launch of the Group's new purpose and strategy places communities and the planet at the heart of everything Tesco does and reflects the commitment that our customers, colleagues and other stakeholders have towards these important elements of our lives."

Lindsey Pownall OBE
Corporate Responsibility Committee Chair

Focus of Committee activities in 2021/22

Committee members

Member	Member since
Lindsey Pownall Committee Chair	April 2018
John Allan Non-executive Chair	March 2015
Bertrand Bodson Independent Non-executive Director	June 2021
Steve Golsby Independent Non-executive Director	November 2016
Stewart Gilliland Independent Non-executive Director	June 2021
Karen Whitworth Independent Non-executive Director	June 2021

The Corporate Responsibility Committee oversees the Group's social and environmental strategy, ensuring the Group discharges its responsibilities in a way that builds trust, respect and confidence. It is responsible for monitoring and reviewing external developments on environmental, social and related governance (ESG) issues which may affect the Group. It also reviews the adequacy of the Group's sustainability commitments and activity.

Details of the key decisions taken by the Committee in 2021/22 are set out below:

- approving the updated sustainability reporting strategy, including retirement of the standalone Little Helps Plan in favour of an integrated approach to reporting;
- overseeing Tesco's UK community strategy focused on tackling hunger and food inequality;
- endorsing the acceleration of carbon neutral targets for the Group to 2035; and
- supporting the proposed updates to the remuneration policy to include ESG metrics.

Committee membership, together with attendance at meetings is detailed in the table on page 54.

The Committee's full terms of reference are available on our website at www.tescoplc.com/board-committees.

Dear Shareholder

The Committee held three scheduled meetings during the year, both virtually and in person. Bertrand Bodson, Stewart Gilliland and Karen Whitworth joined the Committee in June 2021, and Deanna Oppenheimer and Mikael Olsson stepped down from the Board and the Committee at the conclusion of the 2021 AGM. Steve Golsby will step down from the Board and the Committee at the 2022 AGM.

A core focus of the Committee this year has been overseeing the changes to the Group's sustainability strategy following the Board's review of the Company's purpose and strategy. Further information about the sustainability strategy can be found at www.tescoplc.com/sustainability-reporting-hub. The refreshed purpose puts customers, communities and the planet at the heart of the business. It recognises that our continued success depends not only on the actions we take but also on the world around us. The Committee was fully supportive of the move towards greater integration of sustainability throughout the Group's businesses and operations, and the subsequent retirement of the standalone Little Helps Plan.

The Little Helps Plan has played a crucial role in focusing our sustainability efforts over the past few years. We see its evolution into a much deeper and broader integration of sustainability across Tesco as a positive step. The Committee believes the renewed focus on the most material issues – those with the greatest potential to influence business performance and those where Tesco can make the biggest difference – will ensure Tesco fulfils its obligations as a responsible business, ensure commercial longevity and help tackle the pressing issues facing society today, The Committee reviewed the process for identifying the material issues through a combination of stakeholder insight, including customer and colleague input and AI data analysis. It also assessed the potential opportunities and risks. The Committee was satisfied with the updated approach and looks forward to receiving comprehensive future updates on:

- **climate change** – addressing the threats posed and working collaboratively to achieve our net zero ambitions;
- **healthy, sustainable diets** – driving transformative change and making healthy, sustainable food available and affordable for all;
- **diversity and inclusion** – attracting, retaining and developing talent that reflects the diversity of the communities we serve, ensuring we meet their needs better than anyone else; and
- **waste** – influencing production and consumption behaviour where both food and packaging waste is avoided.

Further information about how these issues have been identified and our management strategies can be found at www.tescoplc.com/sustainability/reporting-hub.

COP26 was a pivotal moment in 2021, which shone a spotlight on the threats associated with climate change. The Committee has been impressed by Tesco's continued leadership on climate. It has endorsed the Group's accelerated climate ambitions to be carbon neutral in its own operations by 2035 across the Group, and net zero across the entire value chain by 2050. The Committee received updates on the Group's COP26 activity, including the Green Trip to Glasgow video mini-series, which showcased the work Tesco is doing to tackle the climate crisis, and the launch of a new fleet of electric delivery vans in Glasgow.

The Committee discussed Tesco's approach to managing climate-related risks and is satisfied that good progress continues to be made on understanding and managing these risks in the business. This includes quantifying the Scope 3 emissions footprint, engaging suppliers in climate data reporting and appointing the University of Cambridge as a partner in the ongoing development of climate-related scenario modelling. Further information on our Task Force on Climate-related Financial Disclosures (TCFD) can be found on pages 41 to 44.

Supporting customers to enjoy a better-balanced diet and making Tesco the easiest place to shop for healthier products continues to be a major focus for the business. The Committee received updates on activities in pursuit of this ambition, including reformulation to improve the health profile of our products which has helped remove 7.7 billion calories this year. The Committee was also presented with performance against our commitments and acknowledged the challenges associated with increasing the proportion of sales from products with a 'healthy' health score. This has not improved since 2019/20 due to mix and less healthy choices transferring from hospitality to retailers.

Over the last year, national attention has been drawn to finding a sustainable solution to tackling hunger and food inequality for families in the UK, particularly children. The Committee probed Tesco's UK community strategy, which aims to help build stronger communities through food. Central to this framework is Tesco's longstanding work with charity partners FareShare and the Trussell Trust. The Committee received updates throughout the year on the programmes initiated and their respective impact. The Committee commended the Buy One to Help a Child campaign, which provided three million meals to children living in food insecurity.

The Committee received updates on the activity across the business in support of our value of treating everyone how they want to be treated and embracing diversity. The Committee reviewed the gender breakdown of the workforce and the steps being taken to ensure it is representative of the communities we serve. In particular, it commended the transparency of the Central European business for becoming the first major employer in the region to voluntarily publish gender pay data.

Other matters reviewed by the Committee during the year included Part Two of the National Food Strategy, human rights (including sustainable livelihoods and modern slavery), young people programmes, the ongoing partnership with the Prince's Trust and product sustainability. The Committee also reviewed the introduction of ESG measures in the Performance Share Plan, further information of which is included in the Directors' remuneration report on page 8[illegible].

The Committee is a passionate advocate for transparency and stakeholder engagement and continues to work alongside key stakeholders and investors on sustainability issues. Committee members attend ESG roundtables throughout the year, bringing insight and challenge back to the business. We continue to participate in numerous ESG indices and rankings. This year Tesco became the leading retailer within the World Benchmarking Alliance's inaugural Food and Agriculture Benchmark and strengthened its performance within the Workforce Disclosure Initiative.

As part of the external Board evaluation carried out in 2021/22 the performance of the Committee was evaluated and it was concluded that it was working effectively. The Committee agreed to enhance its workings by focusing on fewer but more material issues, where the Committee can provide oversight and challenge on the integration of sustainability across the Group.

Looking ahead, the Committee will focus on overseeing the integration of sustainability across the Group and Tesco's conduct as a responsible business, and will continue to hold the business to account on delivering on its commitments.

I would like to take this opportunity to recognise the incredible efforts of colleagues across the Group and look forward to working with the Tesco team as we put communities and the planet at the heart of the business.

Lindsey Pownall OBE
Corporate Responsibility Committee Chair

Tackling food waste

Our fight against food waste calls for action from farm to fork as we strive to eliminate good food going to waste. This year, our continued focus to minimise the amount of unsold food at the end of each day across our stores and distribution centres, has resulted in us reducing food waste as a percentage of food handled by 45% across the Group since 2016. Key to this has been working with our charity partners FareShare, FoodCloud and local food banks to redistribute unsold food and in 2021/22 we donated 52.6 million meals across the Group.

For more information visit www.tescoplc.com/sustainability/reporting-hub.

Audit Committee.

"The Committee plays an important role in ensuring the integrity of financial reporting, the internal control environment and risk management processes."

Byron Grote
Audit Committee Chair

Committee members

Director	Role	Member since
Byron Grote	Committee Chair	June 2015
Melissa Bethell	Independent Non-executive Director	September 2018
Simon Patterson	Independent Non-executive Director	April 2016
Karen Whitworth	Independent Non-executive Director	June 2021

The Committee supports the Board in fulfilling its responsibilities regarding financial reporting, the effectiveness of risk management and internal controls processes and compliance matters. Further details on the division of Board responsibilities and the Committee's role in complying with the UK Corporate Governance Code are set out on page 47. The Committee's key areas of responsibility are detailed below and further discussion of key activities can be found on page 69.

Financial statements and reporting

- The Committee monitors the Group's financial reporting processes. It reviews, submits recommendations to the Board and challenges where necessary, the integrity of financial statements, including key accounting judgements and narrative disclosures.
- The Committee reviews the Group's assessments of going concern, longer-term prospects and viability and the distributable reserves position prior to any declaration of dividends.

External auditor

- The Committee considers reports from the external auditor and management's response to recommendations. It also assesses the effectiveness of the external auditor, considers their appointment, approves the remuneration for audit services and monitors the provision of non-audit services and associated fees.

Risk management and internal controls

- The Committee reviews and monitors the Group's internal controls framework and risk management processes, including key financial, operational and compliance controls, and the identification and assessment of emerging and principal risks.
- The Committee monitors risk exposures and future risk strategy, including the adopted strategy for capital and liquidity management, IT risks (including data privacy and cyber risks) and climate-related risks.

Dear Shareholder

I am pleased to present this year's Audit Committee report, which provides an insight into the work carried out by the Committee, our discussions and focus during another eventful year. Among the key activities we have undertaken or overseen during the year, we have considered a variety of special focus matters aligned with the Group's principal risks.

These areas included:

- our capital allocation strategy;
- a detailed review of cyber security and the IT control environment, incorporating a deep dive on, and continued monitoring of, cyber risk. More details can be found on page 20;
- the quantitative assessment of climate-related risks and sustainability KPI assurance;
- a review of the presentation of APMs and accounting policies;
- an update to our property buyback accounting and accounting policy;
- continued review of key financial controls;
- the evolution of our risk management framework and key discussions;
- continued debt capital markets activity; and
- the Group's response to the BEIS consultation on proposed audit and governance reforms.

During the year, we had interactions with regulators on matters concerning Group reporting. The FRC reviewed our prior year annual report and raised no substantive questions, and so we were not required to enter into further correspondence. The Committee considered the FRC's observations and the resulting improvements to the disclosures made in this Annual Report. Details of some of these improvements can be found on page 70.

Looking ahead to 2022/23, the Committee will continue to monitor macroeconomic conditions affecting the Group's assets. We will also oversee the development of plans to meet the Government's reform proposals on audit and corporate reporting, including the introduction of an audit and assurance policy.

Byron Grote
Audit Committee Chair

Committee membership, together with attendance at meetings is detailed in the table on page 54.

The Committee's full terms of reference are available on our website at www.tescoplc.com/board-committees.

Principal activities

In addition to its key areas of discussion, the Committee received regular updates from management in relation to key financial controls, the Group's evolving transformation programmes, sustainability KPI assurance and reporting, general controls, treasury, tax, pensions, insurance, payroll system enhancement, capital structure, internal audit and compliance. The Committee also received regular updates in relation to Tesco Bank which operates its own audit committee governed by specific banking regulations. We welcome representatives of the Bank to attend our meetings. The Committee Chair and the Chief Financial Officer both attend Tesco Bank meetings which ensures that knowledge is shared for mutual benefit.

Statutory reporting

In relation to the financial statements, the Committee ensures that Tesco provides accurate, timely financial results and implements accounting standards and judgements effectively. During the year the Committee considered and recommended the approval of the interim financial results, preliminary results and this Annual Report. It also reviewed climate risk-related disclosures, capital allocation strategy, the Group's distributable reserves position in advance of the declaration of dividends, corporate governance disclosures and also monitored the statutory audit.

The Committee considered the viability and going concern statements, their underlying assumptions and the longer-term prospects. The Committee also considered the appropriateness of a three-year viability assessment period reflecting the effects of the macroeconomic uncertainties faced by the Group, the impact of not only the war in Ukraine but also the dynamic and changing retail environment in which the Group operates, and evaluating going concern over an 18-month period (see Note 1). As part of our review of the financial statements, we considered, and challenged as appropriate, the accounting policies and the significant judgements and estimates underpinning the financial statements.

During the earlier part of the year, the Committee considered the accounting for the Group's Asia and Poland disposals. These discussions included the sale of properties outside the corporate transaction and the classification of assets as held for sale. Following the completion of Tesco Bank acquiring the Ageas stake in Tesco Underwriting, the Committee reviewed the approach to acquisition accounting as a business combination under IFRS 3, 'Business Combinations', and additional disclosures required in relation to these accounts. The outcome of an assessment as to net asset fair values was also considered. Details of the significant financial reporting matters and how they were addressed by the Committee are set out on page 71.

The Committee monitored the Group's compliance with the new European Single Electronic Format (ESEF) tagging requirements to facilitate comparison and analysis of financial data across markets, with additional assurance provided by Deloitte.

As impairment remains one of the most significant areas of judgement, we considered steps to simplify and improve the complex impairment model process across the Group, including tightening review controls and ensuring stronger audit trails. The Committee reviewed the level of Tesco Bank goodwill after an impairment review. It was satisfied that sufficient headroom existed and that no impairment of goodwill was required. Further details on the impairment of non-current assets is presented in Note 15.

Risk management and transformation programmes

The Committee reviewed the Group's risk register, principal and emerging risks and mitigation strategies, with particular discussion around prioritised risks and risk movements. The Committee discussed the addition of two new principal risks (cyber security and financial performance) to replace the prior year data security and liquidity risks respectively, before recommending their adoption to the Board. A robust assessment of the Group's principal risks and detailed scenario analysis work to stress test liquidity was performed as part of the viability scenario modelling. For further information on the Group's risk management framework, see page 47.

The Committee continued to oversee the Group's transformation programmes across Risk & Audit, People and Technology. This included monitoring the continued progress in relation to IT general controls, technology security and control initiatives to mitigate the Group's risk exposure and responsiveness to changing environments. We received regular updates from the Chief Technology Officer and on the related assurance programmes. After a controls failure in the People technology system which led to an over-payment during the year, although no financial loss was incurred, the Committee reviewed an assessment undertaken by Group Audit and was satisfied that the issue had been identified promptly and that the appropriate remediation of underlying controls was completed. The Committee received regular updates from management on the development of the finance change strategy in collaboration with Technology. The framework addresses higher-risk areas where systems are approaching end of life or are unsupportable. The Committee received comprehensive updates on the October 2021 cyber security incident and reviewed the root cause analysis, overall impact and remediation plan (see page 40).

Compliance

The Committee supports the Board in discharging its responsibilities in relation to anti-bribery, whistleblowing, Groceries Supply Code of Practice (GSCOP), annual and Group compliance statements, data protection and privacy compliance. In doing so, we received and reviewed biannual ethics and compliance data covering privacy, fraud, anti-bribery, gifts and entertainment, and the annual Code of Business Conduct declarations. The Committee discussed the controls and mitigating actions deployed in support of the Group's overall compliance strategy and culture to reduce instances of fraud and compliance breaches. We assessed the effectiveness of the Group's whistleblowing arrangements and reviewed compliance with GSCOP. The Committee monitored the new relationship with the GCA and received reports on supplier engagement and the internal auditing of ethical business processes. See page 102 for more information.

External audit

At each meeting the Committee considers reports from our external auditor, Deloitte. These concern interim and year-end reports, Audit Plan, audit fees, auditor independence and non-audit services, early warning reports, management letter observations and updates on ongoing audit work.

Group audit

The Committee monitors the activity, role and effectiveness of the Group Risk & Audit function, detailed on page 77. At each meeting we receive updates covering a range of management issues including periodic reviews of the employment of former auditor employees and non-audit services policies, the Group's audit and risk charters and the Audit Plan.

Other governance matters

The Committee reviews its own effectiveness and terms of reference each year in line with best practice.

Key discussions in the year

Capital allocation

The Committee was actively engaged in the refresh of the Group capital allocation framework detailed in the Interim Results 2021/22, which included capital investment in the business, maintenance of net debt ratio, a progressive dividend payout, spend on inorganic growth opportunities and a return of surplus cash to shareholders through share buybacks. We considered these proposals and recommended implementation to the Board. We will continue to receive regular updates on the ongoing share buyback programme and having successfully completed £1.5bn under the initial programme, we announced an enlarged tranche of £750m to be returned to shareholders by April 2023. Before recommending to the Board, the Committee discussed appropriate alignment with current and ongoing Group strategy and debated the structure of the ongoing programme against the longer-term plan. The Committee considered the accounting treatment, refer to Note 31 of the financial statements for further information, and the likely response from stakeholders including shareholders, pension trustees and rating agencies.

FRC corporate reporting and thematic reviews

The Company's 2021 Annual Report was reviewed by the Financial Reporting Council (FRC) as part of its routine monitoring of corporate reporting. The FRC's Supervision Committee raised no substantive questions or queries in relation to the 2021 Annual Report. The Committee discussed recommendations supporting continuous improvements in the quality of corporate reporting and considered proposals to address these observations. In response to the letter, we have included additional or enhanced disclosures in this Annual Report, including providing additional explanation to the share-based payments and share capital and reserves notes, clarifying the Parent Company pension accounting policy, renaming certain alternative performance measures (APM), renaming 'exceptional items and amortisation of acquired intangibles' and other adjustments to 'adjusting items', and enhancing our definition of what items are considered adjusting. The Committee also received and responded to queries from the IAASA concerning disclosures in compliance with Irish regulations. Although the Group is no longer required to comply with the Irish disclosure rules following the delisting of Tesco PLC shares in Ireland, the recommendations were considered. All regulator communications were closed prior to the year end.

In the year, the FRC has issued several thematic reviews. Of these, the Committee particularly discussed the outcome of assessments as to the impact of the provisions, APMs and viability and going concern reviews in this Annual Report and has overseen a detailed review of each of these disclosures for potential improvement. The Committee reviewed APM disclosures, including changes to APMs (as set out in the Glossary on page 207), continuing to ensure we avoid giving prominence to APMs over statutory measures. In relation to provisions, we have included further disclosures on timing and uncertainty of potential outflows and considered greater quantification of key assumptions in respect of our viability statement.

Sustainability-linked finance and environmental disclosures

This continued to be a progressive year for Tesco in terms of sustainability-linked finance arrangements. The Committee reviewed the Group's debt maturity profile and in October 2021, upon the Committee's recommendation, the Group refinanced a maturing 2022 bond through the issuance of a second sustainability-linked bond. The Committee will continue to discuss the appropriate use of ESG-related metrics within its current and future funding strategy and the mechanism for ESG assessment. For further information on the Group's environmental commitments and details of the sustainability-linked targets visit www.tescoplc.com/investors/debt-investors.

The Committee reviewed the proposed disclosure plan and assurance programme regarding the Task Force on Climate-related Financial Disclosures (TCFD). In the 2021 Annual Report we set out goals to expand our scenario analysis to impacts beyond trading and to shorter and longer time scales, and to further embed our considerations of climate-related risks and opportunities into our business activities, including measuring our progress. Our TCFD disclosure, which can be found on pages 41 to 44, outlines progress made in understanding and implementing the management of climate-related risks in the business.

Property buybacks

Following a review of historical property buyback accounting, we changed our accounting policy for property buybacks in light of an evolution of accepted practice in relation to the application of IFRS 16 'Leases' to such transactions. The Committee considered this change in accounting policy, the associated retrospective restatement of historical property buybacks, and the application of the new policy to property buybacks in the year. For further information, refer to Note 1 of the financial statements.

Key financial controls

The Committee considered the effectiveness of key financial controls through the outcome of a two-year self-review programme and monitored the control environment. Group Audit tested the primary key financial controls on a regular basis and reported their findings to the Committee. No significant or material control issues were identified. The Committee regularly discussed anticipated new regulatory requirements in relation to internal controls over financial reporting. Regulatory developments will continue to be monitored and as the landscape develops the project plan will be adapted accordingly.

Cyber security

The Committee held a dedicated session during which we explored various types of cyber threats, the evolution of malware and reviewed the Group's protocols in light of several high-profile cyber attacks. A review of cyber risk management across the Group, including the mitigations in place to prevent and limit the damage from attacks, has been conducted. In October 2021, disaster recovery plans were tested when the Group experienced a cyber security incident impacting a sales data system and leading to the temporary closure of the online sales website. Our response to the attack was well managed and no loss of critical or customer data was reported. As a result, we have continued to strengthen our cyber resilience measures to mitigate future loss.

IT general controls

The Committee has continued to monitor the implementation of recommendations to further enhance the Group's financial reporting systems and controls environment. The Committee received regular updates in relation to several remediation workstreams addressing IT general control weaknesses raised by Deloitte as Management Letter Points. The Committee will continue to explore the additional controls required by compliance measures and understand the breadth of the control environment.

COVID-19 statutory reporting considerations

The Committee considered the ongoing financial impact of COVID-19 and additional costs incurred due to COVID-19 in the year. The Committee reviewed proposed disclosures to ensure consistency and transparency. Pandemic overlays were considered with adjusted macroeconomic downturn and more severe global supply shortages included in the viability scenario modelling. The approach to impairment modelling and TCFD was aligned with this for consistency. A risk-weighted cash flow approach in the impairment modelling was applied to align with the FRC's recommended approach to incorporate future risk. Our impairment methodology is presented in Note 15.

[illegible]

Significant financial statement reporting issues

The Committee considered the following significant issues during the year. As part of these considerations, the Committee received updates from management and sought assurance from the internal and external auditors. The Committee was satisfied with how each of the significant issues discussed were addressed.

Going concern basis for the financial statements and viability statement	The Committee reviewed and challenged management's assessment [illegible] going concern [illegible] trading and [illegible] climate change. The Committee [illegible] plans. Based on this, the Committee confirmed that the [illegible] going concern basis for the preparation of the financial statements continued to be appropriate [illegible] statement. For further information see page 38 [illegible] Annual Report.
Acquisitions and disposals	The Committee considered the accounting and disclosure treatment of the [illegible] Tesco Bank [illegible] the Committee considered the [illegible] completed [illegible] March 2021. For further information see Notes [illegible] and 34 [illegible] the financial statements.
Impairment	The Committee reviewed and challenged management's impairment testing [illegible] the Group's portfolio of [illegible] cash generating units. The Committee considered the key assumptions and methods used for both value in use models and fair value measurements in order to conclude on the appropriateness of the impairment losses and reversals recognised. This included challenging [illegible] the use of independent third party valuations as well as considering the uncertainties [illegible] climate change. The Committee also reviewed the impairment [illegible]. For further information see Note [illegible] to the financial statements.
Tesco Bank expected credit losses (ECL)	The Committee reviewed and challenged management's [illegible] expected credit losses on Tesco Bank financial assets, considering the appropriateness of key assumptions, [illegible] and management overlays. For further information see Note 26 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, including discount rates, inflation rates and mortality rates. For further information see Note [illegible] to the financial statements.
Contingent liabilities	The Committee further considered management's assessment of the status of ongoing regulatory investigations and litigation relating to prior periods. For further information refer to Notes 28 and 33 of the financial statements.
Recognition and disclosure of commercial income	The Committee continued to monitor commercial income [illegible] the Group and discussed the outcomes of the [illegible] internal audits on commercial income and key financial controls. See Notes 1 and 2 [illegible] the financial statements for further details on commercial income.
Adjusting items	The Committee considered the presentation of the Group's financial statements and the appropriateness of the presentation of adjusting items. The Committee reviewed the nature of the adjusting items identified and concurred with management that the treatment was clear, balanced and consistently applied across years. Consideration was also given to the quality of earnings within adjusted results and related disclosures. See Note 1 to the financial statements for a definition of adjusting items and Note 4 for an analysis of adjusting items.
Alternative performance measures (APMs)	The Committee reviewed the Group's APMs presentation and [illegible] the level of prominence, and considered changes in APMs and the clarity of APM reconciliations.
Change in accounting policy	The Committee reviewed the change in accounting policy and prior year restatement in relation to property buybacks. See Note 1 to the financial statements for further information on the change in accounting policy.
Ukraine war	In light of the war in Ukraine which commenced on 24 February 2022, the Committee considered management's assessment of the impact on the financial statements both as at the balance sheet date and subsequently, in particular with respect to impairment, Tesco Bank ECL provisions, pensions, financial risk and related sensitivity disclosures. For further information refer to Note [illegible]

Audit Committee membership

All the Committee members are independent Non-executive Directors and the Board is satisfied that Byron Grote, Melissa Bethell, Simon Patterson and Karen Whitworth have significant, recent and relevant financial experience. Additionally, Byron Grote having held a Chief Financial Officer role for a significant period and Karen Whitworth as a Chartered Accountant, are considered suitably qualified in accounting and/or auditing. The Board considers that the Committee members collectively have competence relevant to the Company's sector. In addition to their general management and commercial experience. The Committee members' expertise and experience is set out in each of their biographies on pages 48 to 51. Stewart Gilliland retired as a Committee member on 7 April 2021 and Mark Armour, also a former Committee member, retired from the Board at the 2021 AGM on 18 June 2021.

At the invitation of the Chair of the Committee other regular attendees include: the Non-executive Chairman, Executive Directors, Group General Counsel, the Chief Audit and Risk Officer, the Chief Technology Officer and representatives of the external auditor. Robert Welch is appointed as Secretary to the Committee.

Audit Committee meetings

The Committee held five scheduled meetings during the year, two of which were held by video conference while the remaining three were held in person once COVID-19 restrictions had eased. Each meeting followed a distinct agenda to reflect the financial reporting cycle and particular matters for the Committee's consideration.

The Committee has a periodic and structured forward-looking planner. This is designed to ensure that responsibilities are discharged in full during the year and that regulatory developments continue to be brought to the Committee's attention. Meeting content is regularly reviewed with management and Deloitte, evolving to support appropriate discussion.

A written and oral update is provided to the Board following each meeting. Committee meetings are generally scheduled close to Board meetings to facilitate effective and timely reporting.

Committee members regularly hold private sessions following each meeting with each of the Chief Audit and Risk Officer and the external auditor to provide an additional opportunity for open dialogue and feedback without management present. The Committee Chair also meets with the Chief Financial Officer, Chief Audit and Risk Officer and external auditor on an ad hoc basis and prior to each Committee meeting.

Audit Committee continued

Committee effectiveness review

In response to last year's recommendations, the Committee undertook a systematic review of each principal risk and its mitigating factors with further development of the risk identification and prioritisation set out on page 41. We also held a deep dive on cyber security risk, details of which can be found on page [illegible]. The Committee was evaluated this year as part of the Board evaluation process and was rated highly overall (see page [illegible] for further details). The review found that the Committee was operating effectively and that its broad role and remit remained appropriate for the current needs of the business. The Chair's role in balancing a demanding agenda efficiently and allowing for adequate discussion of the most significant areas was recognised. In response to the Committee's evaluation, opportunities for further improvement were identified in relation to technology-related risks and sustainability reporting which will receive greater focus in 2022/23.

Group Audit

Group Audit (previously Internal Audit) sits within the Group Risk & Audit function. It reports directly to the Committee and administratively to the Chief Financial Officer, with a remit to provide independent and objective assurance over our Group's prioritised risks and management structures. Group Audit plays an integral role in our governance structure and provides regular reports to the Committee on the effectiveness of governance systems, processes and controls across the Group.

Group Audit's activity is primarily driven by the Internal Audit Plan (the Audit Plan) that reflects the key risks Tesco faces, the governance frameworks, management structures and the operations. Following approval by the Committee on an annual basis, the Audit Plan remains under review and subject to change throughout the year to ensure changes to the risk profile or key drivers are appropriately considered. The Committee reviews and approves all changes to the Audit Plan and receives regular updates on the outcome of the work performed.

Management culture is considered through evaluation of the control environment as part of every audit undertaken. However a structured methodology and approach for dedicated culture audits is under consideration for inclusion in the plan for future years. Beyond the Audit Plan, Group Audit also undertakes several other assurance activities including continuous programme controls reviews, pre- and/or post-implementation audits, advisory reviews, and other management-requested assurance. The reporting of these reviews is often unrated and is less structured to enable timely advice to the business. The results of these reviews are also presented and reviewed by the Committee.

The 2021/22 Internal Audit Plan and additional assurance activities undertaken by Group Audit have been completed and reviewed by the Committee, which has also reviewed and approved the 2022/23 Internal Audit Plan.

Group Audit effectiveness reviews

In line with the Internal Audit Charter, Committee terms of reference, and the recommendations of the Internal Audit Code of Practice, the Committee conducted an annual assessment of the effectiveness of Group Audit. This assessment was facilitated by Lintstock Ltd, an independent company, who provided the assessment reports which were considered by the Committee Chair, the Chief Financial Officer, and the Chief Audit and Risk Officer. This assessment included considerations of the structure and scope of the work, capabilities, independence, the adequacy and responsiveness of the audit plan, the quality of audit reports, engagement with stakeholders and the use of technology and data analytics.

The overall assessment concluded that Group Audit was effective with good ratings across all measures. The Committee satisfied itself with the effectiveness of Group Audit by considering the results of this assessment, as well as the ongoing review and oversight of the assurance activities.

In the year, the Committee approved the Group Risk Charter which defines the accountabilities for conducting risk management activities, ensuring transparency and a clear line of separation to preserve the independence of Group Risk and Group Audit from the business.

Internal controls

Management is responsible for identifying and managing risk and for maintaining a sound system of internal control. The internal control framework is intended to effectively manage rather than eliminate the risk of failure to achieve our business objectives. It can only provide reasonable, but not absolute, assurance against the risk of material misstatement or financial loss. The key elements of the Group's internal control framework are monitored throughout the year and the Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board. The Committee's review of the effectiveness of internal controls has encompassed a review of various reports provided by management, Group Control and Compliance, Group Risk, Group Audit and External Audit. Annually, the Committee reviews the Group Treasury Policy which contains a framework and approach to managing treasury risks. The Committee also receives risk management updates from various areas of the business including Pensions and Tesco Bank. Further information on the risk management process undertaken is included on page 31. Specifically for internal controls over financial reporting, a key finance controls framework is maintained and used as the basis for focused second line control activities, the results of which have been reported to the Committee through the year. This key finance controls framework is currently being enhanced to meet the future needs of a UK SOX regime.

Audit and Assurance Policy

In line with the recommendations outlined in the consultation paper issued by Department for Business, Energy and Industrial Strategy on Restoring Trust in Audit and Corporate Governance, the Group will document and implement an Audit and Assurance Policy (the AAP). Group Risk & Audit is tasked with the responsibility for facilitating the development of the AAP in coordination with other functions across the three lines of defence.

External audit

Deloitte continued as the Group's external auditor for the 2021/22 financial year. Deloitte shared a further independent perspective on certain aspects of the Group's financial control systems arising from its work and reported both to the Board and the Committee.

The Committee reviews the role of the external auditor and the scope of its work regularly and will also consider future needs as part of the AAP. The Committee also considers the effectiveness of the external auditor on an ongoing basis during the year. Amongst others, the review covers Deloitte's independence, objectivity, appropriate mindset and professional scepticism. Conclusions are based on its own observations and interactions with the external auditor and having regard to the FRC's 'Revised Ethical Standard 2019'.

Non-audit services

The FRC's 'Revised Ethical Standard 2019' has reduced the areas where the external auditor can provide non-audit services, such that only certain types of non-audit services which are closely related to an audit or required by law or regulation can be provided. The Revised Standard also provides a transitional provision that allows a previously permissible service to continue provided that certain conditions are satisfied. The Committee oversees the process for approving all non-audit work provided

External audit fees: non-audit and audit-related services

Key Increase · No change · Decrease

[illegible]	[illegible]	[illegible]		[illegible]
Provision of [illegible] services relating to Group [illegible] capital and [illegible] reporting		[illegible]	↓	Engagement team separate from the audit team with independent reviews and [illegible] completed [illegible]
Audit of Parent Company Interim Accounts drawn up to support the [illegible] of dividends to shareholders		[illegible]	↓	[illegible] engagement team and the [illegible] safeguards [illegible] were completed [illegible]
Forensic services provided [illegible] data [illegible] technology services [illegible]	[illegible]	[illegible]	↓	[illegible] Threats are mitigated by having a separate engagement team [illegible]
Other non-audit services: various audit, assurance and compliance related services permissible under the FRC's Revised Ethical Standard 2019 and its transitional provisions	[illegible]	[illegible]	↑	[illegible] management threats are mitigated [illegible] informed management [illegible] engagement teams [illegible]
Interim Review performed under International Standards of Review Engagements (UK) and Ireland 2410	[illegible]	[illegible]	↔	The Interim Review is considered an audit-related service under the FRC Revised Ethical Standard 2019 [illegible] the audit
Total	**1.5**	**2.5**		

[illegible]

by the external auditor to safeguard the objectivity and independence of the auditor and comply with regulatory and ethical guidance. Where Deloitte has been chosen, they have demonstrated the relevant skills and experience making it an appropriate supplier to undertake the work in a cost-effective and time-efficient manner, with appropriate safeguards in place.

Our policy for non-audit services is compliant with the FRC's 'Revised Ethical Standard 2019'. In line with regulation, the Group is required to cap the level of non-audit fees paid to its external auditor at 70% of the average audit fees paid in the previous three consecutive financial years.

In 2021/22, Deloitte received total fees of £13.2m (2020/21: £13.1m) consisting of £11.7m of audit fees (2020/21: £10.6m) and £1.5m for non-audit and audit-related services (2020/21: £2.5m). This is an increase of £0.1m in total fees versus 2020/21. The total of Deloitte's non-audit and audit-related service fees in the year equated to 13% of the audit fees for 2021/22 and 15% of the average audit fees for the last three years. Fees paid to Deloitte are set out in Note 3 to the financial statements. Details of the significant non-audit work undertaken this year are set out in the table above. As mentioned therein, Deloitte has been providing forensic technology and data support services since before they became the Group auditor. The transitional provision of the FRC's 'Revised Ethical Standard 2019' has been applied on the basis that the service was deemed permissible under previous independence rules and the work was contracted and commenced prior to when the Revised Standard became effective.

Effectiveness and appointment of auditor statement

The Committee conducted an audit effectiveness review of Deloitte in January 2022, which was facilitated by an independent company, Lintstock Ltd. The review evaluated the relationship between the auditors and audit stakeholders. The reviews concluded that the external auditor was effective, and the Committee recommended to the Board that Deloitte be reappointed at the 2022 AGM. The effectiveness of Deloitte is continually monitored by the Committee through regular engagement with senior management and private meetings.

Deloitte was appointed at the AGM in June 2015 following the conclusion of a formal tender process for the statutory audit contract. The Company is in compliance with the requirements of The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Processes and Audit Responsibilities) Order 2014, which relates to the frequency and governance of external audit tenders and the setting of a policy on the provision of non-audit services. The Committee reviews and makes a recommendation to the Board with regard to the reappointment of the external auditor, Deloitte, each year. In making this recommendation, the Committee monitored and assessed their effectiveness, objectivity, independence, partner rotation and any other factors that may impact the Committee's judgement regarding the external auditor. The Committee monitored compliance with the Group's policy on the employment of former Deloitte employees and concluded the auditors remained independent. Based on the performance of the auditor and its knowledge of the business, the Committee believes that it is in the best interests of shareholders to continue to recommend Deloitte as the external auditor and that a competitive tender process should be conducted no later than 2025.

Fair, balanced and understandable statement

The Committee considered this Annual Report and Financial Statements 2022, taken as a whole, and concluded that the disclosures, as well as the processes and controls underlying its production, were appropriate. The Committee recommended to the Board that the Annual Report and Financial Statements 2022 is fair, balanced and understandable while providing the necessary information to assess the Company's position and performance, business model and strategy.

Chair's letter.

"Our revised remuneration policy is aligned with our refreshed purpose and new strategy, showing the importance that we place on making progress for the benefit of our planet and our communities as well as our customers."

Steve Golsby
Independent Non-executive Director

Committee members

Director	Member since
Steve Golsby: Remuneration Committee Chair	[illegible]
John Allan: Chair, Tesco PLC	March [illegible]
Thierry Garnier: Non-executive Director	April [illegible]
Byron Grote: Senior Independent Director	[illegible]
Alison Platt: Remuneration Committee Chair designate	[illegible]
Lindsey Pownall: Corporate Responsibility Chair	June [illegible]

Quick facts

The Committee determines the remuneration policy and packages for Executive Directors and senior managers. When setting and operating this policy, the Committee also considers workforce remuneration, alignment with strategy and culture. This enables Tesco to recruit, retain and motivate its executives as part of an integrated overall approach to remuneration. The Committee is mindful of the wider public debate around executive pay and aims to ensure that executive remuneration reflects Group performance and can be justified to internal and external stakeholders.

We set out below details of the key decisions the Committee took in 2021/22:

- reviewing and agreeing any amendments to the current remuneration policy against the refreshed purpose and new strategic priorities
- determining Executive Directors' salaries for 2022/23
- determining 2021/22 incentive outcomes for Executive Directors and Executive Committee members, particularly in light of the wider socio-economic environment and the continued impacts of COVID-19
- setting challenging targets for annual bonus and long-term incentives in a particularly uncertain and challenging environment. In particular, setting robust and appropriate carbon, food waste and diversity targets, which are new measures for the Performance Share Plan (PSP) for 2022; and
- agreeing adjustments to PSP targets arising from material events that we did not anticipate at the time they were set

Quick index

Chair's letter	[illegible]4
At a glance	[illegible]
Summary of remuneration policy and implementation for [illegible]	8[illegible]
Wider remuneration at Tesco	83
Context of executive pay	85
Remuneration report	8[illegible]
Remuneration policy	93
Committee overview	[illegible]

Dear Shareholder

I am pleased to present this year's Directors' remuneration report on behalf of the Remuneration Committee ("the Committee"). This year the report introduces our new remuneration policy and how it will be implemented. The report also provides context and insight into our pay arrangements for Non-executive Directors and Executive Directors including the assessment of 2021/22 performance and pay, and our focus on pay fairness across the Group.

The new remuneration policy will be put forward for shareholder consideration and binding vote at the 2022 AGM and the remuneration report, describing how the current policy was put into practice during 2021/22 and how the new policy will be implemented in 2022/23, will be put to an advisory vote at the 2022 AGM.

Our new purpose and strategy

As part of our interim results, Ken Murphy announced Tesco's refreshed purpose and new strategic priorities. Our refreshed purpose reflects our commitment to the communities we serve and the wider environment. It will ensure their interests, along with serving customers a little better every day, drive our decision making. We have designed our strategic priorities to ensure we do the basics brilliantly, grow, or at least maintain, market share in our core UK market and embed sustainability in every decision we make, all while operating as efficiently as possible.

These ambitions and strategic priorities are reflected in our incentive arrangements. You can find further details in the At a glance section.

Our remuneration policy

In line with corporate governance requirements, our remuneration policy is reviewed every three years and approved by shareholders. Following the appointment of Ken Murphy as our new Group Chief Executive in October 2020, it was agreed that the Committee would undertake a light-touch review of the policy in 2021, with a more thorough review to be undertaken once Ken Murphy had established his new strategy. Shareholders approved the 2021 remuneration policy at the AGM on 25 June 2021 with [illegible]% voting in favour. Changes included the alignment of maximum pension contribution for Executive Directors to that of the wider workforce and the extension of the post-cessation shareholding requirement to 100% for two years.

As planned, during 2021 the Committee undertook a review of the remuneration policy to ensure it aligns to Tesco's refreshed purpose and new strategic priorities and supports our [illegible] success. In doing so, we took into account the views of our investors through shareholder consultation and of our colleagues through our Two-way Colleague Contribution Panels, as well as considering the results of our strategic and corporate governance review. As a result, we have decided to retain our current remuneration structure and incentive quantum levels.

We are proposing one change to our remuneration policy for shareholder approval at the 2022 AGM. This is the removal of the financial underpin in the bonus, to simplify our arrangements and ensure that they are more aligned to market practice.

In addition, we are also proposing one change to how we implement our remuneration policy. That is to introduce non-financial ESG performance measures into the PSP with a total weighting of 25%.

The Committee was pleased to receive overwhelming support from colleagues and investors for the above proposed changes to the remuneration policy.

Introducing ESG performance measures into the PSP

Recognising the importance of communities and the planet in our refreshed purpose, we are pleased to introduce ESG measures into the PSP. Following an extensive review of the most appropriate measures for Tesco, and having considered feedback from our investors, the Committee will be introducing the following performance measures, each with an equal weighting of 8.33% (25% in total):

- carbon reduction, aligned to our commitment to be carbon neutral in our own operations by 2035;
- food waste reduction, aligned to our goal to reduce food waste from our own operations by 50% by 2025; and
- targeting the diversity of our leadership teams, so that we better represent the communities we serve.

We have chosen these measures as they reflect the material ESG priorities for Tesco. They are also aligned to our long-term business strategy and reflect our ambition to be a market leader in this area. We aim to use measures that are robust and can be tracked and explained. In line with this, our proposed measures are output measures that can be set with a clear methodology for their calculation and audited to a recognised standard. Further details can be found on pages 79 and 82.

Alongside our new ESG measures, we believe that profitable growth and cash flow remain the key financial measures that are best aligned to the delivery and success of our new strategy over the medium and long term. We therefore consider it appropriate to retain EPS and cumulative free cash flow measures, with an equal weighting of 37.5% each.

Removal of the financial underpin in the annual bonus

We are retaining the majority of the current annual bonus plan design. Payouts are based on profit, sales and individual objectives, with the policy requiring that at least 70% of the measures are financial. Although we considered including ESG measures, it was felt these are of a longer-term nature and therefore more suited to the PSP. However, we continue to include ESG measures in individual executive objectives where relevant.

We are introducing one change to the annual bonus, which is the removal of the financial underpin. As the Committee may exercise discretion on the level of payouts, its track record of setting stretching targets each year and the fact that each measure will continue to be subject to the achievement of its own threshold level of performance, we do not believe it is necessary to have an additional hurdle and its removal will simplify the operation of the annual bonus. As the annual bonus design applies to many colleagues, its simplification will benefit more than just the Executive Directors.

2021/22 incentive outcomes

The chart below demonstrates the performance outcomes of the 2021/22 annual bonus and 2019 PSP. You can find full details of performance against the 2021/22 individual objectives on page 88.

2021/22 annual bonus achievement

The overall vesting level for the annual bonus is 95.[illegible]% of maximum for both Ken Murphy and Imran Nawaz. Neither Ken Murphy nor Imran Nawaz was in role at the time of the 2019 PSP grant. The vesting level of the 2019 PSP award, which is 86.2% of maximum, is therefore reported here for transparency and completeness. Further details can be found in the At a glance section.

The Committee has reviewed the appropriateness of these outcomes in light of the overall business performance, as well as the wider stakeholder experience and the environment as a whole. In particular, the Committee considered:

- Tesco's strong performance during the year, as outlined in more detail in the Chairman's statement and Group Chief Executive's review;
- Group sales of £55,04[illegible]m, up 3.[illegible]% year-on-year at constant exchange rates, with the UK business achieving 23 consecutive periods of net switching gains and its highest market share in over four years;
- the higher Group adjusted operating profit of £2,84[illegible]m, up 58.9% year-on-year at constant exchange rates;
- a strengthening of customer proposition, with customer perception of the brand improving by 9ppts in the year and the UK business ending the year with its strongest relative price position in six years;
- retail free cash flow increased by £9[illegible]m year-on-year to £2,2[illegible]m;
- an interim dividend of 3.20p and a recommended final dividend of 7.70p. This is 19.1% higher than the previous year's full-year dividend;
- the commitment to buyback a total of £750m worth of shares over the next 12 months; and
- a 'thank you' bonus of 1.25% of annual earnings to be paid to our hourly paid store, customer fulfilment centre and customer engagement centre colleagues in May 2022.

Chair's letter continued

We achieved this strong performance against a backdrop of significant change in the retail sector. Customers are faced with an increasing range of choices as to where, how and when to shop with the COVID-19 pandemic accelerating a number of profound shifts in consumer behaviours. Our Executive Directors have successfully navigated this period of uncertainty as demonstrated in their performance this year. Given the overall business performance achieved, the Committee is satisfied that the formulaic annual bonus and PSP outcomes are appropriate and reflect performance over the respective performance periods.

The chart below shows a breakdown of fixed and variable remuneration paid to Ken Murphy and Imran Nawaz in respect of 2021/22 and 2020/21.

Ken Murphy	Imran Nawaz

1. Ken Murphy [illegible]
2. Ken Murphy [illegible]

2022/23 salary and incentives

The Committee has reviewed the salary levels of the Executive Directors and agreed increases of 2.25% for Ken Murphy and 4.25% for Imran Nawaz, which were below the increase given to hourly paid store and customer fulfilment centre colleagues of 5.8%. Further details can be found on page 80.

All incentive awards in relation to 2022/23 will be made in accordance with the new remuneration policy, subject to shareholder approval at the 2022 AGM.

Last year, the Committee determined that the 2021 PSP award levels would be increased for Ken Murphy and Imran Nawaz from 275% to 300% of salary for the CEO and from 250% to 275% of salary for the CFO. This aimed to ensure that the leadership team was appropriately incentivised to deliver growth and that their interests were appropriately aligned to shareholders. The Committee was satisfied that these increases were supported by sufficiently stretching targets. Following this one-off exceptional increase last year, the Committee has determined that it is appropriate to return the PSP grant levels to the normal grant size in 2022 of 275% and 250% of salary respectively for the CEO and CFO.

Colleague engagement

We continued to hold Colleague Contribution Panels during the year, using the opportunity to hear directly from colleagues across the Group. We used these forums to discuss colleagues' views on executive remuneration and other matters of interest to them. In particular, we had a two-way dialogue about our proposed remuneration policy for Executive Directors. The feedback we received was very supportive of the changes and the remuneration policy as a whole. Further details of our colleague engagement are set out on pages [illegible] and 154.

During the year, the Committee also reviewed all aspects of our employee value proposition to support our refreshed purpose and new strategic priorities, of which the remuneration policy is a key part. The Committee's review also included our talent, performance management, leadership and learning propositions, as well as the pay policies, incentives and demographics of the wider workforce.

Committee changes

As announced on 25 January 2022, I will be stepping down from the Board and as Chair of the Committee at the conclusion of the 2022 AGM. I will be succeeded as Committee Chair by Alison Platt and I would like to wish her every success. It has been a privilege to serve as Committee Chair and I would like to thank the members of the Committee, both past and present, for all their support and guidance over the past four years.

AGM

On behalf of the Committee, I would like to thank shareholders for their input and engagement in the year, and we welcome any comments you may have on this report.

Steve Golsby
Remuneration Committee Chair

At a glance.

Remuneration outcome for the year

[illegible]

Ken Murphy	Imran Nawaz

[illegible]

Annual bonus outturn (audited)

The chart below shows the outcome of the 2021/22 annual bonus. We set out a summary of overall business performance on pages 3 to 30 within the Strategic report.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group sales[a]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted operating profit[a][b]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Individual objectives	Details of performance are set out on page 99			[illegible]	[illegible]	[illegible]
Total				**100%**	**95%**	**95%**

[illegible]

The performance outcome resulted in the following annual bonus payouts

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Ken Murphy	[illegible]	[illegible]	95	[illegible]	[illegible]
Imran Nawaz	[illegible]	[illegible]	95	[illegible]	[illegible]

[illegible]

At a glance continued

2019 PSP outturn (audited)

The chart below shows the outcome of the 2019 PSP award. Neither Ken Murphy nor Imran Nawaz was granted awards as they preceded their joining dates. We set out further details of the award on page [illegible]

Cumulative free cash flow[a,b]	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted diluted EPS[c]	[illegible]	[illegible]	[illegible]	[illegible]
Total			100%	86.2%

[illegible]

Strategic alignment disclosure for 2022/23 implementation

The table below sets out Tesco's incentive performance measures and how they align to our strategic priorities and purpose.

	Alignment to strategy	Alignment to strategic priorities	Alignment to purpose
2022/23 annual bonus			
Group sales (30%)	Our ambition is to drive top-line growth by increasing customer satisfaction relative to the market and growing, or at least maintaining, our core UK market share.	Magnetic Value for Customers; Easily the Most Convenient; I love my Tesco Clubcard	Customers; Communities; Planet
Adjusted operating profit (50%)	Our ambition is to grow absolute profits while maintaining sector-leading margins through leveraging our assets efficiently across all channels, exploiting new revenue streams across our digital platform and targeting productivity initiatives.	Magnetic Value for Customers; Easily the Most Convenient; I love my Tesco Clubcard; Save to Invest	Customers; Communities; Planet
Individual objectives (20%)	Individual objectives are aligned to our purpose and strategic priorities.	Magnetic Value for Customers; Easily the Most Convenient; I love my Tesco Clubcard; Save to Invest	Customers; Communities; Planet

Strategic priorities

- Magnetic Value for Customers
- Easily the Most Convenient
- I love my Tesco Clubcard
- Save to Invest

Purpose

- Customers
- Communities
- Planet

		Alignment to strategy	Alignment to strategic priorities	Alignment to purpose
2022 PSP				
Adjusted diluted EPS (37.5%) **Cumulative retail free cash flow (37.5%)**		Profitable growth and free cash flow are key financial measures that are aligned to the delivery and success of our new strategy over the medium and long term		
ESG measures (25%)	**Carbon reduction**	This is aligned to the Group's commitment to be carbon neutral across our own operations by 2035 and brings to life our purpose to serve our planet a little better every day		
	Food waste reduction	This is aligned to our goal of halving food waste across our own operations by 2030 and brings to life our purpose to serve our planet a little better every day		
	Diversity & Inclusion	We aim to increase the diversity of our leadership teams so that we better represent the communities we serve		

Shareholding requirement (audited)

The Committee wants to incentivise Executive Directors to take a long-term sustainable view of the Group's performance. For this reason, when the Committee looks at the remuneration paid in the year, it also looks at the [illegible] equity Executive Directors hold and its value based on the Group's performance.

The chart below sets out the progress of Ken Murphy and Imran Nawaz toward the minimum shareholding requirement and how Ken's shares could build up over the medium term. Following the vesting of some of his buyout awards, Imran has achieved [illegible] of his shareholding requirement of 300% of salary. As Ken joined Tesco on 1 October 2020, he has had limited opportunity to build up a holding in Tesco shares.

Executive Director shareholdings % of base salary (audited)

Ken Murphy – 2021/22

Imran Nawaz – 2021/22

[illegible]

72%	104%	238%	341%	445%
2022/23	2023/24	2024/25	2025/26	2026/27

[illegible]

The table below sets out the number and value of shares beneficially owned by Executive Directors at the beginning and end of the financial year. You can see full details of Executive Directors' interests in share awards on page 90.

	[illegible]	[illegible]	[illegible]	[illegible]
Ken Murphy	35,045	46,924	83	136
Imran Nawaz		[illegible]	–	[illegible]

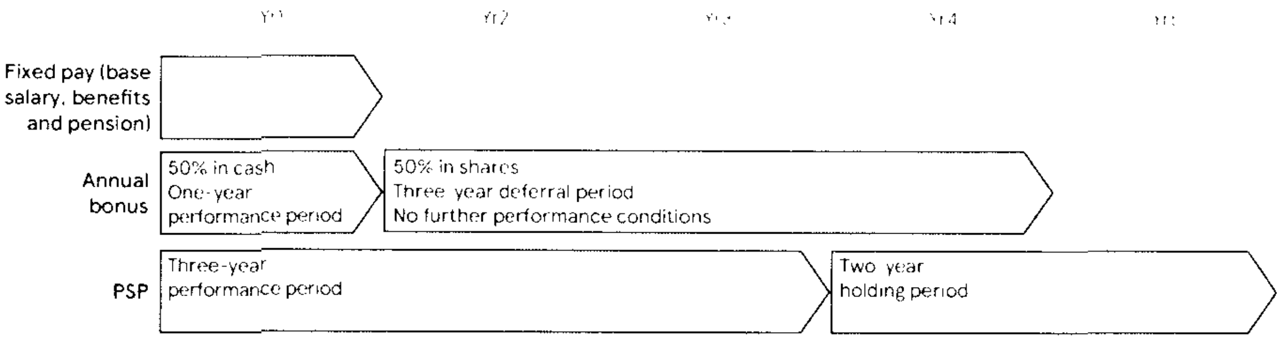
[illegible]

Summary of remuneration policy and implementation for 2022/23.

The purpose of the remuneration policy remains to attract, retain and motivate the talent capable of delivering Tesco's purpose and strategy and provide clear leadership. In this way, it aims to create long-term sustainable performance and increased shareholder value.

The tables below set out a summary of the proposed remuneration policy for Executive Directors and the time period for each element of pay. We set out the full policy on pages 93 to 98.

Total pay over five years



Base salary

Purpose and link to strategy
Supports the recruitment and retention of Executive Directors of the calibre required to develop and deliver the Group's strategic priorities.

Operation
Salaries are normally reviewed annually by the Committee, with changes being effective from 1 June. Any increases proposed will normally be in line with the typical level of increase awarded to other colleagues.

Implementation in 2022/23
Increases of 2.25% and 4.29% will be applied to the salaries of Ken Murphy and Imran Nawaz, respectively, so that the salaries from 1 June 2022 are:

Ken Murphy: £1,380,375
Imran Nawaz: £730,000

Policy change
No change.

Benefits

Purpose and link to strategy
Provides a market-competitive level of benefits to enable the recruitment and retention of Executive Directors.

Operation
Benefits take into account jurisdiction-typical benefits and the policy for other colleagues. We periodically review the range and value of benefits. There is no pre-determined maximum limit.

Implementation in 2022/23
Normal Company benefit provision.

Policy change
No change.

Pension

Purpose and link to strategy
Provides a competitive level of retirement income to enable the recruitment and retention of Executive Directors.

Operation
A defined contribution scheme or a cash allowance in lieu of pension. The maximum contribution for Executive Directors of 7.5% of base salary is aligned to the wider workforce.

Implementation in 2022/23
Cash allowance of 7.5% of base salary.

Policy change
No change.

Annual bonus

Purpose and link to strategy

Incentivises and recognises execution of the strategy on an annual basis and aligns the interests of Executive Directors with shareholders through the 50% deferral of bonus outturn into Tesco shares.

Operation

Maximum award of 250% of base salary. 50% of bonus earned is deferred into Tesco shares for three years. Up to 25% of bonus is paid for threshold performance.

Performance is measured against financial and non-financial metrics and targets are set at the beginning of the year. At least [illegible] of bonus is based on financial performance.

The Committee may apply judgement in making appropriate adjustments to bonus outcomes to ensure that they reflect underlying business performance.

Malus and clawback provisions apply.

Implementation in 2022/23

The following maximum opportunities will apply in 2022/23:

- CEO 250% of salary
- CFO 225% of salary

Performance measures (as a percentage of maximum):

- 50% adjusted operating profit
- 30% Group sales
- 20% individual objectives

[illegible]

The Board considers bonus targets to be commercially sensitive as they could inform Tesco's competitors about our budgeting. However, full and transparent disclosure of target and performance outcomes will be set out in next year's Annual Report.

Policy change

Removal of financial underpin.

PSP

Purpose and link to strategy

To incentivise the achievement of the Company's long-term strategy and the creation of long-term shareholder returns.

Operation

Maximum award of 250% of base salary. Up to 25% of an award may vest for threshold performance.

Awards are granted annually with vesting dependent on the achievement of financial and non-financial performance conditions over three years. They are also subject to an additional two-year holding period after the vesting date.

EPS targets will take into account the planned level of share buybacks over the performance period.

The Committee may adjust the formulaic vesting outcome either up or down to ensure that the overall outcome reflects the underlying business performance over the vesting period.

Malus and clawback provisions apply.

Implementation in 2022/23

The following maximum opportunities will apply in 2022/23:

- CEO [illegible] of base salary
- CFO [illegible] of base salary

Performance measures (as a percentage of maximum):

- 37.5% adjusted diluted EPS
- 37.5% cumulative retail free cash flow
- 25% ESG measures

[illegible]

See page 82 for further details of PSP awards to be granted in 2022/23.

Policy change

No changes to policy. Within the flexibility of the policy, introduction of ESG measures to awards made following the approval of the remuneration policy at the 2022 AGM. For the 2022 PSP grants, ESG measures will have a total weighting of 25% and will be based on carbon reduction, food waste reduction and the diversity of our leadership teams.

Shareholding requirement

The Group Chief Executive is expected to build and maintain a holding of shares to the value of 400% of salary and the Chief Financial Officer to 300% of salary. Shares counting towards the guideline include beneficially owned shares (including shares held by connected persons), the net of tax value of deferred shares under the annual bonus (since they are not subject to performance conditions) and any buyout awards not subject to performance conditions. Following their departure from the Company, Executive Directors are required to hold the lower of their shareholding guideline or their actual shareholding in a corporate sponsored nominee account for two years.

You can find details of the outstanding share awards held by Executive Directors on page 90.

Policy change

No change.

Summary of remuneration policy and implementation for 2022/23 continued

PSP awards to be granted in 2022/23

As previously announced as part of our strategy for creating long-term sustainable value for our stakeholders, we are undertaking a share buyback programme. The Committee has therefore considered the potential impact on the Group EPS performance.

When setting the 2022 PSP EPS targets, the Committee has considered our planned level of share buybacks over the performance period. We believe this to be appropriate given that share buybacks have been identified as an integral part of our new strategy over the performance period. As a result, we do not plan to adjust the targets in the future.

The table below sets out the financial performance measures and targets for the 2022 PSP award grant.

[illegible]	[illegible]	[illegible]	[illegible]
Adjusted diluted EPS	[illegible]	[illegible]	[illegible]
Cumulative retail free cash flow	[illegible]	[illegible]	[illegible]

[illegible]

The table below sets out the ESG performance metrics and targets for the 2022 PSP award grant.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Carbon reduction [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Food waste reduction [illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Diversity & inclusion (gender/ethnicity) [illegible]	[illegible]	[illegible]	[illegible]	[illegible]

The above measures reflect the material ESG priorities for Tesco and are aligned to our new strategic priorities. Tesco's sustainability strategy will evolve over time and, as such, we anticipate that our ESG performance measures will simultaneously evolve to reflect this and any implementation and robustness learnings over time.

Chairman and Non-executive Director fees

The fees for the Chairman and the Non-executive Directors are reviewed each year. The Chairman's fee is reviewed by the Committee (without the Non-executive Chairman present) and the Non-executive Director fees by a committee comprising the Chairman, Group Chief Executive and Chief Financial Officer. In 2021, following a review of independently sourced data, it was agreed to increase the average Non-executive Director fee by 2[illegible]%, below the increase for hourly paid store colleagues, from 1 September 2021 and to maintain the Chairman's fee at its current level.

	[illegible]	[illegible]
Non-executive Chairman fee	[illegible]	[illegible]
Non-executive Director fee	[illegible]	[illegible]
Additional fees		
Senior Independent Director	[illegible]	[illegible]
Chair of the Audit, Corporate Responsibility and Remuneration Committees	[illegible]	[illegible]
Membership of Audit, Corporate Responsibility, Nominations and Governance and Remuneration Committee	[illegible]	[illegible]

Wider remuneration at Tesco.

The principles of a fair workplace

[illegible]

The following principles guide our approach to reward:

Competitive	Simple	Fair	Sustainable
Setting pay with reference to internal relativity and external market practices	Helping all colleagues to understand how they are rewarded	Achieving consistent outcomes through flexible and transparent policies	Aligning reward to business strategy and performance

How we bring our principles to life

Tesco provides colleagues across the Group with a competitive reward package. The Committee has responsibility for reviewing remuneration and related policies for colleagues throughout the Group. This ensures we take the reward, incentives and conditions available to colleagues into account when considering the remuneration of Executive Directors and senior management. Further details can be found on page 18.

In Tesco's UK business in 2021/22, colleagues received a reward and benefits package in line with the elements set out in the table below. The purpose of each element is the same for all colleagues, creating a consistent cascade throughout the organisation.

	[illegible]	
Base salary	Base salary supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their roles. Base salary provides fixed remuneration and reflects the size, scope and complexity of individual role responsibilities.	
Benefits	A market-competitive level of benefits for colleagues, enhancing the reward package and providing other reasons to work at Tesco, such as discount in store.	
Pension	The opportunity to save for retirement, with the employing company matching employee contributions.	
All-employee share plans	The opportunity to purchase shares in Tesco.	
Annual bonus	The opportunity for colleagues to receive an annual bonus for delivering business and personal goals. The opportunity gives colleagues a balance between fixed and variable pay related to market practice based on role. At senior levels, a proportion of any bonus is deferred into Tesco shares to provide additional alignment with shareholders' experience.	Our pay approach aims to provide regular and predictable earnings through competitive base pay for our hourly paid store colleagues. We agreed with our unions in 2019 that hourly paid colleagues in stores would not receive an annual bonus, replacing it with a higher base rate of pay.
Performance Share Plan	Colleagues with responsibility for long-term Group performance are incentivised to achieve Tesco's strategy and create sustainable shareholder value. Measures and targets for long-term incentive plans are consistent for all participants and measured over a three-year period. A two-year holding period after the vesting date also applies at Executive Director level.	

Wider remuneration at Tesco continued

The balance between the different elements of remuneration depends largely on the role and seniority of colleagues. Junior colleagues' remuneration is principally fixed pay, reflecting our principle of helping to support a decent standard of living, where regular pay levels help with personal budgeting and planning. For more senior colleagues, remuneration is weighted more towards variable pay, which can increase or decrease based on the performance they achieve against our goals. This approach to pay design also reflects each individual's ability to influence Tesco's performance.

While the balance of the elements of remuneration may differ, we therefore have a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark.

We regularly ask colleagues across the Group how they feel about pay and benefits at Tesco. In our 2022 Every Voice Matters colleague survey, 64% of colleagues agreed that the total reward package at Tesco is competitive, which is well ahead of relevant external benchmarks. In addition, 84% of colleagues said they are able to work flexibly and 83% feel they can be themselves at Tesco without fear of judgement. Our colleagues are the heart of our business and Tesco remains committed to building an inclusive workplace where everyone can get on. Our ongoing initiatives include:

- championing health and wellbeing to support our colleagues in and out of work through a defined offer of mental, physical and financial wellbeing;
- ensuring inclusivity in everything we do by embedding inclusive behaviours to build an inclusive workplace with a sense of belonging, led by inclusive leaders;
- equipping our colleagues with the skills they need to succeed now and in the future through various skills and career programmes; and
- developing the next generation of talent through programmes for interns, apprentices and graduates.

Our response to COVID-19 continues to be guided by doing the right thing for our colleagues and other stakeholders. In 2020/21 we thanked hourly-paid colleagues in the UK with a 10% bonus. This was paid in April, May and June and reintroduced in December to recognise their exceptional effort during the peak Christmas trading period. In June 2021, we awarded an additional 2% end-of-year recognition bonus to hourly-paid colleagues. In May 2022, we will again award a similar 1.25% end-of-year recognition bonus to hourly-paid colleagues in the UK. We have also operated similar colleague recognition schemes in Central Europe.

Colleague engagement

Engaging with colleagues and understanding their views is vital to the Committee and its decision making. During the year, three Colleague Contribution Panels were held to seek the views of colleagues from across the Group on areas of specific interest to the Board, its Committees and our colleagues. At the meetings, colleague representatives discussed the new remuneration policy. The content also showed how remuneration is aligned across the Group and how the same principles of remuneration are applied across the entire workforce. The new remuneration policy was received positively by the colleague representatives. We set out further details of the Colleague Contribution Panels on page 57.

During the year, the Committee reviewed the pay, policies, incentives and demographics of the wider workforce and the findings from the Every Voice Matters colleague survey on remuneration. We used this information to guide our approach to Executive Director remuneration.

Change in remuneration of colleagues and directors

The table below shows the percentage change in the annual remuneration of Directors and the average UK colleague over the last three years.

The reporting regulations require disclosure of the change in remuneration of employees of the parent company. As the only employees of this Company are the Executive Directors, the Committee decided to use the average UK colleague as the appropriate comparator group. This is because they represent the majority of Tesco colleagues and the Executive Directors are predominantly based in the UK.

	Salary/fees (% change)			Benefits (% change)			Bonus (% change)		
	2021/22	2020/21	2019/20	2021/22	2020/21	2019/20	2021/22	2020/21[b]	2019/20
Executive Directors									
Ken Murphy[b][c]	0%	-	-	18.9%	-	-	100%	-	-
Imran Nawaz[d]	-	-	-	-	-	-	-	-	-
Non-executive Directors									
John Allan	0%	1.5%	3.4%	14.3%	(46.2)%	62.5%	-	-	-
Melissa Bethell	2.2%	2.2%	172.7%	100%	(100)%	100%		-	-
Bertrand Bodson[e]	-	-	-	-	-	-	-	-	-
Thierry Garnier[e]	-	-	-	-	-	-	-	-	-
Stewart Gilliland	2.8%	5.0%	42.3%	0%	(50.0)%	300%	-	-	-
Steve Golsby[f]	8.1%	2.5%	22.2%	0%	(100)%	30.8%	-	-	-
Byron Grote[f]	12.3%	3.0%	3.9%	100%	(100)%	100%	-	-	-
Simon Patterson	2.2%	2.2%	4.7%	100%	(100)%	100%	-	-	-
Alison Platt	2.8%	5.0%	17.4%	100%	(100)%	0%	-	-	-
Lindsey Pownall[f]	9.2%	1.9%	2.9%	100%	(87.5)%	(20.0)%	-	-	-
Karen Whitworth[e]	-	-	-	-	-	-	-	-	-
Former Directors									
Alan Stewart[b][c][d]	0%	0%	0%	(3.4)%	(11.3)%	5.1%	-	(100)%	54.6%
Mark Armour[c]	1.6%	2.2%	4.7%	-	(100)%	100%	-	-	-
Mikael Olsson[c]	1.9%	2.9%	5.1%	-	(100)%	(60.0)%	-	-	-
Deanna Oppenheimer[c]	1.7%	2.8%	(7.7)%	200%	(66.7)%	(50.0)%	-	-	-
Colleagues									
Average UK colleague	3.3%	6.8%	3.0%	0%	0%	0%	N/A[a]	N/A[a]	(100)%[a]

(a) We agreed jointly with our unions in 2019 that hourly-paid colleagues in stores would no longer receive an annual bonus, replacing it with a higher rate of base pay.
(b) No bonuses were paid to Executive Directors in 2020/21.
(c) The 2020/21 salary and benefits of Ken Murphy and Alan Stewart, and the 2021/22 fees and benefits of Mark Armour, Mikael Olsson and Deanna Oppenheimer have been annualised to ensure a consistent comparison with the prior year.
(d) Imran Nawaz joined the Board on 1 May 2021 and Alan Stewart retired from the Board on 30 April 2021.
(e) Bertrand Bodson, Thierry Garnier and Karen Whitworth joined the Board on 1 June, 30 April and 18 June 2021, respectively, and Mark Armour, Mikael Olsson and Deanna Oppenheimer retired from the Board on 25 June 2021.
(f) On 25 June 2021, Byron Grote was appointed Senior Independent Director, Steve Golsby joined the Nominations and Governance Committee and Lindsey Pownall joined the Remuneration Committee.

Context of executive pay.

Provision 40 disclosures

In developing our approach to remuneration, the Committee was mindful of Provision 40 of the UK Corporate Governance Code and considers that the executive remuneration framework addresses the following factors:

Clarity	The operation of our remuneration policy, its alignment to the purpose and strategy, and the necessary performance requirements are clearly disclosed. This provides clarity to all stakeholders on the relationship between the successful implementation of the strategy and how our leadership is rewarded. Tesco has designated Non-executive Directors to host Colleague Contribution Panels comprising elected colleagues from across the Group to engage on various topics to ensure internal clarity on remuneration. During the year, colleagues and investors were consulted on the new remuneration policy. You can find further details on how Tesco engages with stakeholders on pages 20 and 21.
Simplicity	The Company operates an approach to remuneration that is simple to understand and familiar to stakeholders: – fixed element: base salary, benefits and pension. – short-term element: an annual performance-related bonus with both financial and non-financial metrics. Half is paid in cash and the other half in Tesco shares deferred for three years; and – long-term element: PSP awards vest after three years on achievement of stretching performance criteria and are subject to a further two-year holding period.
Predictability	Our remuneration policy contains details of maximum opportunity levels for each component of pay. Actual incentive outcomes vary depending on the level of performance achieved against specific measures.
Proportionality	The annual bonus and PSP plans provide clear alignment between incentive outcomes and the achievement of Tesco's strategy, with stretching performance conditions set to award commensurate reward for commensurate performance. The use of annual bonus deferral, PSP holding periods and our shareholding requirements (including after leaving Tesco) ensures that Executive Directors have a strong drive to ensure that performance is sustainable over the long term. The stretching performance conditions, along with the discretion available to the Committee ensure that outcomes do not reward poor performance.
Risk	The remuneration structure aligns with Tesco's purpose, values and strategy, including sustainability goals, and the long-term interests of shareholders and other stakeholders. The Committee has satisfied itself that the remuneration arrangements do not encourage risk-taking or behaviours that are incompatible or inconsistent with these factors. The Committee also has the discretion to apply malus and clawback in certain circumstances, including in the event of any behavioural risks.

Alignment to culture	The Board reviews and adopts the Long Term Plan (LTP) annually. The Committee reviews the measures and targets of the annual bonus and PSP each year to ensure measures and targets are aligned to the LTP, are appropriately challenging, support the Group's culture and strategy, and create value for stakeholders. To further align with the refreshed purpose, ESG metrics will be introduced into the PSP in 2022. To ensure our incentive schemes drive behaviours consistent with our purpose, values and strategy, we aim to: – understand the remuneration of the wider workforce; – ensure pay decisions are aligned across the Group; and – engage with our stakeholders, including our colleagues.

Approach to target setting

In determining the range of targets for each measure for the annual bonus and 2021 PSP grant, the Committee considered the Board-approved budget and LTP, market expectations, prior-year achievement and the wider economic environment. The Committee also considered the Board's assessment of how achievable the budget is as part of its work to ensure targets are appropriately stretching.

The Committee may use its discretion to adjust the formulaic outturns of annual bonus and PSP awards if it judges they do not align with achieved results, or in light of unforeseen circumstances.

Comparator groups for remuneration

When setting the remuneration of Executive Directors, one of the factors the Committee considers is the relevant markets for the Executive Directors, which the Committee believes is the FTSE 50. When reviewing the CEO's remuneration, the Committee also references remuneration of a group of leading international companies whose selection is based on their size and complexity.

The following chart sets out the market positioning of the CEO's and CFO's on target and maximum remuneration compared to the FTSE 50. This is similar to the information the Committee uses as a reference when setting executives' remuneration, which enables the Committee to ensure remuneration levels are consistent with the approved remuneration policy.

Ken Murphy	Imran Nawaz

Context of executive pay continued

Total shareholder return (TSR)

The graph below illustrates the Company's TSR performance (share price growth plus dividends paid) against the performance of the FTSE 100 index over a 10-year period to 26 February 2022. We have chosen the FTSE 100 index because it is a broad-based index of which the Company has been a constituent member throughout the period.

Group Chief Executive remuneration

	2012/13	2013/14	2014/15[a]		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21[b]		2021/22
	Philip Clarke	Philip Clarke	Philip Clarke	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Ken Murphy	Ken Murphy
Group Chief Executive Single total figure of remuneration (£'000)	1,280	1,634	764	4,133	4,632	4,147	5,113	4,600	6,328	1,650	992	4,745
Annual bonus outturn (% of maximum award)	0%	0%	0%	–	96%	76%	73%	52.5%	75.9%	0%	0%	95%
PSP vest (% of maximum award)	0%	0%	0%	–	–	–	30%	28.8%	48.8%	23.1%	–	–
Share option vesting (% of maximum award)	0%	–	–	–	–	–	–	–	–	–	–	–

(a) Philip Clarke stepped down as Group Chief Executive on 1 September 2014 and was succeeded by Sir Dave Lewis on the same date.
(b) Sir Dave Lewis stepped down as Group Chief Executive on 30 September 2020 and was succeeded by Ken Murphy on 1 October 2020.

Group Chief Executive remuneration compared to Tesco's share price movement

The graph below sets out the Group Chief Executive Single total figure of remuneration (STFR) compared to Tesco's share price, rebased to £100 at 25 February 2012.

(a) Where there has been a change in Group Chief Executive in the year, we have included the remuneration of both Group Chief Executives. This impacts the years ending February 2015 and February 2021.

Relationship between the pay of the Group Chief Executive and UK employees

Tesco is a retail business with one of the UK's largest workforces, employing around 300,000 colleagues, who are mostly in customer-facing roles in-store or working in our distribution network. Given the workforce profile, all three of the Group Chief Executive pay ratio reference points compare our Group Chief Executive's remuneration with that of colleagues in mainly customer-facing roles. There is relatively little difference in the outcomes, as we show opposite. Whatever the Group Chief Executive pay ratio, Tesco will continue to invest in competitive pay for all colleagues.

The following table shows the ratio between the consolidated STFR of the Group Chief Executive for 2021/22 and the lower-, median- and upper-quartile pay of our UK colleagues. We also show for comparison the pay ratios for the three preceding years.

The total full-time equivalent (FTE) pay and benefits for the relevant colleagues is based on the period from 7 February 2021 to 5 February 2022. The reporting regulations offer three calculation approaches for determining the pay ratio - Options A, B and C. We have chosen Option C for all years, which we deem the most appropriate methodology for Tesco.

Total pay ratio

	2018/19	2019/20	2020/21	2021/22
Ratio of CEO's STFR				
25th percentile	247:1	355:1	136:1	251:1
50th percentile	226:1	305:1	118:1	224:1
75th percentile	209:1	279:1	116:1	216:1

The table below sets out the base salary and total pay and benefit details of the Group Chief Executive and UK colleagues at the 25th, 50th and 75th percentile.

	2021/22
Group Chief Executive's base salary	£1,350,000
Group Chief Executive's total pay and benefits	£4,745,261
UK colleagues' salary	
Colleague at 25th percentile	£17,853
Colleague at 50th percentile	£19,676
Colleague at 75th percentile	£21,450
UK colleagues' total pay and benefits	
Colleague at 25th percentile	£18,912
Colleague at 50th percentile	£21,217
Colleague at 75th percentile	£21,937

As more than half of Tesco's colleagues work part-time, the exercise required to determine FTE is extensive and particularly complex. Tesco decided to use Option C as it had completed comprehensive data collation and analysis of all relevant colleagues for the purpose of gender pay gap (GPG) reporting. This enabled us to use additional pay data (including overtime, salary sacrifice values and employer pension contributions) to ensure the STFR reflects total pay made throughout the financial year. This approach minimised the differing definitions of pay for STFR and GPG to enable us to select the 'best equivalents' of P25, P50 and P75. The only adjustments made to determine the pay and benefits of the colleagues identified as P25, P50 and P75 related to working hours, basing amounts on a 36.5-hour working week. We believe the 'best equivalent' colleagues identified are reasonably representative of the 25th, 50th and 75th percentiles as Tesco has compiled pay on an FTE basis. We reviewed pay across a sample of employees at each percentile before selecting the employee who was most representative.

As we set out on pages 83 and 84, we base our reward framework across the Group on a consistent set of principles for all - that overall remuneration should be competitive when compared to similar roles in other organisations from which we draw our talent. We therefore determine colleague pay using the same principles as the pay for our Executive Directors. On this basis, we believe the median ratio is consistent with the Company's wider policies on employee reward, pay and progression.

In the case of the Group Chief Executive, his total remuneration comprises a significant proportion in variable pay. His STFR will therefore vary considerably depending on the level of performance against the metrics driving the annual bonus and PSP. In 2021/22 the annual bonus paid out at 0% of maximum potential compared to 95% in 2021/22. This has resulted in a significant increase in the Group Chief Executive's pay ratio numbers this year.

Gender pay

We are pleased to report that for our 2020/21 report both our median and mean GPG have decreased. Our median gender pay gap has decreased for the third consecutive year, to 6.7% - less than half the UK national average of 15.4%, and our lowest number since we started reporting. Our median bonus gap has increased slightly to 26.5%.

Our GPG is attributable to two key factors. The first is having a higher number of male colleagues in our more senior roles. We are committed to increasing the percentage of female colleagues in such roles to ensure our leadership team truly reflects our customer base and wider colleague population. We will continue to drive female representation across all roles to close the gap. The other factor is that we have more male colleagues than female colleagues who work Sundays, nights and bank holidays - shifts that pay premiums - across our stores and distribution centres. If we remove premium payments from the calculation, our median pay gap reduces significantly, to 2.9%.

We have included a stretching diversity and inclusion measure in the PSP for 2022 to ensure we continue to build a workplace where everyone is welcome and our workforce represents the communities we serve.

See our Everyone's Welcome Report for more information at www.tescoplc.com/sustainability/taking-action/diversity/gender-pay.

Relative importance of spend on pay

The table below indicates how the pay of Executive Directors compares with other financial dispersals.

	2020/21 £m	2021/22 £m	% change
Executive Directors' remuneration[a]	4.1	12.1	199%
Dividends[b]	5,892	704	(88)%
Total income taxes charge[c]	104	510	390%
Colleague costs[d]	7,449	7,456	0.1%

(a) Calculated on the same basis as the Single total figure of remuneration on page 88.
(b) See Note 8 of the financial statements for further information. The 2021/22 dividends include a special divided of £4,948m.
(c) See Note 6 of the financial statements for further information.
(d) See Note 3 of the financial statements for further information.

Remuneration report.

Single total figure of remuneration – Executive Directors (audited)

The following table provides a summary Single total figure of remuneration for 2021/22 and 2020/21 for the Executive Directors.

	Ken Murphy[a]		Imran Nawaz[a]		Alan Stewart[b]	
	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000	2021/22 £'000	2020/21 £'000
Fixed pay						
Salary	1,350	556	581	-	128	750
Benefits[c]	88	31	41	-	9	55
Pension	101	42	44	-	32	188
Total fixed pay	1,539	629	666	-	169	993
Variable pay						
Annual bonus (cash and deferred shares)[d]	3,206	-	1,241	-	-	-
PSP[e][f]	-	-	-	-	1,778	443
Total variable pay	3,206	-	1,241	-	1,778	443
Total fixed and variable pay	**4,745**	**629**	**1,907**	**-**	**1,947**	**1,436**
Compensation for forfeited income[g]	-	363	3,506	-	-	-
Total remuneration	**4,745**	**992**	**5,413**	**-**	**1,947**	**1,436**

(a) Ken Murphy joined the Board as Group Chief Executive on 1 October 2020 and Imran Nawaz joined the Board as Chief Financial Officer on 1 May 2021.
(b) Alan Stewart retired as Chief Financial Officer and from the Board on 30 April 2021 and received salary, benefits and pension allowance until this date.
(c) Benefits include family-level private medical insurance, life assurance, a car or cash allowance and a driver. Benefits for Ken Murphy also include commuting support of £26,099, which includes the grossed-up cost of UK tax paid by the Company on his behalf.
(d) The annual bonus is paid 50% in cash and 50% in shares deferred for three years subject to continued employment. See page 77 for further details of the 2021/22 annual bonus outturn
(e) 2019 PSP award for Alan Stewart will vest in June 2022. The amounts shown are indicative vesting values based on the average share price for the three-month period to 26 February 2022 of 289.62p. Values include dividend equivalents added in shares since the date of grant. Of the vested amount, £364,394 relates to share price appreciation over the performance period. The award has been pro-rated to reflect the portion of the performance period he worked.
(f) The PSP figure for Alan Stewart for 2020/21 has been restated, in line with statutory reporting requirements, using the actual share price at the date of vesting of 234.9p and includes dividend equivalents in respect of vested shares.
(g) Compensation for forfeited income amount determined by (i) the value of buyout awards granted to Imran Nawaz amounting to £2,202,996 (including £6,868 relating to share price appreciation) to compensate for the forfeiture of incentive compensation from his previous employer, which vested during the year; (ii) the value of unvested buyout awards not subject to performance conditions (see Tranche 3 on page 90) amounting to £86,836 (39,312 shares valued at the 4 May 2021 grant date share price of 220.89p); and (iii) compensation for his Tate & Lyle commuter support and the first tranche of his vested 2018 restricted stock award, which were subject to forfeiture and repayable by him to Tate & Lyle on a gross basis upon his resignation, amounting to £1,216,069. We set out further details of the buyout awards granted to Imran Nawaz during the year on page 90.
(h) The total aggregate remuneration paid to Directors in 2021/22 was £13.9m (2020/21: £5.9m).

2021/22 annual bonus outcomes (audited)

The annual bonus is determined by financial metrics and individual performance set at the start of the performance period designed to support the achievement of certain strategic outcomes. The 2021/22 annual bonus outcome is 95% for both Ken Murphy and Imran Nawaz. As set out in the Chair's letter, the Committee is satisfied that the formulaic annual bonus outcomes are appropriate and reflect performance over the performance period. We provide a breakdown of the overall outcome and details of the outturn of the financial metrics on page 77 and you can see the achievement against individual objectives below.

2021/22 achievement of individual objectives

Executive Director	Objective 1	Objective 2	Objective 3	Objective 4	Total
Ken Murphy	(5%)	(5%)	(5%)	(5%)	
	Deliver strategy review Completed strategy review, with details set out in the interim results announcement and multi-year performance framework approved by the Board.	**Deliver portfolio review and action plan** Completed portfolio review of core areas of the business, with some work to be completed on the remaining parts of the portfolio.	**Deliver on ESG commitments** Removal of plastic packaging – stretch. Targets met on carbon reduction and proportion of sales of healthier products.	**Return cash to shareholders** Delivered new capital allocation strategy and announced ongoing share buyback programme including first tranche of £500m.	
Assessment	5%	2.5%	2.5%	5%	15%
Imran Nawaz	(5%)	(5%)	(5%)	(5%)	
	Build new financial LTP Developed financial LTP based on the new strategy. Strong financial leadership of the Group to enable introduction of ongoing share buyback programme.	**Develop and commence finance transformation strategy** Finance transformation strategy approved by the Board. Work on financial systems and platforms to be completed.	**Deliver on ESG commitments** Removal of plastic packaging – stretch. Targets met on carbon reduction and proportion of sales of healthier products	**Develop finance team** Strengthened Finance team and ways of working, with high engagement in developing the new strategy and focus on simplification and cost savings.	
Assessment	5%	2.5%	2.5%	5%	15%

2019 PSP vesting (audited)

The outcomes of the 2019 PSP awards are shown on page 78. As set out in the Chair's letter, the Committee is satisfied that the formulaic PSP outcomes are appropriate and reflect performance over the performance period. The awards will vest in June 2022. Details of the vesting of Alan Stewart's award are as follows:

	Number of shares granted	Number of dividend equivalent shares	Number of shares removed for share consolidation	Proportion of award vesting[a] (% maximum)	Number of shares vesting	Face value of shares vesting[b]	Number of shares vesting after time pro-ration	Estimated face value of shares after pro-ration[b]	Estimated value attributable to share price movement after pro-ration[b]
Alan Stewart	895,648	289,750	199,013	86.2%	850,263	£2,462,532	614,078	£1,778,493	£364,394

(a) Adjustments made to the cumulative free cash flow targets during the year to take account of the settlement of claims and adjusted diluted EPS to neutralise the impact of the share buybacks during the year are set out below and on page 82.
(b) The amounts shown are indicative vesting values based on the average share price for the three-month period to 26 February 2022 of 289.62p.

2021 PSP grant (audited)

The following table summarises the PSP awards made to Executive Directors on 25 June 2021:

Executive Director	Shares granted (conditional awards)	% of base salary awarded	Value at award date[a]	Vesting date[b][c]
Ken Murphy	1,811,432	300%	£4,050,000	25/06/2024
Imran Nawaz	860,989	275%	£1,924,999	25/06/2024

(a) The value has been calculated using the market price on grant of 223.58p.
(b) The award has a three-year performance period which will end on 25 February 2024.
(c) The vested shares, net of any tax liabilities, will be subject to a post-vesting holding period of two years.

The performance measures and targets for the 2021 PSP are:

	Weighting	Threshold (25% payout)	Stretch (100% payout)
Adjusted diluted EPS[a][c]	50%	17.3p	26.0p
Cumulative free cash flow[b][c]	50%	£4.1bn	£6.2bn

(a) The adjusted diluted EPS measure will be adjusted at the date of vesting to reflect the weighted average number of shares to neutralise the impact of share buybacks during the performance period, as the targets were set excluding buybacks.
(b) The definition of cumulative free cash flow remains consistent with the definition at the time the 2021 PSP targets were set and has not been restated to the amended alternative performance measure definition. Refer to page 211 for a reconciliation between this measure and the alternative performance measure definition. Prospective PSP performance targets will be set based on the new alternative performance measure definition.
(c) Both PSP performance metrics have straight-line vesting between threshold and stretch.

The award will incorporate the right to receive the value of dividends between grant and vesting in respect of the number of shares that vest. The calculation of dividend equivalents will assume the reinvestment of those dividends in Tesco shares on a cumulative basis.

Adjustments to targets

The Committee considered adjustments to targets resulting from material events that were not anticipated at the time the targets were set. Adjustments were made to ensure PSP targets and outcomes are assessed on a like-for-like basis and events do not make the targets any easier or harder to achieve. During the year, the cumulative free cash flow targets were adjusted downwards to reflect the settlement of claims for matters arising in connection with the overstatement of profit announced in 2014 and from the sale of the Korea business in 2015. Previous adjustments to targets were set out in the 2020/21 Directors' remuneration report.

2021 PSP award

Cumulative free cash flow	Threshold	Stretch
Original targets	£4,253m	£6,379m
2021/22 adjustments	£(193)m	£(193)m
Revised targets	£4,060m	£6,186m

2020 PSP award

Cumulative free cash flow	Threshold	Stretch
Original targets	£4,435m	£6,653m
2020/21 adjustments	£(1,066)m	£(1,066)m
2021/22 adjustments	£(305)m	£(305)m
Revised targets	£3,064m	£5,282m

2019 PSP award

Cumulative free cash flow	Threshold	Stretch
Original targets	£4,334m	£6,501m
2020/21 adjustments	£(794)m	£(794)m
2021/22 adjustments	£(305)m	£(305)m
Revised targets	£3,235m	£5,402m

Remuneration report continued

Executive Director changes during the year

Alan Stewart

As announced on 2 June 2020, Alan Stewart retired from the Board on 30 April 2021. Details of his departure terms are set out below.

Imran Nawaz (audited)

Imran Nawaz joined Tesco on 1 May 2021 as Chief Financial Officer. We set out details of his buyout arrangements to compensate for the forfeiture of remuneration terms from his former employer, Tate & Lyle PLC, in last year's report, including his commuter support and the first tranche of his vested 2018 restricted stock award, which were subject to forfeiture and repaid by him to Tate & Lyle on a gross basis upon his resignation. This amounted to £1,216,069 and is included in his Single total figure of remuneration on page 88. Further details of his buyout awards are set out below:

Type of award	Tate & Lyle PLC awards being replaced - end of performance period	Date of grant	Number of shares awarded	Vesting date	Share price at date of grant	Value at date of award (£'000)	Vested awards	Share price at date of vesting	Value at date of vesting (£'000)
LR9.4.2		04/05/2021	2,064,815[a]		£2.2089	4,561			
	2018 restricted stock award (2nd tranche) - 1 August 2020		*Tranche 1: 226,445*	*04/05/2021*	-	-	*226,445*	*£2.2205*	*503*
	2018 PSP - 31 March 2021		*Tranche 2: 838,615*[b]	*18/06/2021*	-	-	*480,526*[d][e]	*£2.2175*	*1,066*
	2019 Group Bonus Plan deferred shares - 31 March 2022		*Tranche 3: 39,312*[c]	*13/04/2022*	-	-	-	-	-
	2019 PSP - 31 March 2022		*Tranche 4: 729,205*[b][d]	*01/06/2022*	-	-	-	-	-
	2020 PSP - 31 March 2023		*Tranche 5: 231,238*[b][d]	*01/06/2023*	-	-	-	-	-
LR9.4.2	2020/21 Group Bonus Plan - 31 March 2021	29/07/2021	272,072[a][f]	29/07/2021	£2.3321	634	272,072	£2.3325	635

(a) All buyout awards are subject to the Company's shareholding guidelines.
(b) Vesting is subject to the achievement of the performance conditions which apply to the applicable Tate & Lyle PLC Performance Share Plan award (as detailed on page 123 of the Tate & Lyle PLC 2021 Annual Report) and continuous employment. In respect of Tranche 2, the relevant Tate & Lyle 2018 Performance Share Plan award vested at 57.3% of maximum.
(c) Vesting is subject to continuous employment.
(d) Vested shares are subject to a post-vesting holding period of two years.
(e) 358,089 shares lapsed.
(f) Reflects compensation for forfeiture of the 2020/21 Tate & Lyle PLC annual bonus amounting to 90% of maximum potential based on the disclosed outturn on page 121 of the Tate & Lyle PLC 2021 Annual Report.

Executive Directors' interests in share awards (audited)

The table below sets out the Executive Directors' interests in share awards. We set out details of Executive Director shareholding requirements and achievement against these on page 79.

		Unvested PSP awards[a]	Deferred annual bonus awards[b]	Buyout awards	Vested but unexercised share options	SAYE options	Total
Ken Murphy	At 28/02/21	-	-	-	-	-	-
	Granted	1,811,432	-	-	-	-	1,811,432
	Dividend equivalents	21,472	-	-	-	-	21,472
	Vested/released	-	-	-	-	-	-
	Lapsed	-	-	-	-	-	-
	Exercised	-	-	-	-	-	-
	At 26/02/22	1,832,904	-	-	-	-	1,832,904
Imran Nawaz	At 28/02/21	-	-		-	-	-
	Granted	860,989	-	2,336,887	-	-	3,197,876
	Dividend equivalents	10,205	-	1,513	-	-	11,718
	Vested/released	-	-	979,043	-	-	979,043
	Lapsed	-	-	358,089	-	-	358,089
	Exercised	-	-	-	-	-	-
	At 26/02/22	871,194	-	1,001,268	-	-	1,872,462
Alan Stewart[c]	At 28/02/21	2,670,338	758,151	-	3,140,804	9,574	6,578,867
	Granted	-	-	-	-	-	-
	Dividend equivalents	93,162	18,143	-	82,736	-	194,041
	Vested/released	188,424	286,953	-	-	-	475,377
	Lapsed	627,267	-	-	-	1,596	628,863
	Exercised	-	-	-	3,223,540	7,978	3,231,518
	At 26/02/22	1,947,809	489,341	-	-	-	2,437,150

(a) Awards will only vest to the extent relevant performance conditions are met.
(b) No performance conditions apply to these awards but are subject to service.
(c) Details of options exercised by and released to Alan Stewart during the year are set out on pages 89 and 91.

Payments for loss of office (audited)

Alan Stewart retired from the Board on 30 April 2021. In line with the remuneration policy at that time, he received salary, benefits and a pension cash allowance to 30 April 2021. He did not receive a 2020/21 bonus payment or a 2021 PSP award. He received no severance payment or pay in lieu of notice.

He was granted good leaver status for his unvested deferred bonus and PSP awards. These will be released on the scheduled vesting dates, including PSP grants to the extent that performance conditions are met and after pro-rating for the portion of the performance period he worked. You can see details of the vesting of his 2019 PSP award on page 89.

Alan Stewart had one year from his retirement date in which to exercise the vested options from his annual bonus, PSP awards and buyout awards. Details of the awards he exercised are set out opposite.

A post-employment shareholding requirement is applicable for two years following his departure regarding share awards granted after 1 March 2019.

Payments to former Directors (audited)

Details of options exercised by and awards released to Alan Stewart and Sir Dave Lewis during the 2021/22 financial year, following their stepping down from the Board on 30 April 2021 and 30 September 2020, respectively, are set out below:

Alan Stewart

Type of award	Date of grant	Number of shares awarded	Number of shares exercised/released including dividend equivalent shares	Date of exercise/release	Grant price	Market price at exercise/release	Gain on exercise/release
LR9.4.2	24/10/14	251,010	285,987	22/07/21	Nil	£2.318	£662,918
LR9.4.2	24/10/14	324,676	369,919	22/07/21	Nil	£2.318	£857,472
LR9.4.2	06/07/15	56,950	64,403	22/07/21	Nil	£2.318	£149,286
PSP	25/07/15	854,720	289,995	22/07/21	Nil	£2.318	£672,208
PSP	12/05/16	1,178,948	384,004	22/07/21	Nil	£2.318	£890,121
PSP	11/05/17	1,041,666	574,907	22/07/21	Nil	£2.318	£1,332,634
PSP	16/07/18	730,965	188,424	16/07/21	Nil	£2.349	£442,608
Deferred bonus	12/05/16	507,449	573,906	22/07/21	Nil	£2.318	£1,330,314
Deferred bonus	12/05/16	253,724	286,950	22/07/21	Nil	£2.318	£665,150
Deferred bonus	11/05/17	347,906	393,469	22/07/21	Nil	£2.318	£912,061
Deferred bonus	09/05/18	261,808	286,953	10/05/21	Nil	£2.300	£659,992
SAYE	14/11/18	9,574	7,978	12/08/21	£1.88	£2.412	£4,244

Sir Dave Lewis

Type of award	Date of grant	Number of shares awarded	Number of shares released including dividend equivalent shares	Date of release	Grant price	Share price at date of release	Gain on release
Deferred bonus	09/05/18	477,485	523,348	10/05/21	Nil	£2.300	£1,203,700
PSP	16/07/18	1,340,103	297,467	16/07/21	Nil	£2.349	£698,750

No other payments to former Directors or for loss of office were made in the year.

Compensation for other directorships

In the period to 30 April 2021, Alan Stewart received £21,802 (2020/21: £128,000) in fees and a product allowance as a non-executive director of Diageo plc. He did not receive any fees as a director of Tesco Personal Finance Group PLC (Tesco Bank). Ken Murphy retired as a non-executive director of Hatch Beauty LLC on 22 June 2021 and waived his fees (2020/21: $50,000 (circa £36,000)).

Executive Directors' service agreements

The Committee carefully considers the Executive Directors' service agreements, including arrangements for early termination, which are designed to recruit, retain and motivate Executive Directors of the calibre required to lead the Company. The Committee's policy is for Executive Directors' service contracts to be terminable on no more than one year's notice from the Company. The details of existing Executive Directors' service contracts are summarised in the table below:

Executive Director	Date of service agreement	Notice period from Company	Notice period from Executive Director
Ken Murphy	1 October 2019	12 months	12 months
Imran Nawaz	6 October 2020	12 months	12 months

Both Ken Murphy and Imran Nawaz will stand for re-election at the 2022 AGM.

Shareholder voting

The table below sets out the voting outcome for the remuneration policy and remuneration report at the 2021 AGM:

	Votes for		Votes against		Votes withheld
	Number of shares (millions)	Percentage of votes	Number of shares (millions)	Percentage of votes	Number of shares (millions)
Remuneration report	5,250	91.8%	469	8.2%	3
Remuneration policy	5,359	93.7%	361	6.3%	2

Funding of equity awards

Where shares are newly issued, the Company complies with Investment Association dilution guidelines on their issue. These provide that overall dilution under all plans should not exceed 10% of the Company's issued share capital over a 10-year period, with a further limitation of 5% in any 10-year period for executive plans. Shares purchased in the market may be held by Tesco Employees' Share Scheme Trustees Limited or Tesco International Employee Benefit Trust (together, the Trusts). In such a case, the voting rights relating to the shares are exercisable by the Trustees in accordance with their fiduciary duties. At 26 February 2022, the Trusts held 51,068,886 shares. Current practice is to use market purchased shares to satisfy incentive awards.

Dilution from existing awards made over the last 10 years up to 26 February 2022 was as follows:

All Tesco colleague share plans

Executive share plans

Remuneration report continued

Beneficial share ownership (audited)

The table below outlines interests in the Company's securities of the Non-executive Directors. There were no changes to Non-executive Director share interests between 26 February and 12 April 2022. Non-executive Directors are expected to build up and maintain a personal holding in the securities of the Company equal to the value of their base fee over a period of five years following appointment.

Non-executive Director	Shares held at 28 February 2021	Shares held at 26 February 2022	Value of shareholding (% of base fee)[a]	Compliance with shareholding guideline
John Allan[b]	265,327	349,753	147%	✓
Melissa Bethell	37,447	37,447	135%	✓
Bertrand Bodson[c]	-	44,579	160%	✓
Thierry Garnier[c]	-	15,000	54%	✗
Stewart Gilliland	36,742	48,825	176%	✓
Steve Golsby	33,391	41,999	151%	✓
Byron Grote[d]	235,656	302,703	>500%	✓
Simon Patterson	134,545	134,545	484%	✓
Alison Platt	33,629	34,893	126%	✓
Lindsey Pownall	55,263	55,263	199%	✓
Karen Whitworth[c]	-	24,200	87%	✗

(a) The value of Non-executive Directors' shareholdings is based on the three-month average share price to 26 February 2022 of 289.62p.
(b) John Allan also held 398,000 bonds in the Company at 28 February 2021 and 26 February 2022.
(c) Bertrand Bodson, Thierry Garnier and Karen Whitworth joined the Board on 1 June, 30 April and 18 June 2021, respectively.
(d) Byron Grote holds his shares in the form of American Depositary Receipts (ADRs). Each ADR is equivalent to three Ordinary shares of 6⅓ pence each.
(e) The range of the Company's share price for the year was 219p to 303p. The year-end price was 287p.

Non-executive Directors' dates of appointment

Non-executive Director[a]	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment	Total length of service as at 26 February 2022 (years)
John Allan	1 March 2015	None	AGM 2022	7.0
Melissa Bethell	24 September 2018	None	AGM 2022	3.4
Bertrand Bodson	1 June 2021	None	AGM 2022	<1.0
Thierry Garnier	30 April 2021	None	AGM 2022	<1.0
Stewart Gilliland	5 March 2018	None	AGM 2022	4.0
Steve Golsby	1 October 2016	None	AGM 2022	5.4
Byron Grote	1 May 2015	None	AGM 2022	6.8
Simon Patterson	1 April 2016	None	AGM 2022	5.9
Alison Platt	1 April 2016	None	AGM 2022	5.9
Lindsey Pownall	1 April 2016	None	AGM 2022	5.9
Karen Whitworth	18 June 2021	None	AGM 2022	<1.0

(a) Non-executive Directors do not have service contracts. Instead, Non-executive Directors are engaged by letters of appointment which are terminable by either party with no notice period and no compensation in the event of such termination, other than accrued fees and expenses. All Non-executive Directors will stand for re-election at the 2022 AGM, except Steve Golsby and Simon Patterson who will step down from the Board at the conclusion of the AGM.

Fees paid to Non-executive Directors during 2021/22 (audited)

The following table sets out the fees paid to the Non-executive Directors for the year ended 26 February 2022. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

	2021/22			2020/21		
	Fees (£'000)	Taxable expenses[a] (£'000)	Total (£'000)	Fees (£'000)	Taxable expenses[a] (£'000)	Total (£'000)
John Allan	687	8	695	687	7	694
Melissa Bethell	94	1	95	92	–	92
Bertrand Bodson	71	2	73	-	-	-
Thierry Garnier	79	1	80	-	-	-
Stewart Gilliland	109	1	110	106	1	107
Steve Golsby	134	-	134	124	-	124
Byron Grote	155	0.5	155.5	138	-	138
Simon Patterson	94	0.5	94.5	92	-	92
Alison Platt	109	0.5	109.5	106	-	106
Lindsey Pownall	119	2	121	109	1	110
Karen Whitworth	77	0.5	77.5	-	-	-
Former Directors						
Mark Armour	30	-	30	92	-	92
Mikael Olsson	35	-	35	106	-	106
Deanna Oppenheimer	49	3	52	148	3	151

(a) Taxable expenses include expense reimbursements relating to travel, accommodation and subsistence in connection with the attendance at Board and Committee meetings during the year, which HMRC deems to be taxable in the UK. John Allan also has the benefit of home security and healthcare for himself and his partner. The amounts in the table above include the grossed-up cost of UK tax paid by the Company on behalf of the Non-executive Directors. Non-taxable expense reimbursements have not been included in the table above. Each Non-executive Director has the £1,000 colleague-discount allowance.

Remuneration policy.

Remuneration policy

Our current remuneration policy was approved by shareholders at the 2021 AGM, with a vote of 93.68% in favour. During the year, the policy operated as intended in terms of Company performance and quantum. It is intended that the new policy for Tesco's Executive and Non-executive Directors will operate for a period of three years from the date of approval at the AGM on 17 June 2022.

During 2021, the Committee considered the current policy and held meetings with our largest shareholders to discuss the proposals and governance matters. The Committee was pleased with the support of our largest shareholders for the new policy. No changes were, therefore, made to the proposals. The decision-making process that the Committee followed for the determination, review and implementation of the proposed new remuneration policy is set out in the Chair's letter on pages 74 to 76. In order to manage conflicts of interest, no Director or employee participates in discussions or decisions relating to their own remuneration. However, Executive Directors were kept well-informed to ensure alignment between executive and wider colleague remuneration structures. A summary of how the policy differs for Executive Directors and other colleagues in the Group is set out on pages 83 and 84.

The Committee's review of the remuneration policy sought to ensure that it continues to:

- apply pay principles which are applicable to all colleagues across the Group and, in particular, the principle that the reward package should support the delivery of the Group's purpose of serving customers, communities and the planet a little better every day;
- be aligned with, and incentivise the delivery of, the Group's strategy;
- foster performances in line with the Group's culture, values and behaviours;
- be aligned with wider workforce pay policies and emerging best practice;
- motivate executive talent; and
- drive the success of the Company for the benefit of key stakeholders.

We propose that the policy remains broadly unchanged in 2022, apart from the removal of the financial underpin in the annual bonus. In addition, within the flexibility of the current policy, we propose to introduce non-financial ESG performance measures into the PSP with a total weighting of 25%.

You can find further details of the proposed changes and a summary of the new remuneration policy on pages 80 to 82. The full remuneration policy that shareholders are asked to approve at the 2022 AGM is set out below and will be available on the Tesco website at www.tescoplc.com.

Remuneration policy table

The following table sets out the proposed remuneration policy:

Base salary

Purpose and link to strategy	The role of base salary is to support the recruitment and retention of Executive Directors of the calibre required to develop and deliver the strategy. Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience.
Operation	The Committee sets base salary taking into account: - the individual's skills, experience and their performance; - salary levels at leading FTSE companies and other large consumer business companies in the UK and internationally; and - pay and conditions elsewhere in the Group. Base salary is normally reviewed annually with changes effective from 1 June. It may be reviewed more frequently if the Committee determines this is appropriate.
Maximum	Executive Directors' salary increases will normally be in line with the typical level of increase awarded to other colleagues in the Group. Increases may be above this level in certain circumstances such as: - where a new Executive Director has been appointed to the Board at a lower than typical market salary to allow for growth in the role. (In such a case, larger increases may be awarded to move salary positioning closer to the typical market level as the Executive Director gains experience); or - where an Executive Director has been promoted or has had a change in responsibilities, then salary increases in excess of the above limit may be awarded.
Measure	n/a
Change	No change from previous policy.

Remuneration policy continued

Benefits

Purpose and link to strategy	To provide a market-competitive level of benefits for Executive Directors and to assist them in the performance of their roles.
Operation	The Committee sets benefit provision at an appropriate market-competitive level, taking into account the individual's home jurisdiction, the jurisdiction in which the individual is based, typical practice and the level of benefits provided for other employees in the Group. Core benefits – currently include car benefits, security costs, health insurance and life assurance. Other appropriate benefits may be provided from time to time but will not be significant. Executive Directors shall be reimbursed for all reasonable expenses. The Company may settle any tax incurred in relation to these. Directors shall have the benefit of Directors' and Officers' liability insurance and the provision of an indemnity. All-employee share plans – Executive Directors are eligible to participate in the Company's all-employee share schemes on the same terms as other colleagues. Mobility policy – When an Executive Director is required to relocate to perform their role, they may be offered appropriate relocation allowances and any required international transfer-related benefits.
Maximum	The overall level of benefits will depend on the cost of providing individual items and the individual's circumstances. There is therefore no maximum level of benefit.
Measure	n/a
Change	No change from previous policy.

Pension

Purpose and link to strategy	To provide an appropriate level of retirement benefits as a part of a holistic benefit package.
Operation	Executive Directors receive a cash allowance in lieu of pension or a contribution into a defined contribution scheme.
Maximum	Maximum cash in lieu of pension or contribution will be aligned to the wider workforce (currently 7.5% of base salary).
Measure	n/a
Change	No change from previous policy.

Annual bonus

Purpose and link to strategy	To reward Executive Directors for the delivery of Tesco's annual financial, operational and strategic goals. Deferral into Tesco shares provides alignment with shareholders.
Operation	The annual bonus is normally delivered: – 50% in cash; and – 50% in Tesco shares which are deferred for three years. Performance is assessed over a financial year. The Committee determines the level of bonus, taking performance against targets and the underlying performance of the business into account. The Committee may apply judgement in making appropriate adjustments to bonus outcomes to ensure they reflect underlying business performance. Malus and clawback provisions apply as described on page 96.
Maximum	Maximum annual bonus opportunity of 250% of base salary. For details of award levels for 2022/23, see page 81.
Measures	The annual bonus may be based on a mix of financial, operational, strategic and individual performance measures. At least 70% of the bonus will be based on financial performance. The Committee determines the exact metrics each year depending on the key goals for the forthcoming year. Up to 25% of the bonus is paid for achieving a threshold level of performance and the full bonus is paid for delivering stretching levels of performance. These vesting levels may vary each year depending on the stretch of targets set. Below threshold performance, no payment is made. The Committee sets bonus targets each year to ensure they are appropriately stretching in the context of the business plan.
Change	Removal of financial underpin.

Performance Share Plan

Purpose and link to strategy	To reward Executive Directors for achieving Tesco's long-term strategy and creating sustainable shareholder value that aligns the economic interests of Executive Directors and shareholders.
Operation	Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise). The Committee has the discretion to amend the formulaic vesting level if it does not consider that it reflects the underlying performance of the Company. All vested shares, net of any tax liabilities, will be subject to a further two-year holding period after the vesting date. Malus and clawback provisions apply as described on page 96.
Maximum	The maximum annual award that can be granted under the PSP is 350% of base salary. For details of award levels for 2022/23, see page 81.
Measures	Awards vest based on financial, non-financial and/or strategic performance conditions which are aligned to the Company's strategic plan (the satisfaction of which is determined by the Committee). At least 50% of the PSP will be based on financial metrics. The current measures are adjusted diluted EPS (37.5%), cumulative retail free cash flow (37.5%) and ESG performance measures (25%). Any substantial or significant change to measures will be subject to shareholder consultation. Up to 25% of the award vests for threshold levels of performance, increasing to 100% of the award for stretching performance. The Committee sets targets each year so that they are stretching and represent value creation for shareholders, while remaining motivational for management.
Change	The inclusion of ESG performance measures reflects a change in the operation of the policy.

Shareholding requirements

Guidelines	Tesco operates shareholding guidelines of 400% of base salary for the Group Chief Executive and 300% for the Chief Financial Officer. Executive Directors are required to retain all shares that vest to them, net of any tax liability, whether from the annual bonus, PSP or buyout, until the relevant shareholding guideline is satisfied. The Committee may waive this requirement under certain exceptional personal circumstances. Executive Directors are required to hold 100% of the lower of their shareholding requirement or their actual shareholding at the date of their departure from the Company for two years. They must hold shares covered by the post-cessation shareholding requirement in a corporate sponsored nominee account.
Change	No change to previous policy.

Remuneration policy for new hires

When hiring a new Executive Director, the Committee would generally seek to align their remuneration package with the remuneration policy outlined in this section. The Committee will set base salary taking into account all relevant factors including:

- the experience and calibre of the candidate;
- the candidate's current reward opportunity; and
- the jurisdiction from which the candidate was recruited.

Incentive opportunity will be in line with the policy maximums (i.e. a total maximum incentive opportunity of 600% of base salary).

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

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

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

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

In the event of the appointment of a new Chair or Non-executive Director, remuneration arrangements will reflect the policy outlined on page 97.

Executive Director service agreements and policy on Executive Directors leaving Tesco

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

The following table summarises Tesco's policy in relation to Executive Director service agreements and payments in the event of loss of office:

Provision	Current service agreements
Notice period	Up to 12 months' notice by the Company and by the Executive Director. For new appointments, the Committee reserves the right to vary this period to 24 months for the initial period of appointment, and for the notice period to then revert to up to 12 months after the initial 12 months of employment.
Expiry date	Ken Murphy and Imran Nawaz entered into service agreements with Tesco PLC on 1 October 2019 and 6 October 2020, respectively. These are rolling service agreements with no fixed expiry date. The notice period on termination by the Company or the Executive Director is 12 months.
Termination payments (do not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	If the Company terminates an Executive Director's agreement without full notice or it is terminated by an Executive Director in response to a serious contractual breach by the Company, then the Executive Director has the right to a termination payment that reflects the unexpired term of the notice. Any termination payment in lieu of notice will be based on base salary and benefits only, plus any statutory rights. Termination payments will normally be subject to mitigation and paid in instalments. The Company's obligation to continue making phased termination payments will cease when the Executive Director commences alternative employment.
Other information	The Committee may require an Executive Director to work during their notice period, or may choose to place them on garden leave. The Committee may determine that an Executive Director may remain eligible to receive a pro-rata bonus for the financial year in respect of the period they worked. The Committee will take into account time in active employment and performance to determine the level of bonus. The Committee may make payments in connection with an existing or threatened legal obligation or in respect of any claim related to the cessation of employment. This includes fees for outplacement assistance, legal and/or professional advice. The Company may reimburse the Executive Director for reasonable legal expenses if they leave by mutual consent. Directors' and Officers' liability insurance for a specified period following the Executive Director's termination date may be provided. Where an Executive Director has been recruited from overseas, the Company may pay for repatriation.

Shareholders can view service agreements of the Executive Directors at the Company's registered office.

Remuneration policy continued

Share plan rules – leaver provisions

The relevant share plan rules govern the treatment of outstanding share awards when an Executive Director leaves. The following table summarises leaver provisions under the executive share plans for good leavers. All awards will normally lapse except for good leavers. In specific circumstances, however, the Committee may exercise its discretion to modify the policy outlined to the extent that the rules of the share plan allow this. The Committee will not exercise discretion to allow awards to vest where the participant is dismissed for gross misconduct. Where an Executive Director leaves as a result of summary dismissal, they will forfeit outstanding share incentive awards.

Good leavers are those who have left the Company due to injury, ill-health or disability, death, redundancy, retirement, the entity which employs them ceasing to be part of the Group or any other reason determined by the Committee, taking into account the circumstances of departure and performance.

Deferred bonus plan awards	Unvested awards vest at cessation. The Committee has discretion to defer vesting to the normal vesting date.
Long term incentive plan awards	Unvested awards normally vest on the normal date, pro-rated for time and take into account performance achieved. In the event of retirement, the Committee has the right to lapse awards granted since February 2019 if the former Executive Director is employed in a substantive role prior to the vesting of the award. On vesting, shares will be subject to a two-year holding period. Shares in the holding period will continue to be held until the end of the two-year holding period. In the event of death, however, shares will be released to the estate.
All-employee share plans	Leaver provisions under all-employee share plans are determined in accordance with HMRC-approved provisions.

Other vesting circumstances

Awards may also vest early to the extent determined by the Committee if:

- a participant is transferred to another country, making them suffer a tax disadvantage or become subject to restrictions on their award; or
- in the event of a takeover, winding-up or other corporate event affecting the Company, which may affect the value of share awards (such as a demerger or dividend in specie).

The Committee will determine the number of shares under an award that vest in these circumstances. In the case of PSP awards, the Committee will consider performance and the time elapsed since grant when determining the level of vesting. Awards will vest in full in the case of deferred annual bonus share awards.

Information supporting the policy table

Dividend equivalents

Dividend equivalents are payable on deferred annual bonus and PSP awards that vest, usually in the form of additional shares.

Discretion in relation to incentive plans

The Committee retains discretion regarding the annual bonus and PSP plans. This relates to:

- the timing, size and type of awards and holding periods, subject to policy maximums, and the annual setting of targets;
- circumstances where qualitative performance measures are used, when performance against those measures is not in line with the Group's overall financial or strategic performance over the performance period;
- the adjustment of targets and measures if events occur which cause the Committee to determine it is appropriate to do so. The Committee also retains the right to change performance measures and the weighting of measures, in circumstances including:
  - following feedback from regulators, shareholders and/or other stakeholders; and
  - amending the plan rules in accordance with their terms and/ or amending the basis of operation (including but not limited to the approach in respect of dividend equivalents);
- the exercise of discretion in accordance with the rules, including in relation to whether or not malus or clawback provisions would apply, in connection with recruitment, or terminations of employment, or corporate events affecting the Company; and
- adjustments required in certain circumstances (e.g. rights issues, corporate restructuring events, special dividends and other corporate actions).

The Committee will disclose any exercise of discretion in accordance with regulatory requirements.

Malus and clawback provisions

The Committee has the discretion to scale back deferred share awards and PSP awards prior to the satisfaction of such awards if:

- results are materially misstated;
- the participant has contributed to serious reputational damage to the Company or one of its business units;
- the participant's conduct has amounted to serious misconduct, fraud, dishonesty, a breach of the Code of Business Conduct or material wrongdoing;
- the determination of the vesting or value of an award has been affected by an underlying incorrect figure in the accounts; or
- an error or miscalculation in determining the vesting or value of an award is identified.

Under malus, deferred share awards and unvested PSP awards can be reduced (including down to zero) or be made subject to additional conditions. Clawback allows for the repayment of cash bonuses previously paid up for a period of three years and PSP awards for a period of two years after the vesting date.

There are robust mechanisms in place to ensure that these malus and clawback provisions are enforceable.

Timing of target disclosure

Targets for the PSP are disclosed on or before the grant date of the award. Targets and performance against these for the annual bonus are disclosed in the year following the start of the performance period

Terms of share awards

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

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

The Committee may amend performance targets in accordance with the terms of an award or if a transaction or event occurs which causes the Committee to decide (taking into account the interests of shareholders) that an amended performance condition would be more appropriate, would continue to achieve the original purpose and would be no less challenging to achieve.

Payments outside policy

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

External appointments

Executive Directors are permitted to hold one approved non-executive directorship of another company and to retain the fees earned from such an appointment

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items

- Fees for the Non-executive Chair and Non-executive Directors are set at an appropriate level to recruit and retain Directors of a sufficient calibre to guide and influence Board level decision making without paying more than is necessary.
- Fees are set taking into account the following factors:
  - the time commitment required to fulfil the role; and
  - typical practice at other companies of a similar size and complexity to Tesco.
- Non-executive Directors' fees are set by the Board and the Chair's fee is set by the Committee (the Chair does not take part in any discussion about their fees).
- Fees are reviewed by the Board and the Committee at appropriate intervals.
- Fees paid to the Non-executive Chair and Non-executive Directors may not exceed the aggregate limit set out in the Company's Articles of Association.
	- Our Non-executive Director fees policy is to pay:
	  - a basic fee for membership of the Board;
	  - an additional fee for the Chair of a Committee and the Senior Independent Director to take into account the additional responsibilities and time commitment of the role;
	  - an additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role; and
	  - additional fees to reflect additional Board or Committee responsibilities as appropriate.
	- Non-executive Directors may also serve on the board of Tesco Bank. Such Non-executive Directors also receive a basic fee for serving on this board and additional fees for Committee membership in line with other members of this board. Fees for membership of the board of Tesco Personal Finance Group Limited are determined by the board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals.
	- The Non-executive Chair receives an all-inclusive fee for the role.
	- Where significant travel is required to attend Board meetings, additional fees may be paid to reflect this additional time commitment.
		- The Non-executive Directors are not entitled to participate in the annual bonus, PSP or Long Term Incentive Plan.
		- The Non-executive Directors have the benefit of Directors' and Officers' liability insurance, provision of an indemnity and colleague discount on the same basis as colleagues. The Board may introduce additional benefits for Non-executive Directors if it is considered appropriate to do so.
		- The Non-executive Chair may have the benefit of a company car and driver, home security, colleague discount and family healthcare. The Committee may introduce additional benefits for the Non-executive Chair if it is considered appropriate to do so.
		- The Company may reimburse the Non-executive Chair and Non-executive Directors for reasonable expenses in connection with the performance of their duties and may settle any tax incurred in relation to these.
		- The Company will pay reasonable legal fees for advice in relation to terms of engagement.
		- If a Non-executive Director is based overseas, then the Company would meet travel and accommodation expenditure as required to fulfil non-executive duties and may settle any tax incurred in relation to these.

Remuneration policy continued

Non-executive Director letters of appointment
Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. Details of Non-executive Directors' dates of appointments and length of service can be found on page 92. In line with the UK Corporate Governance Code, all Non-executive Directors submit themselves for re-election by shareholders every year at the Annual General Meeting. All Non-executive Directors' appointments can be terminated by either party without notice. Non-executive Directors have no entitlement to compensation on termination. Shareholders can view Non-executive Directors' letters of appointment at the Company's registered office.

Scenarios for future total remuneration
The charts below provide an illustration of what could be received by each Executive Director under the new remuneration policy in 2022/23. These charts are illustrative as the actual value will depend on business performance and share price performance. The maximum performance also includes an additional bar which shows the impact of a 50% share price growth on the PSP outcome over the relevant performance period to show how the package value is aligned to shareholders.

Remuneration assumptions

Minimum	Fixed pay only – base salary, benefits and pension.
On target	Includes fixed pay, 50% of the maximum annual bonus (equal to 125% of salary for the CEO and 112.5% of salary for the CFO) and 62.5% vesting of the PSP (equal to 172% for the CEO and 156% for the CFO).
Maximum	Includes fixed pay, maximum annual bonus payout (equal to 250% of salary for the CEO and 225% for the CFO) and 100% vesting of the PSP (equal to 275% of salary for the CEO and 250% for the CFO).
Maximum with share price increase	All elements the same as the maximum but assumes a 50% increase in share price.

Group Chief Executive
Ken Murphy

Chief Financial Officer
Imran Nawaz

Committee overview.

Committee composition

The Committee consists of Steve Golsby (Chair), John Allan, Thierry Garnier, Byron Grote, Alison Platt and Lindsey Pownall. They are all independent Non-executive Directors, except John Allan, Company Chair, who was independent on appointment. We set out meeting attendance on page 54. Committee members have no personal financial interest in the matters considered by the Committee, other than as shareholders. Robert Welch, Group Company Secretary, is Secretary to the Committee. The Group Chief Executive and Chief People Officer attend meetings at the invitation of the Committee. No Directors or executives are present when their own remuneration is discussed, and they are not involved in determining their own remuneration.

The Committee's full terms of reference can be found on our corporate website at www.tescoplc.com.

Committee overview

The Committee met six times during the year, four of which were scheduled meetings and two ad-hoc The table below summarises the key issues that the Committee considered at each meeting. Remuneration packages for new hires and severance packages for roles subject to the Committee's oversight and regulatory developments were reviewed at each meeting as required.

Base salaries The Committee annually reviews and considers the remuneration environment of the Executive Directors and other senior managers. Any approvals the Committee gives to annual adjustments are made with regard to the remuneration of the wider workforce.	- Reviewed the remuneration environment (including wider workforce remuneration). - Reviewed Executive Director and senior management benchmarking, competitiveness and comparator companies. - Set the remuneration of the Executive Directors, Executive Committee members, Chief Audit and Risk Officer and Group Company Secretary.
Annual bonus The Committee is responsible for setting specific performance measures and assessing performance.	- Considered indicative outturns. - Determined the outturn of the 2021/22 bonus. - Reviewed and set metrics, targets and objectives for the 2022/23 bonus.
Performance share plan The Committee is responsible for approving PSP grants, assessing performance and the vesting of PSP awards for Executive Directors, Executive Committee members and below.	- Determined retention awards for senior executives. - Considered forecast vesting. - Reviewed performance against targets for the 2019 PSP award and determined the outturn. - Reviewed and set metrics and targets for the 2022 PSP grant.
Remuneration policy The Committee sets the broad framework for the remuneration of Executive Directors.	- Reviewed the remuneration policy and consulted on recommendations with stakeholders, including investors and colleagues. - Reviewed wider workforce remuneration.
Governance and other matters The Committee adheres to the highest standards of governance, ensuring alignment between internal actions and external reporting and compliance requirements.	- Received presentation from chair of Tesco Bank remuneration committee. - Reviewed shareholder and proxy voting agency feedback on the 2021 Directors' remuneration report and remuneration policy. - Reviewed gender pay gap reporting. - Evaluated the Committee's performance and reviewed its terms of reference. - Reviewed Chair's fee.

Committee advisor

PwC has been the independent advisor to the Committee since 2015 and was retained by the Committee following a competitive tendering exercise in 2019/20. PwC is a member of the Remuneration Consultants Group and, as such, voluntarily operates under the code of conduct in relation to executive remuneration consulting in the UK.

Total fees for advice provided to the Committee were £127,950 (2020/21: £186,850) on a time and materials basis. The wider PwC firm also provided Tesco several other services during the year relating to corporate tax compliance, technology consulting, internal audit, global mobility and immigration services. However, the Committee is satisfied that the PwC engagement partner and advisory team that provide remuneration advice to the Committee, have no connection with the Company or individual directors which may compromise their independence or objectivity.

Evaluation

The external Board evaluation process carried out during the year confirmed that the Committee continued to operate effectively. Details and results of the wider Board evaluation process are set out in the Corporate governance report on page 62.

Committee's priorities in 2022/23

As well as considering its standard business, the Committee will also focus during 2022/23 on areas including:

- overseeing the implementation of the new remuneration policy, including the introduction of ESG measures in the PSP;
- monitoring developments on the purpose and strategy to ensure remuneration practices and policies are consistent with the Group's long-term goals and aligned with stakeholder requirements; and
- overseeing wider workforce remuneration to ensure pay fairness across the workforce, that there is a consistent cascade throughout the Group and that the rewards, incentives and conditions available to colleagues are taken into account when considering the remuneration of Executive Directors.

Approved by the Board on 12 April 2022.

Steve Golsby
Remuneration Committee Chair

Directors' report

The Directors present their report, together with the audited accounts for the 52 weeks ended 26 February 2022.

Dividends

The profit for the financial year, after taxation, amounts to £1,523m (2020/21: £532m) from continuing operations. The Directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 3.20 pence per share[a] (2020/21: 3.20 pence per share)	246
Proposed final dividend of 7.70 pence per share[b] (2020/21: 5.95 pence per share)	588
Total dividend of 10.90 pence per share for 2021/22[b] (2020/21: 9.15 pence per share)	834

(a) Excludes £1m dividends waived (2020/21: £3m).
(b) Subject to shareholder approval at this year's 2022 AGM, the final ordinary dividend will be paid on 24 June 2022 to all shareholders on the Register of Members at the close of business on 20 May 2022

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

Dividend policy

As announced in our half-yearly results, going forward it is the Board's intention to pay a progressive dividend by aiming to grow the dividend per share each year, broadly targeting a payout of around 50% of earnings

Share capital and control of the Company and significant agreements

Details of the Company's share capital, including changes during the year in the issued share capital and details of the rights attaching to the Company's Ordinary shares are set out in Note 31 on page 185.

No shareholder holds securities carrying special rights with regards to control of the Company. There are no restrictions on voting rights or the transfer of securities in the Company. The Company is not aware of any agreements between holders of securities that result in such restrictions.

The Company was authorised by shareholders at the 2021 AGM to replace the existing authority (as granted by shareholders at the General Meeting held on 11 February 2021) for Directors to allot new shares that represent not more than one third of the issued share capital of the Company. It was also given the authority to allot relevant securities in connection with a rights issue up to a further one third of the issued share capital as at 5 May 2021. No shares were allotted under that authority during the financial year. The Company is seeking to renew this authority at the forthcoming AGM, within the limits set out in the notice of that meeting.

The Company was authorised by shareholders at the 2021 AGM to replace the existing authority (as granted by shareholders at the General Meeting held on 11 February 2021) to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-Emption Group.

Shares held by the Company's Share Incentive Plan (SIP) Trust, International Employee Benefit Trust, Employees' Share Scheme Trust and Booker Group 2010 Employee Benefit Trust rank pari passu with the shares in issue and have no special rights. Voting rights and rights of acceptance of any offer relating to the shares held in these trusts rests with the trustees, who may take account of any recommendation from the Company. The trustees of the SIP Trust may vote in respect of shares held in the SIP Trust, but only as instructed by participants in the SIP in respect of their free shares, partnership shares and dividend shares. The trustees will not otherwise vote in respect of shares held in the SIP Trust.

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

Share forfeiture

A share forfeiture programme was launched following the completion of a tracing and notification exercise to any shareholders who had not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. The shares and dividends associated with shares of untraced members will be forfeited, with the resulting proceeds transferred to the Company to use for good causes. Further details of the share forfeiture programme, including details of the good causes who benefitted from it will be provided in next year's Annual Report.

Share buyback programme

On 6 October 2021, the Company announced the commencement of a share buyback programme with an aggregate market value equivalent of up to £500m. The sole purpose of the share buyback programme is to reduce the Company's share capital. During the year the Company bought back through market purchases on the London Stock Exchange 93,721,289 Ordinary shares with a nominal value of 6 ⅓ pence each, representing 1.23% of the issued share capital of the Company as at 26 February 2022, for a total consideration of approximately £278m, including expenses of £1m. All of the Ordinary shares bought back have been cancelled.

Major shareholders

Information provided to the Company by major shareholders pursuant to the FCA's Disclosure Guidance and Transparency Rules (DTR) are published via a Regulatory Information Service and are available on the Company's website. As at 26 February 2022 and the date of this report, the Company had received notification of the following interests in voting rights pursuant to Chapter 5 of the DTR:

	% of voting rights[a]
BlackRock, Inc.	6.64
Schroders plc	4.99
Norges Bank	3.06
Fidelity International (FIL Limited)	3.04

(a) Percentages are shown as a percentage of the Company's total voting rights as at the date the Company was notified of the change in holding.

Articles of Association

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

Appointment and retirement of Directors

The appointment and retirement of Directors is governed by the Company's Articles of Association, the UK Corporate Governance Code 2018, the Companies Act 2006 and other related legislation. In the interests of good governance, all Directors will retire, and those wishing to serve again will submit themselves for re-election at the forthcoming AGM.

As detailed in the 2022 Notice of AGM, Steve Golsby (Non-executive Director) and Simon Patterson (Non-executive Director) will be stepping down from the Board and will not be seeking re-election at the 2022 AGM. All other Directors are submitting themselves for re-election at the forthcoming AGM and were subject to a formal and rigorous performance evaluation, further details of which can be found on pages 61 and 62.

Directors and their interests

The biographical details of the current serving Directors are set out on pages 48 to 51. The Directors who served during the year were: John Allan; Mark Armour (who stood down from the Board on 25 June 2021); Melissa Bethell; Bertrand Bodson (who joined the Board on 1 June 2021); Thierry Garnier (who joined the Board on 30 April 2021); Stewart Gilliland; Steve Golsby; Byron Grote; Ken Murphy; Imran Nawaz (who joined the Board on 1 May 2021); Mikael Olsson (who stood down from the Board on 25 June 2021); Deanna Oppenheimer (who stood down from the Board on 25 June 2021); Simon Patterson; Alison Platt; Lindsey Pownall; Alan Stewart (who stood down from the Board on 30 April 2021); and Karen Whitworth (who joined the Board on 18 June 2021). The interests of Directors and their immediate families, who served during the year, in the shares of Tesco PLC, along with details of Directors' share options, are contained in the Directors' remuneration report set out on pages 74 to 92.

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

Employment policies

We have continued to focus on ensuring that our employment policies are simple, helpful and trusted, so that our colleagues and managers are able to source the information they need quickly and easily.

This year we have introduced a centralised colleague relations shared service model with tiered levels of manager support accessed via a ticketing and triage system. This has been combined with a flexible pooled resource model, better able to respond to business demand with improved access for all levels of managers who require support, rather than relying on specific individual relationships. To support colleagues, our colleague response activity has also been transferred into this support model which will improve resolution rates for colleague concerns. All of this is underpinned by continuous improvement of our self-service culture, enabled by the colleague help intranet site.

We have continued to work with USDAW, our recognised trade union in the UK, to improve our policies so that they address the needs of all our colleagues. These include several changes to our sickness absence policy to take into account the regulations relating to COVID-19 which have varied in each devolved nation throughout the year. In doing so we have ensured that all colleagues have been paid company sick pay from the first day of absence if they are symptomatic or test positive for COVID-19, pregnant colleagues are placed on paid maternity suspension where appropriate and any positive cases reported to us have their workplace close contacts traced to ensure they self-isolate where required. We have also offered to rearrange shifts and in some cases given paid time off for colleagues to be vaccinated against COVID-19.

COVID-19 has also led to us making changes to our flexible working policy to enable international remote working where appropriate in response to the travel restrictions introduced as a result of the pandemic, and the adoption of blended working in our offices with colleagues spending a regular portion of their week working from home. In conjunction with those changes, we have rewritten the policy to encourage managers to try and say yes to most flexible working requests and illustrated the policy with case studies of where such requests have been successfully arranged.

Our local and national colleague forums continue to give colleagues a voice in how the business is run. Such feedback helps us drive our business forward as our colleagues are closest to our customers. To supplement these forums, we have also continued our Colleague Contribution Panels. These give our colleagues the opportunity to share their views directly with a Non-executive Director, who then relays them to the Board for discussion and action.

Our equal opportunities, diversity and inclusion policies support managers and colleagues in creating a diverse and inclusive culture where everyone is welcome. Our policies demonstrate our commitment to providing equal opportunities to all colleagues, irrespective of age, disability (including colleagues who may have become disabled during service), gender reassignment, marriage and civil partnership, pregnancy or maternity, race, religion or belief, sex or sexual orientation.

Our aim is to attract and retain a diverse range of applicants from all different backgrounds. All of our applicants and colleagues are treated fairly and we have a zero-tolerance approach, not only to harassment but also to discrimination and bullying of any kind. This includes an expectation that our recruitment systems are accessible and managers give full and fair consideration to colleagues who have disabilities during recruitment and subsequently throughout their career with Tesco, including colleagues who may become disabled during their employment, where every endeavour will be made to retain colleagues through workplace adjustments. Following consultation with our disabled colleagues network, we have refreshed our workplace adjustments process this year by merging our workplace adjustments and occupational health provider so we can provide a more seamless service to managers and colleagues and introduced adjustment panels to enable more consistent decision making on adjustments with the input of relevant experts. We are also a proud Disability Confident Employer (level 2) offering various activities and programmes to attract, develop and retain talented disabled colleagues. Our colleague network for people with disabilities provides support by connecting them with people who have similar interests and backgrounds and helps them reach their full potential. Through action-oriented colleague learning, we are focused on raising awareness of the importance of inclusion and developing a greater understanding of individual and collective responsibility. Supporting our commitment to change, targeted learning has been created for all colleagues, as well as specific modules for line managers, People and Resourcing teams and our leadership teams.

All managers will experience learning over the next 12 months, supporting them in feeling empowered and comfortable talking about difference, and ensuring everyone has an opportunity to get on.

Our colleague networks (Armed Forces, Disability, LGBTQ+, Race & Ethnicity, and Women at Tesco) provide support in creating a diverse and inclusive culture where everyone is welcome. This year we have also introduced a new Parents & Carers network in response to feedback from colleagues who wanted to share experiences in this area and work with Tesco to improve how we look after their interests. To support our networks and commitments to inclusion, we have signed several external pledges, including the Business In the Community Race at Work Charter in 2019 and the 'If not now, when?' campaign in 2020. We also joined the 30% Club to improve gender balance across the business. We are proud to be a Global Diversity champion with Stonewall and a gold member of the UK Government's Armed Forces Covenant. These external commitments help hold us to account in continuing to create a culture of inclusion and an environment where all colleagues have the opportunity to get on.

We actively encourage colleagues to take an interest in the financial performance of our business through bonus plans for specific populations. We also operate two HMRC-approved all-employee share plans to enable all UK colleagues to share in the longer-term success of the business. Colleagues at WL3 and above across all markets and countries are awarded shares through the Annual Bonus Plan, which are deferred at WL4 and above. Also colleagues at WL4 and above across all markets and countries are awarded shares through the Performance Share Plan.

Colleagues in ROI can also participate in a scheme which is aligned to the UK Save As You Earn scheme so they too can share in longer term business success.

Political donations

The Group did not make any political donations (2020/21: £nil) or incur any political expenditure during the year (2020/21: £nil).

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

The Code regulates aspects of the commercial relationship between 14 designated grocery retailers in the UK and their suppliers of grocery products. The aim of the Code is to establish and embed the overarching principles of fairness and lawfulness within retailer – supplier relationships. Specific supplier protections under the Code include: the obligation for agreements to be in writing and copies retained; reasonable notice to be given of changes to the supply chain or reduction in the volume of purchases; and a number of provisions relating to payments to suppliers, including obligations for retailers to pay suppliers in full and without delay.

Retailer compliance with the Code is overseen by the Groceries Code Adjudicator (GCA), Mark White. In 2021/22, we continued to engage constructively with the GCA and were delighted to welcome Mark and his team to our offices in October 2021 to meet our UK CEO and our Chief Product Officer and to learn more about our business and discuss our approach to GSCOP risk management.

In the reporting year, we have continued to develop and expand our Code compliance programme. This year, we have implemented a new supplier onboarding process, moving to an online platform, which is easier and more efficient for both suppliers and Tesco colleagues to use. We have also engaged positively with the GCA's best practice statement on forensic auditing. The trading environment has been complicated by the ongoing effects of Brexit and COVID-19 and, among other effects, this has given rise to considerable inflationary pressure on producers. We were grateful for the GCA's published guidance on managing suppliers' requests for cost price increases, these have largely been managed collaboratively between suppliers and buyers. Further, we have expanded our GSCOP guidance for buyers, drafting guidance during the reporting year in relation to the Code's requirement to give reasonable notice in a number of situations. We were particularly pleased that in the GCA's annual supplier survey for 2021, 96% of our suppliers recognised that we comply 'consistently well' or 'mostly well' with the Code, an improvement of three percentage points over the 2020 survey.

In our own supplier viewpoint survey, conducted in January 2022, the results continue to reflect the progress we have made with our supplier relationships. Our total Group and UK scores for suppliers rating their satisfaction with Tesco as either 'extremely satisfied' or 'very satisfied' exceeded our targets. Compared to the same period last year, our Group satisfaction score was 86.4% (an increase compared to last year) and our UK satisfaction score was 85.1%, slightly down on last year. Among topics relevant to the Code, our strongest score in viewpoint continues to be 'Tesco pays promptly (within policy terms)' at 93.9%. 87.7% of suppliers agreed that 'Tesco treats me fairly'. Both of these scores are improvements compared to the same period last year.

Also, in the 2021 independent, industry-wide Advantage survey of retailers, we were pleased to be ranked first in all six categories, an improvement on last year when we were placed first in five of the six categories.

During the preceding financial year, we provided mandatory annual refresher training for all colleagues involved in buying groceries, including not only the buying teams but also a wider set of colleagues including those working in our Quality and Supply Chain divisions. In total 2,259 colleagues completed GSCOP annual refresher training, with the majority being trained via role-based, microlearning scenarios. 89% of colleagues said that they found microlearning a better way to learn and retain training than a single longer training module. In addition to refresher training, 245 new starters completed new starter GSCOP training and all of those required to complete the training did so within the thirty-day requirement set down by the Code. In addition to computer-based training, we have also provided numerous face-to-face training sessions on GSCOP, whether on a standalone basis or combined with another element of legal or regulatory education.

This year, 13 Code-related issues were raised by suppliers, down from 22 during 2020/21. In addition, one issue was carried over from 2020/21.

The majority of concerns raised by suppliers related to delisting decisions, but in almost all of these cases the suppliers were not alleging a breach of GSCOP but were instead seeking to have the delisting decision reviewed (or elements of it, such as the number of SKUs to be delisted or the duration of the notice period). No formal Disputes (as defined by Part 5, Article 11 of the GSCOP Order) were received during the year.

At the end of the reporting period, we had resolved all issues that were raised during the preceding year (or which were open at the start of the year), following further discussion between the buying team and the relevant supplier, or between our Code Compliance Officer and the supplier.

Going concern, longer-term prospects and viability statement

The Directors consider that the Group and the Company have adequate resources to remain in operation for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements. The UK Corporate Governance Code (which is publicly available at the website of the Financial Reporting Council at www.frc.org.uk) requires the Directors to assess and report on the prospects of the Group over a longer period. This longer-term viability statement is set out on pages 38 and 39.

Events after the balance sheet date

The Group's assessment of the impact of the war in Ukraine, both before and after the balance sheet date, can be found in Note 1 on page 129. More information can be found on page 32 in the Strategic report. There are no other events after the reporting period requiring disclosure.

Directors' statement of disclosure of information to the auditor

Each of the persons who is a Director at the date of approval of this Annual Report confirms that:

- so far as the Director is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- the Director has taken all the steps that he/she ought to have taken as a Director in order to make himself/herself aware of any relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of section 418 of the Companies Act 2006.

Streamlined Energy and Carbon Reporting (SECR) disclosures

A breakdown of our greenhouse gas (GHG) emissions in accordance with our regulatory obligation to report greenhouse gas emissions pursuant to section 7 of the Companies Act 2006 (Strategic Report and Directors' Report) Regulations 2013 and the Companies (Directors' Report), and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018 can be found on page 40. The below summarises some of the initiatives we have implemented to drive energy efficiency across our operations in support of our net zero ambitions:

- **LED lighting upgrades across the entire UK estate**: this included completing lighting upgrades in over 130 stores, resulting in all sales floors, distribution centres and customer fulfilment centres having LED lighting.
- **Installation of refrigeration technology across all our UK stores**: we have installed aerofoils in all large format stores and most of our Express stores have fridge doors which are saving 15% energy use.
- **Invested in high-efficiency ventilation fans**: the majority of our large format store ventilation units, salesfloor air handling units and extract fans have been upgraded with more efficient fans. We will complete all store upgrades within the next two years.
- **Invested in new energy monitoring platform**: we are migrating to an enhanced energy monitoring system that will help us to identify opportunities to reduce energy consumption across all our UK sites.
- **Rolled out Lightfoot® telematics in our home delivery vans and continued to use Fleetboard in our distribution fleet**: both systems improve driver efficiency and miles per gallon, with our home delivery vans reporting a 7% saving across our UK vehicle fleet.
- **Optimising distribution and home delivery operations**: which continues to reduce road miles and secure efficiencies, including upgrading vehicle tyres.

Modern Slavery Act

As per section 54(1) of the Modern Slavery Act 2015, our Modern Slavery Statement is reviewed and approved by the Board on an annual basis and published on our Group website. The statement covers the activities of Tesco PLC and certain UK subsidiaries and details policies, processes and actions we have taken to ensure that slavery and human trafficking are not taking place in our supply chains or any part of our business.

Tesco is dedicated to tackling modern slavery not just within our own operations and supply chains, but the issue of forced labour more broadly. Modern slavery is one of our four key human rights strategic priority areas, in which we work to bring about change through our Improve, Transform and Advocate model. In both our supply chains and within our own business, our greatest risks of modern slavery exist where there is a reliance on temporary, seasonal, informal and lower-paid labour. Through consultation with external experts, as well as Tesco's in-house team expertise, this year we have developed an updated modern slavery strategy which details our risk areas based on regions, products, supply chains and known drivers of risk. Based on the above criteria, and established knowledge, we have identified four priority areas: primary sites and end-to-end poultry in Thailand and Malaysia, priority fisheries, UK and Central Europe own-operations and UK seasonal produce.

Our approach to preventing, identifying and mitigating modern slavery is based on the five factors that we believe are vital to enabling an environment to eradicate modern slavery, which include effective grievance mechanisms and remediation. We have a robust programme for identifying potential or actual modern slavery concerns including regular SEDEX Members Ethical Trade Audits (SMETA), training requirements for all primary suppliers and a network of 40 in-country specialists. Detailed examples of how we have remediated issues identified can be found within our modern slavery statement and include the reimbursement of identified recruitment fees. In light of recruitment fees and debt bondage as a key driver of modern slavery (a causal factor in over 50% of modern slavery cases globally), we are focusing on responsible recruitment as a strategy to mitigate risk at the source. We have implemented specific responsible recruitment policies for suppliers in Thailand and Malaysia, and are working with suppliers in the UK to embed best practice.

More information on our statement can be found on our website at www.tescoplc.com.

Anti-bribery matters

We have a zero-tolerance approach to bribery. Our anti-bribery programme operates across the Group. The programme is built around a clear understanding of how and where bribery risks affect our business and comprises key controls such as: policies (anti-bribery, gifts and entertainment, conflicts of interest, charitable donations); procedures such as conducting due diligence on suppliers (in particular those who will engage public officials on our behalf); training colleagues on bribery risks every year; and ongoing assurance programmes to test that the controls are functioning effectively. Bribery risk management is discussed at senior leadership groups in each business unit, including at the Group level, and also twice a year with the Audit Committee.

Cautionary statement regarding forward-looking information

Where this Annual Report contains forward-looking statements, these are based on current expectations and assumptions, and speak only as of the date they are made. These statements should be treated with caution due to the inherent risks, uncertainties and assumptions underlying any such forward-looking information. The Group cautions investors that a number of factors, including matters referred to in this document, could cause actual results to differ materially from those expressed or implied in any forward-looking statement. Such factors include, but are not limited to, those discussed under principal risks and uncertainties on pages 33 to 37.

Forward-looking statements can be identified by the use of relevant terminology including the words: 'may', 'will', 'seek', 'aim', 'anticipate', 'target', 'projected', 'expect', 'estimate', 'intend', 'plan', 'goal', 'believe' or other words of similar meaning and include all matters that are not historical facts. They appear in a number of places throughout this Annual Report and include statements regarding the intentions, beliefs or current expectations of our officers, Directors and employees concerning, among other things, the Group's results of operations, financial condition, liquidity, prospects, growth, strategies and the business.

Neither the Group, nor any of its officers, Directors or employees, provides any representation, assurance or guarantee that the occurrence of the events expressed or implied in any forward-looking statements in this Annual Report will actually occur. Undue reliance should not be placed on these forward-looking statements. Other than in accordance with our legal and regulatory obligations, the Group undertakes no obligation to publicly update or revise any forward-looking statement, whether as a result of new information, future events or otherwise.

Additional disclosures

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

	Pages
Events after the reporting period	191
Future developments	5 to 45
Research and development	5 to 45
Financial instruments and financial risk management	159 to 176
Greenhouse gas emissions	40
Corporate governance report	46 to 62
Colleague engagement	18 and 19
Stakeholder engagement	20 to 22
Section 172 statement	22

Disclosures required pursuant to the Listing Rules can be found on the following pages:

	Pages
Listing Rule 9.8.4R	
Statement of capitalised interest	137 to 141
Allotment for cash of equity securities	185
Waiver of dividends	100
Listing Rule 9.8.6(8)	
Climate-related financial disclosures consistent with TCFD	41 to 44

The Company has chosen, in accordance with section 414C(11) of the Companies Act 2006, and as noted in this Directors' report, to include certain matters in its Strategic report that would otherwise be required to be disclosed in this Directors' report. The Strategic report can be found on pages 5 to 45 and includes an indication of future likely developments in the Company, details of important events and the Company's business model and strategy.

Statement of Directors' responsibilities

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year. Under that law the Directors are required to prepare the Group financial statements in accordance with UK-adopted international accounting standards and applicable UK law. The Directors have also chosen to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including Financial Reporting Standard (FRS) 101 Reduced Disclosure Framework. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company and of the profit or loss of the Company for that period.

In preparing the Parent Company financial statements, the Directors are required to:

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

In preparing the Group financial statements, International Accounting Standard 1 requires that Directors:

- properly select and apply accounting policies;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRSs are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- make an assessment of the Company's ability to continue as a going concern.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Company's transactions and disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities. The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions. Each of the serving Directors, whose names and functions are set out on pages 48 to 51, confirms that, to the best of their knowledge:

- the financial statements, prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Company and the undertakings included in the consolidation taken as a whole;
- the Strategic report includes a fair review of the development and performance of the business and the position of the Company and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that they face; and
- the Annual Report and Financial Statements, taken as a whole, are fair, balanced and understandable and provide the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

By order of the Board

Robert Welch
Group Company Secretary
12 April 2022
(Company No: 00445790)

Contents

Financial statements

Independent auditor's report	106
Group income statement	116
Group statement of comprehensive income (loss)	117
Group balance sheet	118
Group statement of changes in equity	119
Group cash flow statement	121
Notes to the Group financial statements	122
Tesco PLC – Parent Company balance sheet	192
Tesco PLC – Parent Company statement of changes in equity	193
Notes to the Parent Company financial statements	194
Related undertakings of the Tesco Group	199

Other information

Supplementary information (unaudited)	204
Glossary – Alternative performance measures	207
Five year record	213
Shareholder information	214

Visit www.tescoplc.com/ar2022 for more information.

Independent auditor's report to the members of Tesco PLC

Report on the audit of the financial statements

1. Opinion

In our opinion:

- the financial statements of Tesco PLC (the 'Parent Company') and its subsidiaries (the 'Group') give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 26 February 2022 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with United Kingdom adopted international accounting standards;
- the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 'Reduced Disclosure Framework'; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- the Group income statement;
- the Group statement of comprehensive income/(loss);
- the Group and Parent Company balance sheets;
- the Group and Parent Company statements of changes in equity;
- the Group cash flow statement; and
- the related Notes 1 to 37 of the Group financial statements and Notes 1 to 15 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and United Kingdom adopted international accounting standards. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom accounting standards, including FRS 101 'Reduced Disclosure Framework' (United Kingdom Generally Accepted Accounting Practice).

2. Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report.

We are independent of the Group and the Parent Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the Financial Reporting Council's (the 'FRC's') Ethical Standard as applied to listed public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements. The non-audit services provided to the Group and Parent Company for the year are disclosed in Note 3 (Income and expenses) to the financial statements. We confirm that we have not provided any non-audit services prohibited by the FRC's Ethical Standard to the Group or the Parent Company.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

3. Summary of our audit approach

Key audit matters

The key audit matters that we identified in the current year were:

- Tesco Bank goodwill impairment;
- pension valuation;
- store impairment review;
- Tesco Bank loan impairment;
- recognition of commercial income; and
- retail technology environment including IT security.

Within this report, key audit matters are identified as follows:

- Newly identified
- Increased level of risk
- Similar level of risk
- Decreased level of risk

Materiality

The materiality that we used for the Group financial statements was £100m which was determined on the basis of 4.60% of adjusted profit before tax from continuing operations (including net pension finance costs) as described further on page 11 below.

In the prior year materiality was determined based on 0.15% of revenue from continuing operations due to the impact of COVID-19 on the profitability of the group as a whole. Our determined materiality in the current year equates to 0.16% of revenue from continuing operations.

Scoping

The components which were either full or specified account balance scope in the current year contribute 96% (2020/21: 98%) of revenue from continuing operations, 98% (2020/21: 98%) of operating profit from continuing operations and 96% (2020/21: 97%) of total assets.

Significant changes in our approach

We no longer report the following as key audit matters:

- Contingent liabilities due to the settlement of the Homeplus claim and the UK shareholder litigation during 2021/22. The Audit Committee's discussion on the settlement of these matters is set out on page 71; and
- While we noted there has been a change in the Group's key performance indicator from 'Group operating profit before exceptional items and amortisation of acquired intangibles' to 'Adjusted operating profit', with a similar change to the 'Adjusted earnings per share' metric, we consider the level of management judgement and associated risk with 'Presentation of the Group's income statement' to have reduced in comparison to previous periods. We have continued to consider key performance indicator metrics, including Adjusted operating profit and Adjusted earnings per share, as part of our overall response to the risk of management override of controls.

There are no other significant changes in our approach in comparison to prior period.

4. Conclusions relating to going concern

In auditing the financial statements, we have concluded that the Directors' use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Our evaluation of the Directors' assessment of the Group's and Parent Company's ability to continue to adopt the going concern basis of accounting included:

- obtaining confirmation for the financing facilities including nature of facilities, repayment terms and covenants to ensure that these facilities remain available at year end;
- assessing the reasonableness of the assumptions used in the Group's funding plan approved by the Board (which included the impact of the macroeconomic downturn);
- testing the clerical accuracy and assessing the sophistication of the model used to prepare the forecasts including obtaining an understanding of relevant controls over management's model;
- reviewing the liquidity forecast and undertaking sensitivities to assess whether there is sufficient headroom;
- challenging the assumptions used within the Group's going concern model by obtaining third party and market data and evaluating any differences between this data and the judgement and assumptions used;
- evaluating the historical accuracy of forecasts prepared by management;
- considering the mitigating factors identified by management in relation to their going concern analysis; and
- assessing the appropriateness of the Group's disclosure concerning the going concern basis.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Group's and Parent Company's ability to continue as a going concern for a period of at least eighteen months from when the financial statements are authorised for issue.

In relation to the reporting on how the Group has applied the UK Corporate Governance Code, we have nothing material to add or draw attention to in relation to the Directors' statement in the financial statements about whether the Directors considered it appropriate to adopt the going concern basis of accounting.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

5. Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy, the allocation of resources in the audit; and directing the efforts of the engagement team.

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

Key audit matter description | How the scope of our audit responded to the key audit matter | Key observations

5.1 Tesco Bank goodwill impairment

Key audit matter description

As described in Note 1 'Accounting policies, judgements and estimates' and Note 10 'Goodwill and other intangible assets' of the financial statements, the Group carried £4,196m (2019/20: £4,270m) of goodwill of which £594m relates to Tesco Bank (2019/20: £480m).

Under IAS 36 'Impairment of assets', the Group is required to review goodwill for impairment at least annually by assessing the recoverable amount of each cash-generating unit, or group of cash-generating units, to which the goodwill relates.

Assessing the recoverable amount of the Tesco Bank cash-generating unit requires significant judgement in forecasting future cash flows, determining future growth rates and estimating the discount rate to be applied.

The key audit matter specifically relates to the following:

- The post-tax discount rate that management apply to the cash flows; and
- The quantum of the terminal value, specifically whether the forecast return to pre-COVID-19 levels of performance, including assumptions on revenue growth and cost reduction, and the timing thereof, is achievable and reflects the latest economic outlook and sector trends.

Tesco Bank goodwill is sensitive to changes in the key assumptions, in particular the discount rate and annual equity cash flows, with a 1.0% point increase in the discount rate or a decrease in annual equity cash flows of 14.[illegible]% reducing the year end headroom of £[illegible]m to £nil, as noted in Note 15 'Impairment of non-current assets'.

The Audit Committee's discussion of this key audit matter is set out on page 71.

How the scope of our audit responded to the key audit matter

Our audit procedures included obtaining an understanding of relevant controls in relation to the review and approval of the discount rate and Tesco Bank's cash flow forecasts used in the model. We have also performed a range of specific audit procedures to address the key audit matter which included the following:

Management's discount rate

Use of specialists: We involved our valuation specialists in testing the discount rate used in calculating the recoverable amount. We calculated an independent range of acceptable discount rates and challenged management's inputs to their own calculation.

Sensitivity analysis: We performed a sensitivity analysis on the impairment of goodwill using our independently calculated rate.

Other terminal value assumptions

Forecasting accuracy We assessed management's forecasting accuracy based on the historical forecast and actual.

Challenge of key assumptions: With involvement of our internal economic modeling specialists, we challenged the achievability of the Bank's return to pre-COVID-19 levels of performance with reference to the anticipated shape of the macroeconomic recovery, and relevant sectoral trends. We also challenged the achievability of the revenue growth and cost reduction assumptions in the later years of the cash flow forecasts with reference to management's specific initiatives for delivering growth, and whether forecast margins are in line with historical margins and the wider market.

Use of independent market expectations: We challenged management's key assumptions within the cash flow forecasts based on historical and market trends.

Disclosure

We also evaluated whether there was appropriate disclosure regarding the discount rate and other key assumptions, including the sensitivity disclosure.

Key observations

Based on our audit procedures, we are satisfied that the assumptions in the Tesco Bank goodwill impairment model are reasonable and supportable based on available evidence, both internal and external, and that no impairment was required. As part of our assessment of management's controls, we note that management have improved the precision and granularity of review controls over the impairment model. We also consider the disclosures, including the sensitivity disclosure in Note 15, to be appropriate.

5.2 Pension valuation

[illegible]

Our audit procedures included obtaining an understanding of relevant controls in relation to the pension obligation valuation process. [illegible]

[illegible]

Based on our audit procedures, we are satisfied that the overall methodology [illegible] and the key assumptions applied in relation to determining the pension valuation are within a reasonable range.

[illegible]

The Audit Committee's discussion of this key audit matter is set out on page [illegible].

5.3 Store impairment review

As described in Note 1 Accounting policies, judgements and estimates, Note 11 Property, plant and equipment and Note 12 Leases of the financial statements, the Group held £17,[illegible] (2020/21: £16,945m) of property, plant and equipment and £5,[illegible] of right of use assets (2020/21: £5,951m) at 26 February 2022.

Under IAS 36, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. Judgement is required in identifying indicators of impairment charges or reversals and estimation is required in determining the recoverable amount of the Group's store portfolio.

Where a review for impairment or reversal of impairment is conducted, the recoverable amount is determined based on the higher of value in use or fair value less costs of disposal.

Value in use has been calculated using probability-weighted cash flows reflecting management's best estimate of the impact of the economic environment and climate change on the future trading performance of the Group. Further details of the probability-weighted cash flows are set out in Note 15 of the financial statements.

Management determine the fair value less costs to dispose of the stores with the assistance of independent professional valuers. External valuations are obtained for a sample of stores, the results of which are then used by management to determine the fair value of the other properties. Further details of the basis for the valuation are set out in Note 15.

In making their assessment of value in use and fair value less costs to dispose, management has considered the impact of the war in Ukraine on the macroeconomic trading environment and property fair values where conditions existed at the balance sheet date.

The key audit matter relates specifically to the UK store portfolio, which represents [illegible]% of both the Group's property, plant and equipment and right of use asset balances.

Our audit procedures included obtaining an understanding of relevant controls around the impairment review process.

Our procedures in relation to the Group's value in use assessment included:

- challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, the wider economic environment (including possible macroeconomic impacts of the war in Ukraine), anticipated changes in consumer behaviour, competitor actions, our understanding of the Group's strategic initiatives and wider climate change considerations;
- reviewing the accuracy of past forecasts of growth rates and future cash flows to assess the level of accuracy of the forecasting process;
- performing sensitivity analyses to assess the impact on impairment of a change in the probability percentages applied to the cash flow scenarios;
- with the involvement of our valuation specialists, calculating an independent range and evaluating management's inputs to the discount rate and long-term growth rate;
- assessing and challenging the adequacy of management's sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required to lead to a significant further impairment charge or reversal, in particular forecast cash flows, discount rates and property fair values in light of increased market volatility due to the war in Ukraine;
- using analytical techniques to identify unusual trends in data inputs and model outputs to identify inaccurate data and any modelling errors or bias;
- assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 and reviewing the integrity of the value in use model prepared by the Group; and
- involving our specialist modelling team in evaluating the integrity of the impairment model.

Based on our audit procedures we concluded that the assumptions in the impairment model were within an acceptable range and that the overall level of net impairment charge was reasonable.

Through the completion of our work we are satisfied with the integrity of the model used for the current year impairment exercise. We consider the disclosures, including the sensitivity disclosure in Note 15, to be appropriate.

5.3 Store impairment review continued

Management's impairment review is sensitive to changes in the key assumptions as set out in Note 15. Judgement is required to forecast the cash flows, which are derived from the Board approved Long Term Plan (LTP), in particular the impairment model is sensitive to changes to the year 3 cash flows, as these are extrapolated into the long term. In the view of the evaluation, the areas of judgement in the cash flows which required us to use the ability of management to achieve their forecast and strategic plans, consumer behaviour, the volatile retail environment and the Group's ability to respond to these changes.

Other areas of key estimation and judgement in the impairment review are as follows:

- the probability applied to each of the cash flow scenarios when calculating the probability-weighted cash flows;
- the discount rate and long-term growth rate used to determine value in use from the probability-weighted cash flows; and
- the fair value of properties supporting the carrying value of store assets, in particular those affected by the changing retail and broader property landscape.

The LTP is prepared on a top-down basis and not at an individual store level. Management performs an exercise to allocate forecast performance at an individual store level within the portfolio, ensuring that the cash flows in the LTP are in accordance with IAS 36. This increases the complexity and level of judgement within the impairment model.

As a result of the Group's store impairment review completed during the year, a net impairment charge of £[illegible]m (2020/21: net impairment reversal of £[illegible]m) was recognised.

The sensitivities associated with management's impairment review are presented within Note 15 to the financial statements.

The Audit Committee's discussion of this key audit matter is set out on page [illegible].

[illegible]

For stores where the value is supported by fair value less costs to dispose, our procedures included challenging the assumptions used by the Group in determining the fair market value, including those completed by external valuers, and assessing whether appropriate valuation methodologies have been applied. Where stores are supported by their fair value less costs to dispose rather than value in use, but management plan to continue to trade in the store, we have challenged management as to why the fair value is appropriate in the current circumstances. Our property valuation specialists have been involved in evaluating the fair value less costs to dispose and a sample review was performed. We have evaluated the competence, capability and objectivity of management's valuers.

We also evaluated whether there was appropriate disclosure regarding the estimates associated with management's impairment review.

5.4 Tesco Bank loan impairment

As disclosed in Note 19 'Loans and advances to customers and banks', the Group held an expected credit loss (ECL) provision in respect of loans and advances to customers of £489m at 26 February 2022 (2020/21: £625m). The ECL on these loans and advances credited to the income statement was £20m in the year to 26 February 2022 (2020/21: charge £350m). The decrease in provision compared to the prior year is primarily due to the improvements in the macroeconomic outlook partially offset by additional post-model adjustments (PMAs) to account for the risks associated with prevailing headwinds in the economy.

Despite the improvement in the macroeconomic outlook in the current year, loan impairment remains one of the most significant judgements made by management.

We consider the most significant areas of judgement within the Group's collective provisioning methodologies and therefore the key audit matters within loan impairment, to be:

- **Macroeconomic scenarios:** loan impairment provisions are required to be calculated on a forward-looking basis under IFRS 9 'Financial Instruments'. Management apply significant judgement in determining the forecast macroeconomic scenarios and the probability weighting of each scenario that are incorporated into the ECL model.

  PMAs: management has included a number of PMAs to capture the potential downside risk and model limitations arising as a result of the continued macroeconomic uncertainty. This includes PMAs to account for artificial improvements in customer behavioural scores over the course of the pandemic, the potential impact of the emerging cost of living crisis on the Bank's customers, the ongoing war in Ukraine and to align future default emergence to previous economic downturns.

We have obtained an understanding of the relevant controls including model governance, including model monitoring and calibration, including the determination of PMAs, the review and approval of macroeconomic scenarios, the flow of data from the Group's information systems into the model, and the flow of the output of the model to the general ledger.

Our audit work to address the key audit matter included the procedures noted below.

Macroeconomic scenarios and related model refinements

With involvement of internal economic modelling specialists, we challenged the macroeconomic scenario forecasts that were incorporated into the ECL model, including management's selection of the relevant macroeconomic variables. We assessed management's forecasts and their probability against external sources to assess their reasonableness, considering the forecasts in light of any contradictory information.

We assessed the competence, capabilities and objectivity of management's expert, who supplies the macroeconomic forecasts, and considered whether the methodology adopted by the expert was reasonable.

We also evaluated whether there was appropriate disclosure regarding the macroeconomic scenarios selected by management, their probability weighting and the related sensitivities.

Based on our audit procedures, we concluded that management's provision is reasonably stated and is supported by a methodology that is consistently applied and compliant with IFRS 9. We consider the sensitivity disclosures provided in Note 20 to the financial statements to be appropriate.

5.4 Tesco Bank loan impairment continued

PMAs

5.5 Recognition of commercial income

5.6 Retail technology environment, including IT security

[illegible]

[illegible]

[illegible]

- [illegible]
- [illegible]

The Audit Committee [illegible]

[illegible]

[illegible]

[illegible]

[illegible]

6. Our application of materiality

6.1 Materiality

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

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

	[illegible]	[illegible]
Materiality	[illegible]	[illegible]
Basis for determining materiality	[illegible]	Materiality represents less than [illegible] net assets
Rationale for the benchmark applied	[illegible] [illegible] COVID-19 [illegible] prior to the onset of the COVID-19 pandemic. Refer to Note 4 for further details of adjusting items and management's reconciliation of the alternative performance measure to the Group's statutory measure.	[illegible] the Parent Company of the Group [illegible] Net assets are of [illegible] to users of the financial statements.
Component materiality	The work performed on components identified in our Group audit scope excluding the Parent Company was [illegible]	

Performance materiality

We set performance materiality at a level lower than materiality to reduce the probability that, in aggregate, uncorrected and undetected misstatements exceed the materiality for the financial statements as a whole.

	[illegible]	[illegible]
Performance materiality	65% (2020/21: 65%) of Group materiality	65% (2020/21: 65%) of Parent Company materiality
Basis and rationale for determining performance materiality	As we continue to operate effective internal controls in the retail business, consistent with previous years, we have used a lower percentage of materiality to determine our performance materiality for 2021/22. In determining our performance materiality we have also considered the nature, quantum and volume of corrected and uncorrected misstatements identified in prior periods and our expectation that misstatements from prior periods would not recur in the current period.	

6.2 Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £5m (2020/21: £5.75m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

7. An overview of the scope of our audit

7.1 Identification and scoping of components

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

The Group's accounting process is structured around business units managed by local finance functions and further supported by shared service centres in Bengaluru, India and Budapest, Hungary which provide accounting and administrative support for the Group's core retail operations. Each local finance function reports through to the central Group finance function based at the Group's head office. The results of each local finance function are consolidated on an entity-by-entity basis. In 2021/22 we have refined our audit scope to focus on the key entities and balances within the Group rather than including the entire business unit for full scope procedures. We have determined that each entity is a separate component for scoping purposes.

Based on our assessment of the Group, we focused our Group audit scope primarily on entities within the six key retail business units (UK, Booker, Republic of Ireland, Czech Republic, Hungary and Slovakia) and Tesco Bank. All of these were subject to full scope or specified scope audits, the latter being where only the key financial statement account balances were included in scope. The components which were either full or specified scope in the current year contribute 96% (2020/21: 98%) of the Group's revenue from continuing operations, 98% (2020/21: 98%) of the Group's operating profit from continuing operations and 95% (2020/21: 97%) of the Group's total assets.

For all other components not included in full scope or specified scope, we performed analytical review procedures to confirm our conclusion that there was no significant risk of material misstatement in the residual population.

As each of the local finance functions maintains separate financial records, we have engaged component auditors from the Deloitte member firms in the UK, Republic of Ireland and Central Europe to perform procedures at all the wholly-owned components under our direction and supervision. This approach also allows us to engage local auditors who have appropriate knowledge of local regulations to perform the audit work under a common Deloitte audit approach.

The components within the full or specified account balance scope contribute the proportions of Group totals shown below.

Revenue from continuing operations

Operating profit from continuing operations

Total assets

At the Group level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances. At a Group level we also performed audit procedures on centrally held balances including treasury, post-employment benefit obligations, head office costs and litigation and claims.

The most significant component of the Group is its retail business in the UK. As such, there is extensive interaction between the Group and the UK audit team to allow appropriate levels of direction and supervision in this audit work. During the course of our audit, the UK audit team visited 48 (2020/21: 52) retail stores in the UK to attend their inventory counts or in order to complete store control visits, and 6 (2020/21: 5) distribution centre inventory counts.

7.2 Our consideration of the control environment

The Group's operations utilise a range of information systems which underpin the financial reporting process. These are largely consistent across the retail business; however, Tesco Bank has separate information systems due to the nature of the business. For all of the components that were subject to either full scope or specified scope audits, we obtained an understanding of the relevant IT systems for the purpose of our audit work.

In previous years we reported deficiencies in certain IT controls. As described in the Audit Committee Report on page 70, management has implemented a remediation plan, progress against which is monitored. Accordingly, consistent with the prior year, we extended the scope of our substantive audit procedures in response to the identified deficiencies.

Further details are set out in the 'Retail technology environment including IT security' key audit matter in section 5.6 above.

We obtained management's assessment of the financial reporting risk as a result of the cyber breach that occurred in October 2020, including obtaining and inspecting the reports prepared by the independent specialists that management had used to support their work to assess the impact of the breach. We involved our IT specialists in our consideration of the impact of the cyber breach on financial reporting and concluded that no further changes to our planned audit approach were required as a result.

7.3 Our consideration of climate-related risks

As highlighted in management's TCFD report on page 44 and the principal risks on page 34, the Group is exposed to the impact of climate change on its business and operations. In considering the scope of our audit procedures we have assessed the risks arising from climate change, including their impact on the financial statements and the extent to which they have been included in the Group's forecast financial information. We have developed audit procedures to respond to these risks, in particular as part of our work in relation to store impairment and long-term viability as well as considering climate-related risks throughout our risk assessments on each financial statement account balance. Further details of our work in relation to store impairment are set out in the 'Store impairment review' key audit matter in section 5.3 above.

7.4 Working with other auditors

With the restrictions in place as a result of COVID-19, the Group audit team was not physically able to visit all the significant locations set out above. However, the Group audit team mitigated our inability to visit overseas components due to COVID-19 travel restrictions through increased remote communication and remote review of all in-scope components for 2021/22. These were timed to allow the Group audit team to be involved in the planning of their audit work and understanding of their risk assessment process to identify key areas of estimates and judgement, as well as the execution of their audit work.

We issued detailed instructions to the component auditors, reviewed and challenged the related component reporting and findings from their work, reviewed underlying audit files, and attended component audit closing conference calls and other key meetings with management throughout the 2021/22 audit process. We also had a dedicated audit partner focused on overseeing the role of the component audit teams, ensuring that we applied a consistent audit approach to the operations in the Group's international businesses.

Additionally, the component audit teams attended a virtual all day planning meeting in July 2021 and a virtual two day planning meeting in November 2021 led by the Group audit team and held prior to the commencement of our detailed audit work. The purpose of these planning meetings was to provide a common level of understanding of the Group's businesses, their core strategy and a discussion of the significant risks and workshops on our planned audit approach. Group management, component management and the Audit Committee Chair also attended part of the meetings to support these planning activities.

The Parent Company is located in the United Kingdom and audited directly by the Group audit team.

8. Other information

The other information comprises the information included in the Annual Report, other than the financial statements and our auditor's report thereon. The Directors are responsible for the other information contained within the Annual Report.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

Our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the course of the audit, or otherwise appears to be materially misstated.

If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

9. Responsibilities of Directors

As explained more fully in the Directors' responsibilities statement, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Group's and the Parent Company's ability to continue as a going concern, disclosing as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Group or the Parent Company or to cease operations, or have no realistic alternative but to do so.

10. Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the FRC's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

11. Extent to which the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below.

11.1 Identifying and assessing potential risks related to irregularities

In identifying and assessing risks of material misstatement in respect of irregularities, including fraud and non-compliance with laws and regulations, we considered the following:

- the nature of the industry and sector, control environment and business performance including the design of the Group's remuneration policies, key drivers for Directors' and management's remuneration, bonus levels and performance targets;
- the Group's own assessment of the risks that irregularities may occur either as a result of fraud or error;
- results of our enquiries of management, the Group's Internal Audit function, the Group's Security function, the Group's Compliance Officer, the Group's General Counsel and the Audit Committee about their own identification and assessment of the risks of irregularities;
- any matters we identified having obtained and reviewed the Group's documentation of their policies and procedures relating to:
  - identifying, evaluating and complying with laws and regulations and whether they were aware of any instances of non-compliance;
  - detecting and responding to the risks of fraud and whether they have knowledge of any actual, suspected or alleged fraud;
  - the internal controls established to mitigate risks of fraud or non-compliance with laws and regulations, including the Group's controls relating to Group's ongoing compliance with the GSCOP requirements and the requirements of the United Kingdom's Prudential Regulation Authority (PRA) and Financial Conduct Authority (FCA) in relation to Tesco Bank; and
- the matters discussed among the audit engagement team, including significant component audit teams and relevant internal specialists, including IT, tax, valuations and pensions actuarial specialists regarding how and where fraud might occur in the financial statements and any potential indicators of fraud.

As a result of these procedures, we considered the opportunities and incentives that may exist within the organisation for fraud and identified the greatest potential for fraud in the following areas: Tesco Bank loan impairment and recognition of commercial income. In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override.

We also obtained an understanding of the legal and regulatory frameworks that the Group operates in, focusing on provisions of those laws and regulations that had a direct effect on the determination of material amounts and disclosures in the financial statements. The key laws and regulations we considered in this context included the Group's ongoing compliance with the GSCOP, UK Companies Act, Listing Rules, pensions legislation and tax legislation.

In addition, we considered provisions of other laws and regulations that do not have a direct effect on the financial statements but compliance with which may be fundamental to the Group's ability to operate or to avoid a material penalty. These included the requirements of the United Kingdom's PRA, FCA and Solvency II in relation to Tesco Bank, employment law, health and safety and food safety laws and regulations.

11.2. Audit response to risks identified

As a result of performing the above, we identified Tesco Bank loan impairment and recognition of commercial income as key audit matters related to the potential risk of fraud. The key audit matters section of our report explains the matters in more detail and also describes the specific procedures we performed in response to those key audit matters.

In addition to the above, our procedures to respond to risks identified included the following:

- reviewing the financial statement disclosures and testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- enquiring of management, the Audit Committee and in-house legal counsel concerning actual and potential litigation and claims;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing letters received and correspondence, if any, with HMRC, the FRC and the Irish Auditing and Accounting Supervisory Authority (the 'IAASA') and other relevant regulatory bodies; and
- in addressing the risk of fraud through management override of controls, testing the appropriateness of journal entries and other adjustments; assessing whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluating the business rationale of any significant transactions that are unusual or outside the normal course of business.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists and significant component audit teams and remained alert to any indications of fraud or non-compliance with laws and regulations throughout the audit.

Report on other legal and regulatory requirements

12. Opinions on other matters prescribed by the Companies Act 2006

In our opinion the part of the directors' remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006

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

- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements

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

13. Corporate Governance Statement

The Listing Rules require us to review the Directors' statement in relation to going concern, longer-term viability and that part of the Corporate Governance Statement relating to the Group's compliance with the provisions of the UK Corporate Governance Code specified for our review

Based on the work undertaken as part of our audit, we have concluded that each of the following elements of the Corporate Governance Statement is materially consistent with the financial statements and our knowledge obtained during the audit

- the directors' statement with regards to the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 102;
- the directors' explanation as to its assessment of the Group's prospects, the period this assessment covers and why the period is appropriate set out on page 38;
- the directors' statement on fair balanced and understandable set out on page 73;
- the Board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out from page 31;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out from page 31, and
- the section describing the work of the Audit Committee set out on page 68.

14. Matters on which we are required to report by exception

14.1 Adequacy of explanations received and accounting records

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

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

We have nothing to report in respect of these matters

14.2 Directors' remuneration

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

We have nothing to report in respect of these matters

15. Other matters which we are required to address

15.1. Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 25 June 2015 to audit the financial statements for the year ending 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is seven years, covering the years ended 27 February 2016 to 26 February 2022

15.2 Consistency of the audit report with the additional report to the Audit Committee

Our audit opinion is consistent with the additional report to the Audit Committee we are required to provide in accordance with ISAs (UK).

16. Use of our report

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

In due course, as required by the FCA Disclosure Guidance and Transparency Rule (DTR) 4.1.14R, these financial statements will form part of the European Single Electronic Format (ESEF) prepared Annual Financial Report filed on the National Storage Mechanism of the UK FCA in accordance with the ESEF Regulatory Technical Standard ('ESEF RTS'). This auditor's report provides no assurance over whether the annual financial report has been prepared using the single electronic format specified in the ESEF RTS.

John Adam (Senior statutory auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom

12 April 2022

Group income statement

	Notes	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Continuing operations							
Revenue	[illegible]	61,344	–	61,344	57,887	–	57,887
Cost of sales		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Impairment reversal [illegible] financial assets	[illegible]	[illegible]		[illegible]	(364)		[illegible]
Gross profit/(loss)		4,809	(176)	4,633	3,555	221	3,776
Administrative expenses		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating profit/(loss)		2,825	(265)	2,560	1,788	(241)	1,547
Share of post-tax profits [illegible] joint ventures and associates	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
Finance income	[illegible]	[illegible]		[illegible]	[illegible]		[illegible]
Finance costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) before tax		2,197	(164)	2,033	1,134	(498)	636
Taxation	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) for the year from continuing operations		1,695	(172)	1,523	885	(353)	532
Discontinued operations							
Profit/(loss) for the year from discontinued operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) for the year		1,693	(210)	1,483	1,194	4,764	5,958
Attributable to:							
Owners of the parent		[illegible]	[illegible]	1,481	[illegible]	[illegible]	5,954
Non-controlling interests		2		2	4		4
		1,693	(210)	1,483	1,194	4,764	5,958
Earnings/(losses) per share from continuing and discontinued operations							
Basic	[illegible]			[illegible]			[illegible]
Diluted	9			[illegible]			61.66p
Earnings/(losses) per share from continuing operations							
Basic	[illegible]			[illegible]			[illegible]
Diluted	9			19.64p			5.58p

[illegible]

[illegible]

The notes on pages 122 to 191 form part of these financial statements.

Group statement of comprehensive income/(loss)

	[illegible]	[illegible]	[illegible]
Items that will not be reclassified to the Group income statement			
Change in fair value of financial assets at fair value through other comprehensive income		[illegible]	
Remeasurements of defined benefit pension schemes	[illegible]	[illegible]	[illegible]
Net fair value gains/(losses) on investments in cash flow hedges		[illegible]	[illegible]
Tax on items that will not be reclassified	[illegible]	[illegible]	[illegible]
		3,194	**(718)**
Items that may subsequently be reclassified to the Group income statement			
Change in fair value of financial assets at fair value through other comprehensive income		[illegible]	[illegible]
Currency translation differences:			
[illegible] instruments		[illegible]	[illegible]
[illegible] and reported in the Group income statement		[illegible]	[illegible]
[illegible] hedges:			
Net fair value gain/(loss)		44	[illegible]
Reclassified and reported in the Group income statement		[illegible]	[illegible]
Tax on items that may be reclassified	[illegible]	[illegible]	[illegible]
		(4)	**(512)**
Total other comprehensive income/(loss) for the year		**3,190**	**(1,230)**
Profit/(loss) for the period		1,483	5,958
Total comprehensive income/(loss) for the year		**4,673**	**4,728**
Attributable to:			
Owners of the parent		[illegible]	[illegible]
Non-controlling interests		[illegible]	[illegible]
Total comprehensive income/(loss) for the year		**4,673**	**4,728**
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		[illegible]	[illegible]
Discontinued operations		[illegible]	[illegible]
		4,671	**4,724**

[illegible]

The notes on pages 122 to 191 form part of these financial statements.

Group balance sheet

	Notes	[illegible]	[illegible]	[illegible]
Non-current assets				
Goodwill and other intangible assets	[illegible]	5,360	5,593	[illegible]
Property, plant and equipment	[illegible]	[illegible]	[illegible]	[illegible]
Right of use assets	[illegible]	[illegible]	[illegible]	[illegible]
Investment property	[illegible]	[illegible]	[illegible]	[illegible]
Investments in joint ventures and associates	[illegible]	80	[illegible]	[illegible]
Other investments	[illegible]	[illegible]	[illegible]	[illegible]
Trade and other receivables	[illegible]	159	[illegible]	[illegible]
Loans and advances to customers and banks	[illegible]	[illegible]	[illegible]	[illegible]
Reinsurance assets	[illegible]	[illegible]		
Post-employment benefit surplus	[illegible]	[illegible]		
Derivative financial instruments	[illegible]	[illegible]	[illegible]	[illegible]
Deferred tax assets	[illegible]	55	[illegible]	[illegible]
		37,162	**34,705**	**39,177**
Current assets				
Other investments	[illegible]	[illegible]	[illegible]	[illegible]
Inventories	[illegible]	[illegible]	[illegible]	[illegible]
Trade and other receivables	[illegible]	[illegible]	[illegible]	[illegible]
Loans and advances to customers and banks	[illegible]	[illegible]	[illegible]	[illegible]
Reinsurance asset	[illegible]	[illegible]		
Derivative financial instruments	[illegible]	[illegible]	[illegible]	[illegible]
Current tax assets		33	41	[illegible]
Short-term investments	[illegible]	[illegible]	[illegible]	[illegible]
Cash and cash equivalents	[illegible]	[illegible]	[illegible]	[illegible]
		11,821	**10,202**	**13,608**
Assets of the disposal group and non-current assets classified as held for sale	[illegible]	368	605	285
		12,189	**10,807**	**13,893**
Current liabilities				
Trade and other payables	[illegible]	[illegible]	(8,399)	[illegible]
Borrowings	24	[illegible]	[illegible]	[illegible]
Lease liabilities	[illegible]	[illegible]	[illegible]	[illegible]
Derivative financial instruments	[illegible]	(26)	[illegible]	(61)
Customer deposits and deposits from banks		[illegible]	[illegible]	[illegible]
Insurance contract provisions	[illegible]	(623)		
Current tax liabilities		(11)	[illegible]	[illegible]
Provisions	26	[illegible]	(186)	(155)
		(16,125)	**(15,721)**	**(18,656)**
Liabilities of the disposal group classified as held for sale	[illegible]	(14)	(276)	
Net current liabilities		**(3,950)**	**(5,190)**	**(4,763)**
Non-current liabilities				
Trade and other payables	21	[illegible]	[illegible]	[illegible]
Borrowings	24	[illegible]	(6,188)	[illegible]
Lease liabilities	12	[illegible]	[illegible]	(8,968)
Derivative financial instruments	[illegible]	[illegible]	(926)	[illegible]
Customer deposits and deposits from banks	[illegible]	(1,650)	[illegible]	[illegible]
Insurance contract provisions	[illegible]	[illegible]		
Post-employment benefit deficit	[illegible]	[illegible]	[illegible]	[illegible]
Deferred tax liabilities	6	[illegible]	(48)	(40)
Provisions	26	(183)	(119)	[illegible]
		(17,568)	**(17,456)**	**(21,122)**
Net assets		**15,644**	**12,059**	**13,292**
Equity				
Share capital	[illegible]	484	490	[illegible]
Share premium		5,165	5,165	5,165
Other reserves		3,079	[illegible]	3,658
Retained earnings		[illegible]	3,239	4,001
Equity attributable to owners of the parent		**15,660**	**12,077**	**13,314**
Non-controlling interests		(16)	(18)	[illegible]
Total equity		**15,644**	**12,059**	**13,292**

[illegible]

The notes on pages 122 to 191 form part of these financial statements.

Ken Murphy **Imran Nawaz**
Directors
Registered number 00445790

The financial statements on pages 116 to 191 were approved and authorised for issue by the Directors on 12 April 2021.

Group statement of changes in equity

At 27 February 2021 (restated*)	490	5,165	16	90	175	(188)	3,090	3,239	12,077	(18)	12,059
Profit/(loss) for the year	–	–	–	–	–	–	–	1,481	1,481	2	1,483
Other comprehensive income/(loss)											
Retranslation of net assets of overseas subsidiaries, joint ventures and associates net of hedging instruments					[illegible]				[illegible]		[illegible]
Movements in foreign exchange reserve and net investment hedging in subsidiaries disposed reclassified and reported in the Group income statement (Note 16)					[illegible]				[illegible]		[illegible]
Change in fair value of financial assets at fair value through other comprehensive income								[illegible]	[illegible]		[illegible]
Remeasurements of defined benefit pension schemes (Note 30)								[illegible]	[illegible]		[illegible]
Gains/(losses) on cash flow hedges				[illegible]							[illegible]
Cash flow hedges reclassified and reported in the Group income statement				[illegible]					[illegible]		[illegible]
Tax relating to components of other comprehensive income (Note 6)				[illegible]				[illegible]	[illegible]		[illegible]
Total other comprehensive income/(loss)	–	–	–	10	27	–	–	3,153	3,190	–	3,190
Total comprehensive income/(loss)	–	–	–	10	27	–	–	4,634	4,671	2	4,673
Inventory cash flow hedge movements											
Gains/(losses) transferred to the cost of inventory				[illegible]					[illegible]		[illegible]
Total inventory cash flow hedge movements	–	–	–	30	–	–	–	–	30	–	30
Transactions with owners											
Own shares purchased for cancellation (Note 31)	[illegible]		6			[illegible]		[illegible]	[illegible]		[illegible]
Own shares purchased for share schemes (Note 31)						[illegible]			[illegible]		[illegible]
Share-based payments (Note 31)						139		[illegible]	[illegible]		[illegible]
Dividends (Note 8)								(704)	(704)		(704)
Tax on items credited to equity (Note 6)								15	15		15
Total transactions with owners	(6)	–	6	–	–	(177)	–	(941)	(1,118)	–	(1,118)
At 26 February 2022	484	5,165	22	130	202	(365)	3,090	6,932	15,660	(16)	15,644

* [illegible]

The notes on pages 122 to 191 form part of these financial statements.

Group statement of changes in equity continued

	Issued share capital £m	Share premium £m	Capital redemption reserve £m	Hedging reserve £m	Cost of hedging reserve £m	Translation reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 29 February 2020 (as previously reported)	490	5,165	16	(15)	154	663	(250)	3,090	4,078	13,391	(22)	13,369
Cumulative adjustment for opening balances									(77)	(77)		(77)
At 29 February 2020 (restated*)	490	5,165	16	(15)	154	663	(250)	3,090	4,001	13,314	(22)	13,292
Profit/(loss) for the year (restated*)	–	–	–	–	–	–	–	–	5,954	5,954	4	5,958
Other comprehensive income/(loss)												
Retranslation of net assets of overseas subsidiaries, joint ventures and associates, net of hedging instruments						[illegible]				[illegible]		[illegible]
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed reclassified and reported in the Group income statement						(41)				(41)		(41)
Change in fair value of financial instruments at fair value through other comprehensive income									1	1		1
Remeasurements of defined benefit pension schemes (Note 30)									(965)	(965)		(965)
Gains/(losses) on cash flow hedges				17	39					56		56
Cash flow hedges reclassified and reported in the Group income statement					(60)					(60)		(60)
Tax relating to components of other comprehensive income (Note 6)				(2)	[illegible]	[illegible]			243	245		245
Total other comprehensive income/(loss)	–	–	–	15	(36)	(488)	–	–	(721)	(1,230)	–	(1,230)
Total comprehensive income/(loss) (restated*)	–	–	–	15	(36)	(488)	–	–	5,233	4,724	4	4,728
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory					(28)					(28)		(28)
Total inventory cash flow hedge movements	–	–	–	–	(28)	–	–	–	–	(28)	–	(28)
Transactions with owners												
Own shares purchased for share schemes (Note 31)							(246)			(246)		(246)
Share-based payments (Note 31)							308		(291)	17		17
Dividends (Note 8)									(5,692)	(5,692)		(5,692)
Tax on items charged to equity (Note 6)									(6)	(6)		(6)
Total transactions with owners	–	–	–	–	–	–	62	–	(5,995)	(5,933)	–	(5,933)
At 27 February 2021 (restated*)	490	5,165	16	–	90	175	(188)	3,090	3,239	12,077	(18)	12,059

* Comparatives have been restated [illegible] See Note 1 [illegible]

The notes on pages 122 to 191 form part of these financial statements.

Group cash flow statement

	Notes	[illegible]	[illegible]
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		**2,560**	**1,547**
Operating profit/(loss) of discontinued operations		**(51)**	**5,482**
Depreciation and amortisation		[illegible]	[illegible]
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets classified as held for sale and early termination of leases		[illegible]	[illegible]
(Profit)/loss arising on sale of joint ventures and associates		[illegible]	
(Profit)/loss arising on sale of subsidiaries	[illegible]	[illegible]	[illegible]
Transaction costs associated with sale of subsidiaries			[illegible]
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	[illegible]	[illegible]	[illegible]
Impairment of goodwill	[illegible]		[illegible]
Net remeasurement (gain)/loss on non-current assets held for sale		[illegible]	[illegible]
Adjustment for non-cash element of pension charge			[illegible]
Other defined benefit pension scheme payments	[illegible]	[illegible]	[illegible]
Share-based payments	[illegible]	[illegible]	[illegible]
Tesco Bank fair value movements included in operating profit/(loss)		[illegible]	[illegible]
Retail (increase)/decrease in inventories		[illegible]	[illegible]
Retail (increase)/decrease in development stock			[illegible]
Retail (increase)/decrease in trade and other receivables		[illegible]	[illegible]
Retail increase/(decrease) in trade and other payables		43	[illegible]
Retail increase/(decrease) in provisions		(165)	56
Retail (increase)/decrease in working capital		424	[illegible]
Tesco Bank (increase)/decrease in loans and advances to customers and banks		[illegible]	[illegible]
Tesco Bank (increase)/decrease in trade, reinsurance and other receivables		[illegible]	[illegible]
Tesco Bank increase/(decrease) in customer and bank deposits, trade, reinsurance and other payables		[illegible]	[illegible]
Tesco Bank increase/(decrease) in provisions		[illegible]	[illegible]
Tesco Bank (increase)/decrease in working capital		[illegible]	[illegible]
Cash generated from/(used in) operations		**4,608**	**1,586**
Interest paid		[illegible]	[illegible]
Corporation tax paid		[illegible]	[illegible]
Net cash generated from/(used in) operating activities		**3,757**	**602**
Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		309	[illegible]
Purchase of property, plant and equipment and investment property		(949)	[illegible]
Purchase of intangible assets		[illegible]	[illegible]
Disposal of subsidiaries, net of cash disposed		[illegible]	[illegible]
Acquisition of subsidiaries, net of cash acquired	[illegible]	[illegible]	[illegible]
Proceeds from sale of joint ventures and associates		[illegible]	
Increase in loans to joint ventures and associates		[illegible]	[illegible]
Investments in joint ventures and associates		[illegible]	[illegible]
Net (investments in)/proceeds from sale of short-term investments		[illegible]	62
Proceeds from sale of other investments		[illegible]	[illegible]
Purchase of other investments		[illegible]	65
Dividends received from joint ventures and associates		[illegible]	16
Interest received		3	[illegible]
Net cash generated from/(used in) investing activities		**(1,735)**	**6,171**
Cash flows generated from/(used in) financing activities			
Own shares purchased for cancellation	31	[illegible]	
Own shares purchased for share schemes	[illegible]	[illegible]	[illegible]
Repayment of capital element of obligations under leases		[illegible]	[illegible]
Increase in borrowings		[illegible]	[illegible]
Repayment of borrowings		[illegible]	[illegible]
Cash inflows from derivative financial instruments		[illegible]	[illegible]
Cash outflows from derivative financial instruments		[illegible]	[illegible]
Dividends paid to equity owners	8	[illegible]	[illegible]
Net cash generated from/(used in) financing activities		**(2,234)**	**(7,841)**
Net increase/(decrease) in cash and cash equivalents		**(212)**	**(1,068)**
Cash and cash equivalents at the beginning of the year		[illegible]	[illegible]
Effect of foreign exchange rate changes		[illegible]	8
Cash and cash equivalents including cash and overdrafts held in disposal groups at the end of the year		**1,771**	**1,971**
Cash and overdrafts held in disposal groups	[illegible]		
Cash and cash equivalents at the end of the year	[illegible]	**1,771**	**1,978**

[illegible]

[illegible]

The notes on pages 122 to 191 form part of these financial statements.

Notes to the Group financial statements

Note 1 Accounting policies, judgements and estimates

General information

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

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

Basis of preparation

The consolidated Group financial statements have been prepared in accordance with UK-adopted IFRS. The consolidated Group financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments and pensions assets that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future, which reflects a period of 18 months from the date of approval of the financial statements, and have concluded that there are no material uncertainties relating to going concern. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The scenarios considered as part of the going concern assessment are consistent with those used in the Longer term viability statement. Further information on the Group's strong liquidity position is given in the Group review of performance, Summary of total indebtedness section, and information on committed facilities is provided in Note 26.

Unless otherwise stated, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The Group early-adopted 'Interest rate benchmark reform' phase 2 amendments in the prior year. The Group has elected not to apply the exemption granted in the 'COVID-19-related rent concessions beyond 30 June 2021' amendment to IFRS 16 'Leases' as the Group has not received material COVID-19-related rent concessions as a lessee.

Other standards, interpretations and amendments effective in the current financial year have not had a material impact on the Group financial statements.

The Group has not applied any other standards, interpretations or amendments that have been issued but are not yet effective. The impact of the following is still under assessment:

- IFRS 17 'Insurance contracts', which will become effective in the Group financial statements for the financial year ending 24 February 2024, subject to UK endorsement. IFRS 17 is expected to have an impact on the Group's subsidiary, Tesco Underwriting Limited (TU), which provides the insurance underwriting service for a number of the Group's general insurance products. An IFRS 17 project team has been established and work is well progressed on the design and build of reporting systems and processes for reporting under IFRS 17. It is expected that the simplified premium allocation approach will be applied to all material insurance and reinsurance contract groups. During the next financial year, parallel reporting for the comparative period will be established. Until the impact assessment is complete, it is not practical to provide an estimate of the financial impact of adopting IFRS 17.

Other standards, interpretations and amendments issued but not yet effective are not expected to have a material impact on the Group financial statements.

Change in accounting policy

The Group has changed its accounting policy for property buybacks in light of an evolution of accepted practice in relation to the application of IFRS 16 'Leases' to such transactions. Property buybacks outside a corporate wrapper are now viewed as the modification of a lease to include a purchase option, followed by the immediate exercise of that purchase option. Applying lease modification accounting to property buybacks results in the lease liability being settled and the right of use asset forming part of the cost of the property, plant and equipment acquired, and no gain or loss being recognised in the income statement from the property buyback. Previously, they were treated as an immediate lease termination followed by a property purchase. As a result of the change in accounting policy, there is no longer an immediate income statement impact of such transactions, and the cost of the property, plant and equipment acquired is reduced accordingly.

Property buybacks inside a corporate wrapper (such as a special purpose vehicle or joint venture structure) that do not meet the definition of a business combination continue to be treated as asset acquisitions. The Group has changed its policy for such asset acquisitions to include in the cost of the asset acquisition the carrying values of pre-existing lease contracts and previously held interests and no gain or loss is recognised in the income statement from the property buyback. Previously, pre-existing equity interests were remeasured to fair value by analogy to IFRS 3 'Business combinations' and surrendered as part of the cost of acquiring the underlying property, and pre-existing lease contracts were treated as terminated with any resulting gain or loss recognised in the income statement. This change in accounting policy for property buybacks inside a corporate wrapper means that the same accounting treatment is applied for all buybacks, consistent with the economics of such transactions being similar. The Group therefore believes that this approach is reliable and more relevant.

The impact on the 29 February 2020 balance sheet is to decrease property, plant and equipment by £77m, and decrease both net assets and retained earnings by £77m. The impact on the 27 February 2021 balance sheet is to decrease property, plant and equipment by £266m, and decrease both net assets and retained earnings by £266m. In the comparative period income statement, cost of sales increases and gross profit/(loss), operating profit/(loss), profit before tax, profit for the year from continuing operations and profit for the year all decrease by £189m, of which £162m relates to adjusting items. Basic and diluted EPS decrease by 1.96 pence. There is no impact on operating, investing or financing cash flows, Net debt or Total indebtedness.

Primary financial statements presentation

'Exceptional items and amortisation of acquired intangibles' within operating profit, along with net pension finance costs, fair value remeasurements of financial instruments, and the tax impact of such items (below operating profit), are now called 'Adjusting items' and are presented on the face of the income statement in the 'Adjusting items' column. The policy for determining adjusting items and the items adjusted for, are unchanged from the prior year, hence there is no impact on previously reported alternative performance measures from this change in presentation. Further detail on adjusting items is given in the 'Critical accounting judgements' section of this note.

'Financial assets at fair value through other comprehensive income' and 'Investment securities at amortised cost' are now reported in 'Other investments' on the balance sheet, with further detail given in Note 16.

On 4 May 2021, the Group acquired control over Tesco Underwriting Limited (TU), an insurance business which was previously a joint venture. The following new line items are added to the balance sheet: 'Reinsurance assets' and 'Insurance contract provisions'. In the income statement, gross insurance income is reported within 'Revenue' and insurance premium income ceded to reinsurers and net insurance claims are reported within 'Cost of sales'. Further detail is given in Note 23.

Cash inflows and outflows on other investments and derivative financial instruments previously presented on a net basis in the Group cash flow statement have been reassessed and are now reported separately, including for prior periods.

Comparative net investments in/proceeds from sale of other investments of £56m are presented on a gross basis as proceeds from sale of other investments of £201m and purchase of other investments of £145m. Comparative net cash flows from derivative financial instruments of £(158)m are presented on a gross basis as cash inflows from derivative financial instruments of £1,696m and cash outflows from derivative financial instruments of £[illegible]m. There is no impact on net cash generated from operating, investing, or financing activities and no impact on Net debt or Total indebtedness.

Basis of consolidation

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

The financial year represents the 52 weeks ended 26 February 2022 (prior financial year 52 weeks ended 27 February 2021). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 26 February 2022 (prior financial year 52 weeks ended 27 February 2021). For all other operations, the results are for the calendar year ended 28 February 2022 (prior calendar year ended 28 February 2021).

Subsidiaries

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

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

Joint ventures and associates

The Group's share of the results of joint ventures and associates is included in the Group income statement and Group statement of comprehensive income/(loss) using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill. If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Dividends received from joint ventures or associates with nil carrying value are recognised in the Group income statement as part of the Group's share of post-tax profits/(losses) of joint ventures and associates.

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

Revenue

Revenue is income arising from the sale of goods and services in the ordinary course of the Group's activities, net of value added taxes. Revenue is recognised when performance obligations are satisfied and control has transferred to the customer. For the majority of revenue streams, there is a low level of judgement applied in determining the transaction price or the timing of transfer of control.

Sale of goods

The sale of goods represents the vast majority of the Group's revenue. For goods sold in store, revenue is recognised at the point of sale. For online or wholesale sales of goods, revenue is recognised on collection by, or delivery to, the customer. Revenue is reduced by a provision for expected returns (refund liability). An asset and corresponding adjustment to cost of sales is recognised for the Group's right to recover goods from customers.

Clubcard (customer loyalty programme)

Clubcard points issued by Tesco when a customer purchases goods are a separate performance obligation providing a material right to a future discount. The total transaction price (sales price of goods) is allocated to the Clubcard points and the goods sold based on their relative standalone selling prices, with the Clubcard points standalone price based on the value of the points to the customer adjusted for expected redemption rates (breakage). The amount allocated to Clubcard points is deferred as a contract liability within trade and other payables. Revenue is recognised as the points are redeemed by the customer.

Financial services

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

Interest income on financial assets that are measured at amortised cost 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. Interest income is calculated on the gross carrying amount of a financial asset unless the financial asset is impaired, in which case interest income is calculated on the amortised cost (after allowance for expected credit losses (ECLs)).

The majority of the fees in respect of services (credit card interchange fees, late payment and ATM revenue) are recognised at the point in time at which the transaction with the customer takes place and the service is performed. For services performed over time, payment is generally due monthly in line with the satisfaction of performance obligations.

Refer to the 'Insurance' section below for insurance revenue.

Commercial income

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

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

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

Finance income

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

Notes to the Group financial statements

Note 1 Accounting policies, judgements and estimates continued

Finance costs
Borrowing costs are recognised in the Group income statement in finance costs, excluding those arising from financial services, in the period to which they occur. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

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

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

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

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

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

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

Costs to configure or customise a cloud software licence are expensed alongside the related service contract in the Group income statement, unless they create a separately identifiable resource controlled by the Group, in which case they are capitalised.

Intangible assets
Intangible assets, such as software, acquired customer relationships and pharmacy licences, are measured initially at acquisition cost or costs incurred to develop the asset. Intangible assets acquired in a business combination are recognised at fair value at the acquisition date.

Following initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses. They are amortised on a straight-line basis over their estimated useful lives of three to 10 years for software and up to 10 years for customer relationships.

Research costs are expensed as incurred. Development expenditure incurred on an individual project is capitalised only if specific criteria are met.

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

- freehold buildings – 10 to 40 years; and
- fixtures and fittings, office equipment and motor vehicles – three to 20 years.

Impairment of non-financial assets
Goodwill is reviewed for impairment at least annually by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. For all other non-financial assets (including other intangible assets, property, plant and equipment, right of use assets and investment property) the Group performs impairment testing where there are indicators of impairment. Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of fair value less costs of disposal and value in use. When the recoverable amount is less than the carrying amount, an impairment loss is recognised immediately in the Group income statement.

Goodwill impairments are not subsequently reversed. Where an impairment loss on other non-financial assets subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately as a credit to the Group income statement.

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

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

Cash and cash equivalents
Cash and cash equivalents in the Group balance sheet consist of cash at bank and on hand, credit and debit card receivables, demand deposits with banks and short-term highly liquid investments with an original maturity of three months or less, for example short-term deposits, loans and advances to banks and certificates of deposits. Cash and cash equivalents in the Group cash flow statement also include overdrafts repayable on demand as they form an integral part of the Group's cash management.

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

The net results of discontinued operations are presented separately in the Group income statement (and the comparatives restated).

Leases
The Group assesses whether a contract is, or contains, a lease at inception of the contract. A lease conveys the right to direct the use and obtain substantially all of the economic benefits of an identified asset for a period of time in exchange for consideration.

The Group as a lessee
A right of use asset and corresponding lease liability are recognised at commencement of the lease.

The lease liability is measured at the present value of the lease payments, discounted at the rate implicit in the lease, or if that cannot be readily determined, at the lessee's incremental borrowing rate specific to the term, country, currency and start date of the lease. Lease payments include: fixed payments; variable lease payments dependent on an index or rate, initially measured using the index or rate at commencement; the exercise price under a purchase option if the Group is reasonably certain to exercise; penalties for early termination if the lease term reflects the Group exercising a break option; and payments in an optional renewal period if the Group is reasonably certain to exercise an extension option or not exercise a break option.

The lease liability is subsequently measured at amortised cost using the effective interest rate method. It is remeasured, with a corresponding adjustment to the right of use asset, when there is a change in future lease payments resulting from a rent review, change in an index or rate such as inflation, or a change in the Group's assessment of whether it is reasonably certain to exercise a purchase, extension or break option.

The right of use asset is initially measured at cost, comprising: the initial lease liability; any lease payments already made less any lease incentives received; initial direct costs; and any dilapidation or restoration costs. The right of use asset is subsequently depreciated on a straight-line basis over the shorter of the lease term or the useful life of the underlying asset. The right of use asset is tested for impairment if there are any indicators of impairment.

Leases of low value assets (value when new less than £5,000) and short-term leases of 12 months or less are expensed to the Group income statement, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

The Group as a lessor
Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases. Where the Group is an intermediate lessor, the sublease classification is assessed with reference to the head lease right of use asset. Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the lease. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

Sale and leaseback
A sale and leaseback transaction is where the Group sells an asset and immediately reacquires the use of the asset by entering into a lease with the buyer. A sale occurs when control of the underlying asset passes to the buyer. A lease liability is recognised, the associated property, plant and equipment asset is derecognised, and a right of use asset is recognised at the proportion of the carrying value relating to the right retained. Any gain or loss arising relates to the rights transferred to the buyer.

Property buybacks
A property buyback is when a property that is currently leased is bought back from the landlord. Property buybacks that are a direct purchase of the underlying asset (outside a corporate wrapper) are viewed as the modification of the lease to include a purchase option, followed by the immediate exercise of that purchase option. The lease liability is settled and the right of use asset forms part of the cost of the property, plant and equipment acquired, and no gain or loss is recognised in the income statement from the property buyback.

Property buybacks inside a corporate wrapper (such as a special purpose vehicle or joint venture structure) that do not meet the definition of a business combination are asset acquisitions. The cost of the asset acquisition includes the cash consideration paid and the carrying values of pre-existing lease contracts and any previously held interests. No gain or loss is recognised in the income statement from the property buyback.

Post-employment obligations
For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) and plan assets are recorded at fair value.

The operating and financing costs of such plans are recognised separately in the Group income statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group statement of comprehensive income/(loss).

Payments to defined contribution schemes are recognised as an expense as they fall due.

Share-based payments
The fair value of employee share option plans, which are equity-settled, is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Group income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation
The tax expense included in the Group income statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Group income statement except to the extent that it relates to items recognised in the Group statement of comprehensive income/(loss) or directly in the Group statement of changes in equity, in which case it is recognised in the Group statement of comprehensive income/(loss) or directly in the Group statement of changes in equity, respectively.

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

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

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Tax provisions are recognised for uncertain tax positions where a risk of an additional tax liability has been identified and it is probable that the Group will be required to settle that tax. Measurement is dependent on management's expectation of the outcome of decisions by tax authorities in the various tax jurisdictions in which the Group operates. This is assessed on a case-by-case basis using in-house tax experts, professional firms and previous experience. Refer to Note 6.

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Foreign currencies

The consolidated financial statements are presented in Pounds Sterling, which is the ultimate Parent Company's functional currency.

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction.

At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing at the balance sheet date. Exchange differences are recognised in the Group income statement in the period in which they arise apart from exchange differences on transactions entered into to hedge certain foreign currency risks and exchange differences on monetary items forming part of the net investment in a foreign operation.

The assets and liabilities of the Group's foreign operations are translated into Pounds Sterling at exchange rates prevailing at the balance sheet date. Profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group statement of comprehensive income/(loss) and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments

Financial assets and financial liabilities are recognised in the Group balance sheet when the Group becomes a party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit or loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent remeasurement depends on the Group's business model for managing the financial asset and its cash flow characteristics. Financial assets that are held for collection of contractual cash flows, where those cash flows represent solely payments of principal and interest, are measured at amortised cost, and all other financial assets are measured at fair value.

Trade receivables

Trade receivables are non interest-bearing and are recognised initially at fair value, or at transaction price if there is not a significant financing component. They are subsequently held at amortised cost using the effective interest rate method, less allowance for ECLs.

Investments

Investment securities at amortised cost are measured at amortised cost, using the effective interest rate method less allowance for ECLs.

Gains and losses on investments in debt instruments held at fair value through other comprehensive income are recognised directly in other comprehensive income, except for impairment gains and losses, interest income and foreign exchange gains and losses, which are recognised in the Group income statement. When the debt instrument is derecognised, cumulative amounts in other comprehensive income are reclassified to the Group income statement.

Equity investments have been irrevocably designated at fair value through other comprehensive income. Gains and losses arising from changes in fair value are recognised directly in other comprehensive income, and are not subsequently reclassified to the Group income statement, including on derecognition. Impairment losses are not recognised separately from other changes in fair value. Dividends are recognised in the Group income statement when the Group's right to receive payment is established.

Investments held at fair value through profit or loss are measured at fair value, with changes in fair value recognised in the Group income statement.

Loans and advances to customers and banks

Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any allowance for ECLs.

Impairment of financial assets

The Group assesses on a forward-looking basis the ECLs associated with its financial assets carried at amortised cost and fair value through other comprehensive income. The ECLs are updated at each reporting date to reflect changes in credit risk.

The three-stage model for impairment has been applied to loans and advances to customers, investment securities at amortised cost, debt instruments at fair value through other comprehensive income, short-term investments and loan receivables from joint ventures and associates. The credit loss is determined through modelling a range of possible outcomes for different loss scenarios, using reasonable and supportable information about past events, current conditions and forecasts of future events and economic conditions and taking into account the time value of money. A 12-month ECL is recognised unless the credit risk on the financial asset increases significantly after initial recognition, when the lifetime ECL is recognised.

For trade receivables, contract assets and lease receivables, the Group applies the simplified approach permitted by IFRS 9 'Financial Instruments', with lifetime ECLs recognised from initial recognition of the receivable. These assets are grouped, based on shared credit risk characteristics and days past due, with ECLs for each grouping determined based on the Group's historical credit loss experience adjusted for factors specific to each receivable, general economic conditions and expected changes in forecast conditions.

No ECL is recognised for loans and advances to banks, due to the short-term nature of these balances, the frequency of origination and settlement of balances and taking account of collateral held.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the Group income statement over the period of the borrowings on an effective interest basis.

Trade payables

Trade payables are non interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments

Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting

The Group uses derivative financial instruments to hedge its exposure to foreign exchange, inflation, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

At inception of designated hedging relationships, the Group documents the risk management objective and strategy for undertaking the hedge, the nature of the risks being hedged and the economic relationship between the item being hedged and the hedging instrument, including whether the change in cash flows of the hedged item and hedging instrument are expected to offset each other.

As permitted under IFRS 9, the Group has elected to continue to apply the existing hedge accounting requirements of IAS 39 'Financial instruments: Recognition and measurement' for its portfolio hedge accounting until a new macro hedge accounting standard is implemented.

Derivative financial instruments with maturity dates of more than one year from the reporting date are disclosed as non-current.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated as fair value hedges are recognised in the Group income statement within finance income or costs, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Group income statement over the remaining period to maturity.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative designated as the hedging instrument is recognised directly in other comprehensive income and accumulated in the hedging reserve. Any cost of hedging, such as the change in fair value related to forward points and currency basis adjustment, is separately accumulated in the cost of hedging reserve. The ineffective element is recognised immediately in the Group income statement within finance income or costs.

Where the hedged item subsequently results in the recognition of a non-financial asset such as inventory, the amounts accumulated in the hedging reserve and cost of hedging reserve are included in the initial cost of the asset. For all other cash flow hedges, the amounts accumulated in the hedging reserve and cost of hedging reserve are recognised in the Group income statement when the hedged item or transaction affects the Group income statement.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer meets the Group's risk management objective. The cumulative gain or loss in the hedging reserve and cost of hedging reserve remains until the forecast transaction occurs or the original hedged item affects the Group income statement. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in the hedging reserve and cost of hedging reserve is reclassified to the Group income statement.

Net investment hedging
Financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the instrument is recognised directly in other comprehensive income and accumulated in the translation reserve in equity. Any ineffective element is recognised immediately in the Group income statement. Gains and losses accumulated in the translation reserve are reclassified to the Group income statement when the foreign operation is disposed of.

Offsetting financial instruments
Financial assets and liabilities are offset and the net amount reported in the Group balance sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Provisions
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense. Provisions for onerous contracts are recognised when the Group believes that the unavoidable costs of meeting or exiting the contract exceed the economic benefits expected to be received under the contract.

Supplier financing arrangements
Suppliers can choose to access supplier financing arrangements provided by different third-party banks in different countries. Commercial requirements, including payment terms or the price paid for goods, do not depend on whether a supplier chooses to access such arrangements. The arrangements support our suppliers by giving them the option to access funding early, often at a lower cost than they could obtain themselves.

Under the arrangements, suppliers may choose to access payment early rather than on our normal payment terms, at a funding cost to the supplier that is set by the provider banks but based on Tesco's credit risk and the appropriate country risk premium. If suppliers choose not to access early payment, the provider banks pay the suppliers on our normal payment terms. The Group pays the provider banks on our normal payment terms, regardless of whether the supplier has chosen to access funding early.

Management reviews supplier financing arrangements to determine the appropriate presentation of balances outstanding as trade payables or borrowings, dependent on the nature of each arrangement. Factors considered in determining the appropriate presentation include the commercial rationale for the arrangement, impact on the Group's working capital positions, credit enhancements or other benefits provided to the bank and recourse exposures.

Balances outstanding under current supplier financing arrangements are classified as trade payables, and cash flows are included in operating cash flows, since the financing arrangements are agreed between the supplier and the banks, and the Group does not provide additional credit enhancement nor obtain any working capital benefit from the arrangements. Refer to Note 21.

Insurance
Prior to the acquisition of TU on 4 May 2021, the Group generated commission from the sale and service of motor and home insurance policies underwritten by TU. Following the acquisition, these amounts represent intercompany transactions which are fully eliminated in the Group income statement. The Group also generated commission from the sale and service of motor and home insurance policies underwritten by a third-party underwriter until August 2021 when the Group brought in-house the writing of home and motor insurance policies which were previously underwritten through its broker panel. Commission was based on commission rates which were 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. This commission income is recognised on a net basis as such policies are sold.

In the case of some commission income on insurance policies managed and underwritten by a third party, the Group recognises commission income from policy renewals as such policies are sold. This is when the Group has satisfied all of its performance obligations in relation to the policy sold and it is considered highly probable that a significant reversal in the amount of revenue recognised will not occur in future periods. This calculation takes into account both estimates of future renewal volumes and renewal commission rates. A contract asset is recognised in relation to this revenue. This is unwound over the remainder of the contract with the customer, in this case being the third-party insurance provider.

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

The end policyholders have the right to cancel an insurance policy at any time. Therefore, a contract liability is recognised for the amount of any expected refunds due and the revenue recognised in relation to these sales is reduced accordingly. This contract refund liability is estimated using prior experience of customer refunds. The appropriateness of the assumptions used in this calculation is reassessed at each reporting date.

Classification of insurance contracts

Contracts under which the Group accepts significant insurance risk from another party (the policyholder) by agreeing to compensate the policyholder or other beneficiary if a specified uncertain future event (the insured event) adversely affects the policyholder or other beneficiary are classified as insurance contracts. These contracts remain insurance contracts until all rights and obligations are extinguished or expire. Insurance contracts may also transfer some financial risk.

Insurance income

Gross written premiums comprise premiums on contracts entered into during the year, irrespective of whether they relate in whole or in part to a later accounting period, and exclude tax and levies. An estimate is made at the balance sheet date to recognise retrospective adjustments to premiums. The earned portion of premiums written is recognised as revenue. Premiums are earned from the date of attachment of risk, over the indemnity period, based on the pattern of risks underwritten.

Insurance claims

Claims and claims handling expenses are recognised as incurred, based on the estimated cost of settling all liabilities arising on events occurring up to the balance sheet date.

Reinsurance

The Group cedes reinsurance in the normal course of business for the purpose of limiting its net loss potential through the diversification of its risks. Reinsurance arrangements, including quota share, excess of loss and adverse development cover contracts, do not relieve the Group from its direct obligations to its policyholders. Only contracts that give rise to a significant transfer of insurance risk are accounted for as reinsurance contracts. Amounts recoverable under such contracts are generally recognised in the same year as the related claim. Contracts that do not transfer significant insurance risk (i.e. financial reinsurance) are accounted for as financial instruments.

Reinsurance assets include balances due from reinsurance companies for reinsurance claims. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsured policy. The earned portion of reinsurance premiums (insurance premium income ceded to reinsurers) is recognised as reinsurance premium expense, and the provision for unearned reinsurance premiums comprises the element of reinsurance premiums relating to services to be received in future years. Amounts recoverable under reinsurance contracts are assessed for impairment at each year end date. Such assets are deemed impaired if there is objective evidence, as a result of an event that occurred after initial recognition, that the Group may not recover all amounts due and that the event has a reliably measurable impact on the amounts that the Group will receive from the reinsurer.

Provision for outstanding claims

The provision for outstanding claims represents the Group's estimate of the ultimate cost of settling all claims incurred but unpaid at the reporting date whether reported or not, and related internal and external claims handling expenses. Claims outstanding are assessed by reviewing individual claims data and making an allowance for claims incurred but not yet reported, adjusted for the effect of both internal and external foreseeable events, such as changes in claims handling procedures, inflation, judicial trends, substantively enacted legislative changes and past experience and trends. Reinsurance and other recoveries are assessed in a manner similar to the claims outstanding and presented separately as assets.

Unearned premium and unexpired risk provision

The provision for unearned premiums comprises the proportion of gross premiums written which is estimated to be earned in the following or subsequent accounting periods, calculated separately for each insurance contract using the daily pro rata method, adjusted if necessary to reflect any variation in the incidence of risk during the period covered by the contract. Where the value of expected claims and expenses attributable to unexpired periods of policies in force exceeds the unearned premium provision, a further provision is made, calculated by reference to classes of business which are managed together.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs. Refer to the Glossary for a full list of the Group's APMs, including comprehensive definitions, their purpose, reconciliations to IFRS measures and details of any changes to APMs.

Judgements and sources of estimation uncertainty

The preparation of the consolidated Group financial statements requires management to make judgements, estimates and assumptions in applying the Group's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis, with revisions to accounting estimates applied prospectively.

Critical accounting judgements

Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below.

Leases

Management exercises judgement in determining the likelihood of exercising break or extension options in determining the lease term. Break and extension options are included to provide operational flexibility should the economic outlook for an asset be different to expectations, and hence at commencement of the lease, break or extension options are not typically considered reasonably certain to be exercised, unless there is a valid business reason otherwise.

The discount rate used to calculate the lease liability is the rate implicit in the lease, if it can be readily determined, or the lessee's incremental borrowing rate if not. Management uses the rate implicit in the lease where the lessor is a related party (such as leases from joint ventures) and the lessee's incremental borrowing rate for all other leases. Incremental borrowing rates are determined monthly and depend on the term, country, currency and start date of the lease. The incremental borrowing rate is determined based on a series of inputs including: the risk-free rate based on government bond rates, a country-specific risk adjustment, a credit risk adjustment based on Tesco bond yields, and an entity-specific adjustment where the entity risk profile is different to that of the Group.

Refer to Note 12 for additional disclosures relating to leases.

Joint ventures and associates

The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint Arrangements' and determined them to be joint ventures. These assessments required the exercise of judgement as set out in Note 14.

APMs – Adjusting items

Adjusting items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's APMs by virtue of their size and nature in order to provide a helpful alternative perspective of the year-on-year trends, performance and position of the Group's trading business that is more comparable over time.

This alternative view is consistent with how management views the business, and how it is reported internally to the Board and Executive Committee for performance analysis, planning, reporting, decision-making and incentive-setting purposes.

Management exercises judgement in determining the adjustments to apply to IFRS measurements, and this assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance and individual financial statement line items, as well as consistency with prior periods. Reversals of previous adjusting items are assessed based on the same criteria to ensure an even-handed treatment of gains and losses. The amount and timing of adjusting items can be unpredictable and subject to a higher level of scrutiny by users of the accounts. Adjusting items can include, but are not limited to, litigation costs, impairment charges and reversals, property transactions such as disposals, amortisation of acquired intangibles, changes in uncertain tax positions, restructuring and redundancy costs, profits or losses on disposal of businesses, net pension finance costs, and fair value remeasurements of financial instruments. The tax effect of such items is also classified as adjusting.

The Group income statement is presented in a columnar format to enable users of the accounts to see the Group's performance before adjusting items, the adjusting items, and the statutory total on a line-by-line basis. An analysis of the adjusting items included in the Group income statement, together with the impact of these items on the Group cash flow statement, is disclosed in Note 4.

Refer to pages 207 to 212 for further details on the Group's APMs.

Key sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Post-employment benefit obligations

The present value of post-employment benefit obligations is determined on an actuarial basis using various assumptions, including the discount rate, inflation rate and mortality assumptions. Any changes in these assumptions will impact the carrying amount as well as the net pension cost (income). Key assumptions and sensitivities for post-employment benefit obligations are disclosed in Note 30.

Impairment of non-financial assets

The Group evaluates goodwill and non-current assets for impairment as set out in Note 15. The key assumptions and estimates to which the recoverable amounts are most sensitive, the methodology for calculating them and sensitivities are also disclosed in Note 15.

Tesco Bank ECL measurement

The measurement of ECLs for Tesco Bank financial assets requires the use of complex models and significant assumptions about future macroeconomic conditions and credit behaviour, such as the likelihood of customers defaulting and the resulting losses. Key assumptions and sensitivities for Tesco Bank ECLs are disclosed in Note 26.

Impact of the war in Ukraine

In light of the war in Ukraine which commenced on 24 February 2022, the Group has considered whether any adjustments are required to reported amounts in the financial statements. The Group does not have any operations in Ukraine or Russia, but does have operations in Hungary and Slovakia, which border Ukraine. The Group is therefore not directly affected by trading restrictions or sanctions, but could be affected in future by possible wider macroeconomic consequences should the situation develop further. This could include an increase in domestic inflation from supply chain disruption, commodity shortages or commodity price increases affecting cash flows, or changes in market discount rates and valuations. Please refer to the Group Chief Executive's review for details on how Tesco has responded to aid those affected by the crisis.

To the extent that there were observable indicators of change at the 26 February 2022 balance sheet date, these have been factored into the Group's financial statements as at 26 February 2022. In particular, assessing the impact on discount rates and cash flow scenarios used in impairment testing of goodwill and non-current assets, incorporating the latest macroeconomic data into ECL calculations in Tesco Bank, and evaluating the effect on pension discount rate and plan asset fair values. In Central Europe, the Group considered whether there were any specific impairment indicators for stores in Hungary and Slovakia and concluded that there were not. Also in Central Europe, the Group established that it remained appropriate to continue to classify certain properties as held for sale. Finally, the Group decided that there are more than sufficient future taxable profits to continue to recognise deferred tax assets.

Sensitivities of reasonably possible changes in key inputs to impairment testing of goodwill and non-current assets, Tesco Bank ECL and pension obligations are given in Notes 15, 26 and 30 respectively.

The Group reviewed non-adjusting macroeconomic movements after the balance sheet date (for example discount rates, asset values and inflation impact from fuel price increases and/or supply chain disruption) and concluded that those movements were within the range of the Group's existing sensitivities, hence no additional disclosures were required. The Group will continue to monitor the situation as it develops.

Other significant estimates

Commercial income

Management is required to make estimates in determining the amount and timing of recognition of commercial income for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimates the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

Management assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements. Commercial income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of commercial income) provides a consistent and complete measure of the Group income statement impact of the overall supplier relationships.

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date, and has therefore provided additional disclosures of commercial income amounts reflected in the Group balance sheet. Management believes there is limited risk of a material change in the amounts recognised in the next financial year. Refer to Note 22 for commercial income disclosures.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Management believes there is limited risk of a material change in the amounts recognised or disclosed in the next financial year. Refer to Note 35 for the disclosures.

Notes to the Group financial statements continued

Note 2 Segmental reporting

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker (CODM). The CODM has been determined to be the Group Chief Executive, with support from the Executive Committee, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments.

The principal activities of the Group are presented in the following segments:

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom and Republic of Ireland; and
  - Central Europe – Czech Republic, Hungary and Slovakia.
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

This presentation reflects how the Group's operating performance is reviewed internally by management.

The CODM uses adjusted operating profit, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' trading performance that is more comparable over time for the financial year under evaluation. Adjusted operating profit is a consistent measure within the Group as defined within the Glossary. Refer to Note 4 for adjusting items. Inter-segment revenue between the segments is not material.

Income statement

The segment results and the reconciliation of the segment measures to the respective statutory items included in the Group income statement are as follows:

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Continuing operations							
Revenue	56,539	4,067	60,606	922	61,528	(184)	
Less: Fuel sales	(6,420)	(160)	(6,580)		(6,580)	4	(6,576)
APM: Sales	50,119	4,007	54,126	922	55,048	(280)	54,768
Adjusted operating profit/(loss)	**2,490**	**175**	**2,665**	**176**	**2,841**	**(16)**	**2,825**
Adjusting items	(292)	26	(266)		(266)	1	(265)
Operating profit/(loss)	**2,198**	**201**	**2,399**	**176**	**2,575**	**(15)**	**2,560**
Adjusted operating margin	**4.4%**	**4.2%**	**4.4%**	**19.1%**	**4.6%**		**4.6%**

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Continuing operations					
Revenue	56,404	4,018	60,422	922	61,344
Less: Fuel sales	(6,420)	(156)	(6,576)		(6,576)
APM: Sales	49,984	3,862	53,846	922	54,768
Adjusted operating profit/(loss)	**2,481**	**168**	**2,649**	**176**	**2,825**
Adjusting items	(290)	25	(265)		(265)
Operating profit/(loss)	**2,191**	**193**	**2,384**	**176**	**2,560**
Adjusted operating margin	**4.4%**	**4.2%**	**4.4%**	**19.1%**	**4.6%**
Share of post-tax profits/(losses) of joint ventures and associates					15
Finance income					9
Finance costs					(551)
Profit/(loss) before tax					**2,033**

Tesco Bank revenue of £922m (2021: £735m) comprises interest and similar revenues of £473m (2021: £542m), fees and commissions revenue of £210m (2021: £193m), and insurance revenue of £239m (2021: £nil). For insurance, refer to Note [illegible].

Continuing operations					
Revenue	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Less: Fuel sales	[illegible]	[illegible]	[illegible]		[illegible]
APM: Sales	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted operating profit/(loss)*	**1,839**	**124**	**1,963**	**(175)**	**1,788**
Adjusting items*	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating profit/(loss)*	**1,890**	**127**	**2,017**	**(470)**	**1,547**
Adjusted operating margin*	**3.5%**	**3.1%**	**3.4%**	**(23.8)%**	**3.1%**
Share of post-tax profits/(losses) of joint ventures and associates					[illegible]
Finance income					[illegible]
Finance costs					[illegible]
Profit/(loss) before tax*					**636**

Balance sheet

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, lease liabilities, derivative financial instruments and net debt of the disposal group). With the exception of lease liabilities which have been allocated to each segment and Tesco Bank net debt, all other components of net debt have been included within the unallocated segment to reflect how these balances are managed. Intercompany transactions have been eliminated other than intercompany transactions with Tesco Bank in net debt.

Goodwill and other intangible assets	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Property, plant and equipment and investment property	[illegible]	[illegible]	66		[illegible]		[illegible]
Right of use assets	5,366	354	11		[illegible]		[illegible]
Investments in joint ventures and associates	85	1			86		86
Non-current other investments	[illegible]		[illegible]		1,253		[illegible]
Non-current trade and other receivables	[illegible]		69		160		160
Non-current loans and advances to customers and banks			5,141		5,141		[illegible]
Non-current reinsurance assets			184		184		184
Post-employment benefit surplus	3,150				3,150		3,150
Deferred tax assets	[illegible]	[illegible]	64		85		85
Non-current assets	**28,947**	**1,867**	**5,397**	**-**	**36,211**	**-**	**36,211**
Inventories and current trade and other receivables	[illegible]	[illegible]	139		[illegible]		[illegible]
Current loans and advances to customers and banks			3,349		3,349		3,349
Current reinsurance assets			61		61		61
Current other investments			216		216		[illegible]
Total trade and other payables	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Total customer deposits and deposits from banks			(6,379)		(6,379)		(6,379)
Total insurance contract provisions			(650)		(650)		(650)
Total provisions	[illegible]	[illegible]	[illegible]		(466)		(466)
Deferred tax liabilities	(863)	[illegible]			[illegible]		[illegible]
Net current tax	90	[illegible]	[illegible]		[illegible]		[illegible]
Post-employment benefit deficit	(303)				(303)		(303)
Assets of the disposal group and non-current assets classified as held for sale	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]
Liabilities of the disposal group classified as held for sale						[illegible]	[illegible]
Net debt	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Net assets	**14,772**	**1,373**	**2,153**	**(2,678)**	**15,620**	**24**	**15,644**

Note 2 Segmental reporting continued

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Goodwill and other intangible assets	[illegible]	[illegible]	611		5,393		5,393
Property, plant and equipment and investment property	[illegible]	1,[illegible]	65		16,964		16,964
Right of use assets	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Investments in joint ventures and associates	64	1	[illegible]		[illegible]		[illegible]
Non-current other investments	[illegible]		54		[illegible]		[illegible]
Non-current trade and other receivables	[illegible]		[illegible]		149		[illegible]
Non-current loans and advances to customers and banks			[illegible]		[illegible]		[illegible]
Deferred tax assets	[illegible]	[illegible]	6		552		[illegible]
Non-current assets[(a)]	**26,102**	**2,194**	**4,963**	**–**	**33,259**	**–**	**33,259**
Inventories and current trade and other receivables	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Current loans and advances to customers and banks			[illegible]		[illegible]		[illegible]
Current other investments			[illegible]		118		[illegible]
Total trade and other payables	[illegible]	[illegible]	[illegible]		(8,506)		(8,506)
Total customer deposits and deposits from banks			(6,338)		(6,338)		(6,338)
Total provisions	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Deferred tax liabilities	[illegible]	[illegible]			(48)		(48)
Net current tax	[illegible]	[illegible]	[illegible]		(38)		(38)
Post-employment benefit deficit	[illegible]				[illegible]		[illegible]
Assets of the disposal group and non-current assets classified as held for sale	53				53	[illegible]	[illegible]
Liabilities of the disposal group classified as held for sale						[illegible]	[illegible]
Net debt[(b)]	[illegible]	[illegible]	[illegible]	(3,442)	[illegible]		[illegible]
Net assets	**11,629**	**1,475**	**2,121**	**(3,442)**	**11,783**	**276**	**12,059**

[illegible]
[illegible]

Other segment information

[illegible]	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[(a)]	1,485	89	14	1,588		1,588
Goodwill and other intangible assets	186	[illegible]	[illegible]	267		267
Depreciation and amortisation:						
Property, plant and equipment	[illegible]	[illegible]	(11)	(893)		(893)
Right of use assets	[illegible]	[illegible]	[illegible]	(53[illegible])		(53[illegible])
Investment property	[illegible]			[illegible]		[illegible]
Other intangible assets	[illegible]	[illegible]	[illegible]	(28[illegible])		(28[illegible])
Impairment:						
(Loss)/reversal on financial assets	[illegible]	[illegible]	30	39		39

[illegible]
[illegible]
[illegible]

[illegible]	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[illegible]	[illegible]	[illegible]	15	1,364	[illegible]	1,366
Goodwill and other intangible assets	156	[illegible]	40	206		206
Depreciation and amortisation:						
Property, plant and equipment	(796)	(99)	(9)	(904)	(14)	(918)
Right of use assets	(52[illegible])	[illegible]	[illegible]	(561)	(5)	(566)
Investment property	(1)			(1)		[illegible]
Other intangible assets	(225)	[illegible]	(46)	(278)	[illegible]	[illegible]
Impairment:						
(Loss)/reversal on financial assets	[illegible]	[illegible]	(360)	(384)	[illegible]	(386)

[illegible]
[illegible]

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, showing a split of cash flows between Retail continuing operations and Tesco Bank as well as an analysis of Group continuing and discontinued operations.

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating profit/(loss)	**2,649**	**(265)**	**2,384**	**176**	**-**	**176**	**(51)**	**2,509**
Depreciation and amortisation	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
ATM net income	[illegible]		[illegible]	[illegible]		[illegible]		
(Profits)/losses arising on sale of property, plant and equipment, investment property, intangible assets, assets classified as held for sale and early termination of leases	[illegible]	[illegible]	[illegible]					[illegible]
(Profits)/losses arising on sale of joint ventures and associates		[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
(Profits)/losses arising on sale of subsidiaries							[illegible]	[illegible]
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property		[illegible]	[illegible]					[illegible]
Net remeasurement (gain)/loss on financial instruments		[illegible]	[illegible]				[illegible]	
Adjustment for non-cash element of pensions charge			[illegible]					[illegible]
Other defined benefit pension scheme payments	[illegible]		[illegible]					[illegible]
Share-based payments	[illegible]		[illegible]	[illegible]				[illegible]
Tesco Bank fair value movements included in operating profit/(loss)				[illegible]		[illegible]		[illegible]
Cash flows generated from operations excluding working capital	**4,268**	**(211)**	**4,057**	**220**	**-**	**220**	**(31)**	**4,246**
(Increase)/decrease in working capital	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash generated from/(used in) operations	**4,769**	**(316)**	**4,453**	**166**	**(8)**	**158**	**(3)**	**4,608**
Interest paid	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Corporation tax paid	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Net cash generated from/(used in) operating activities[a]	**3,930**	**(316)**	**3,614**	**157**	**(8)**	**149**	**(6)**	**3,757**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale		[illegible]	[illegible]	[illegible]		[illegible]		[illegible]
Purchase of property, plant and equipment and investment property – property buybacks		[illegible]	[illegible]					[illegible]
Purchase of property, plant and equipment and investment property – other capital expenditure	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Purchase of intangible assets	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Disposal of subsidiaries, net of cash disposed		[illegible]	[illegible]				[illegible]	[illegible]
Acquisition of businesses, net of cash acquired				[illegible]		[illegible]		[illegible]
Proceeds from sale of joint ventures and associates		[illegible]	[illegible]					[illegible]
Increase in loans to joint ventures and associates	[illegible]		[illegible]					[illegible]
Investments in joint ventures and associates	[illegible]		[illegible]					[illegible]
Net investments in/proceeds from sale of short-term investments	[illegible]		[illegible]					[illegible]
Proceeds from sale of other investments	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Purchase of other investments	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Dividends received from joint ventures and associates	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Dividends received from Tesco Bank	[illegible]		[illegible]	[illegible]		[illegible]		
Interest received	[illegible]							[illegible]
Net cash generated from/(used in) investing activities[a]	**(2,056)**	**397**	**(1,659)**	**(119)**	**-**	**(119)**	**43**	**(1,735)**
Own shares purchased for cancellation	[illegible]		[illegible]					[illegible]
Own shares purchased for share schemes	[illegible]		[illegible]					[illegible]
Repayment of capital element of obligations under finance leases	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Increase in borrowings	[illegible]		[illegible]					[illegible]
Repayment of borrowings	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Cash inflows from derivative financial instruments	[illegible]		[illegible]					[illegible]
Cash outflows from derivative financial instruments	[illegible]		[illegible]					[illegible]
Dividends paid to equity holders	[illegible]	[illegible]	[illegible]					[illegible]
Net cash generated from/(used in) financing activities[a]	**(2,180)**	**(27)**	**(2,207)**	**(25)**	**-**	**(25)**	**(2)**	**(2,234)**
Net increase/(decrease) in cash and cash equivalents	**(306)**	**54**	**(252)**	**13**	**(8)**	**5**	**35**	**(212)**
Cash and cash equivalents at the beginning of the year								[illegible]
Effect of foreign exchange rate changes								[illegible]
Cash and cash equivalents at the end of the year								**1,771**
Cash and overdrafts held in disposal groups								
Cash and cash equivalents not held in disposal groups								**1,771**

[illegible]

[illegible]

Note 2 Segmental reporting continued

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Operating profit/(loss)[h]	**1,963**	**54**	**2,017**	**(175)**	**(295)**	**(470)**	**5,482**	**7,029**
Depreciation and amortisation	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
ATM net income	[illegible]		[illegible]	[illegible]		[illegible]		
Profit/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Profit/loss arising on sale of subsidiaries							[illegible]	[illegible]
Transaction and derivative costs associated with sale of subsidiaries							[illegible]	[illegible]
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	[illegible]	[illegible]	[illegible]				[illegible]	[illegible]
Impairment of goodwill					[illegible]	[illegible]		[illegible]
Net remeasurement [illegible]								[illegible]
Adjustment for non-cash element of pension charge			[illegible]					[illegible]
Other defined benefit pension scheme payments	[illegible]	[illegible]	[illegible]					[illegible]
Share-based payments	[illegible]		[illegible]			[illegible]	[illegible]	[illegible]
Tesco Bank fair value movements included in operating profit/(loss)				[illegible]		[illegible]		[illegible]
Cash flows generated from operations excluding working capital	**3,227**	**(2,504)**	**723**	**261**	**–**	**261**	**356**	**1,340**
(Increase)/decrease in working capital	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cash generated from/(used in) operations	**3,677**	**(2,515)**	**1,162**	**128**	**(19)**	**109**	**315**	**1,586**
Interest paid	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Corporation tax paid	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Net cash generated from/(used in) operating activities[e]	**2,836**	**(2,515)**	**321**	**113**	**(19)**	**94**	**187**	**602**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Purchase of property, plant and equipment and investment property – property buybacks	[illegible]	[illegible]	[illegible]					[illegible]
Purchase of property, plant and equipment and investment property – other capital expenditure	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Purchase of intangible assets	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Disposal of subsidiaries, net of cash disposed		[illegible]	[illegible]				[illegible]	[illegible]
Acquisition of businesses, net of cash acquired	[illegible]		[illegible]					[illegible]
Increase in loans to joint ventures and associates	[illegible]		[illegible]					[illegible]
Investments in joint ventures and associates	[illegible]		[illegible]					[illegible]
Net investments in/proceeds from sale of short-term investments	[illegible]		[illegible]					[illegible]
Proceeds from sale of other investments				[illegible]		[illegible]		[illegible]
Purchase of other investments	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Dividends received from joint ventures and associates	[illegible]		[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
Dividends received from Tesco Bank	[illegible]		[illegible]	[illegible]		[illegible]		
Interest received	[illegible]		[illegible]				[illegible]	[illegible]
Net cash generated from/(used in) investing activities[e]	**(1,012)**	**7,902**	**6,890**	**50**	**51**	**101**	**(820)**	**6,171**
Own shares purchased for share schemes	[illegible]		[illegible]					[illegible]
Repayment of capital element of obligations under leases	[illegible]		[illegible]			[illegible]	[illegible]	[illegible]
Increase in borrowings	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Repayment of borrowings	[illegible]		[illegible]	[illegible]		[illegible]		[illegible]
Cash inflows from derivative financial instruments	[illegible]	[illegible]	[illegible]					[illegible]
Cash outflows from derivative financial instruments	[illegible]		[illegible]					[illegible]
Dividends paid to equity holders	[illegible]	[illegible]	[illegible]					[illegible]
Net cash generated from/(used in) financing activities[e]	**(2,143)**	**(4,864)**	**(7,007)**	**(777)**	**–**	**(777)**	**(57)**	**(7,841)**
Net increase/(decrease) in cash and cash equivalents	**(319)**	**523**	**204**	**(614)**	**32**	**(582)**	**(690)**	**(1,068)**
Cash and cash equivalents at the beginning of the year								[illegible]
Effect of foreign exchange rate changes								[illegible]
Cash and cash equivalents at the end of the year								**1,971**
Cash and overdrafts held in disposal groups								[illegible]
Cash and cash equivalents not held in disposal groups								**1,978**

[illegible]

[illegible]

Note 3 Income and expenses

Auditor's remuneration

	2022 £m	2021 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	2.8	2.4
The audit of the accounts of the Company's subsidiaries	8.9	8.2
Total audit services	**11.7**	**10.6**
Audit-related assurance services	0.9	1.1
Other services:		
Transaction services	–	0.6
All other non-audit services	0.6	0.8
Total non-audit services	**1.5**	**2.5**
Total auditor's remuneration	**13.2**	**13.1**

Audit-related assurance services of £0.9m (2021: £1.1m) comprise: review of the Group's interim report £0.5m (2021: £0.5m); audit of the Parent Company interim accounts drawn up to support the special dividend to shareholders £nil (2021: £0.3m) and other services £0.4m (2021: £0.3m). Transaction services represents provision of reporting accountant services related to the disposal of the Group's Thailand and Malaysia operations £nil (2021: £0.6m). Other non-audit services of £0.6m (2021: £0.8m) represents provision of data repository services for information needed for disclosure purposes as part of historic claims. In addition to the amounts shown above, the auditor received fees of £0.3m (2021: £0.3m) for the audit of the main Group pension schemes. Non-audit services are subject to approval by the Chief Audit and Risk Officer and the Audit Committee. Additional information on the non-audit services provided by the auditor is provided in the Audit Committee report on page [illegible], including how objectivity and independence is safeguarded.

Employment costs, including Directors' remuneration

Continuing operations	Notes	2022 £m	2021 £m
Wages and salaries		[illegible]	6,443
Social security costs		[illegible]	[illegible]
Post-employment defined benefits*	30	40	46
Post-employment defined contributions	30	[illegible]	[illegible]
Share-based payments expense	29	[illegible]	[illegible]
Termination benefits		40	33
Total		**7,466**	**7,449**

* [illegible]

Post-employment defined contribution charges include £136m (2021: £132m) of salaries paid as pension contributions.

The table below shows the average number of employees by segment during the financial year:

	Average number of employees		Average number of full-time equivalents	
Continuing operations	2022	2021	2022	2021
UK & ROI	326,218	336,492	204,974	214,470
Central Europe	24,935	27,173	22,895	25,054
Tesco Bank	3,591	3,656	3,354	3,387
Total	**354,744**	**367,321**	**231,223**	**242,911**

Notes to the Group financial statements continued

Note 4 Adjusting items

Group income statement

52 weeks ended 26 February 2022

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Property transactions	[illegible]	[illegible]	[illegible]			[illegible]	
Net impairment reversals of non-current assets	[illegible]	[illegible]	[illegible]			[illegible]	
Fair value less costs to sell on assets held for sale		[illegible]	[illegible]				
Alcohol licence fee		[illegible]	[illegible]			[illegible]	
Litigation costs		[illegible]	[illegible]				
Disposal of China associate		[illegible]	[illegible]				
Restructuring provisions	[illegible]	[illegible]	[illegible]			6	
Amortisation of acquired intangible assets		[illegible]	[illegible]			[illegible]	
Net pension finance costs					[illegible]	[illegible]	
Fair value remeasurement of financial instruments					[illegible]	[illegible]	
Release of tax provisions						56	
Total adjusting items from continuing operations	**(176)**	**(89)**	**(265)**	**–**	**101**	**(8)**	**–**
Adjusting items relating to discontinued operations							[illegible]
Total adjusting items	**(176)**	**(89)**	**(265)**	**–**	**101**	**(8)**	**(38)**

52 weeks ended 27 February 2021

Profit/(loss) for the year included the following adjusting items:

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Property transactions	19	[illegible]	36			8	
Booker integration costs	(21)	(4)	(25)			4	
ATM business rates	105		105			(20)	
Litigation costs		[illegible]	(93)				
GMP equalisation	(6)	[illegible]	[illegible]			1	
Net impairment reversal of non-current assets*	128		128			(15)	
Impairment charge on goodwill		(295)	(295)				
Employee Share Scheme	(4)		(4)				
Release of tax provisions						[illegible]	
Amortisation of acquired intangible assets		(76)	(76)			[illegible]	
Fair value remeasurement of financial instruments					[illegible]	41	
Net pension finance costs					(43)	6	
Total adjusting items from continuing operations*	**221**	**(462)**	**(241)**	**–**	**(257)**	**145**	**–**
Adjusting items relating to discontinued operations							[illegible]
Total adjusting items*	**221**	**(462)**	**(241)**	**–**	**(257)**	**145**	**5,117**

Group cash flow statement

The table below shows the impact of adjusting items on the Group cash flow statement:

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Property transactions			[illegible]	[illegible]		
[illegible]			[illegible]	[illegible]		
Litigation costs	[illegible]	[illegible]		[illegible]		
Acquisition of property joint venture			[illegible]	[illegible]		
Booker integration cash payments	[illegible]	[illegible]				
Settlement of claims [illegible] Tesco Bank	[illegible]	[illegible]				
Disposal of China associate			[illegible]			
ATM business rates	[illegible]	[illegible]				
Special dividend					[illegible]	[illegible]
Disposal of Asia operations		[illegible]	[illegible]	[illegible]		[illegible]
Additional pension contribution		[illegible]				
Tesco Bank mortgage book disposal proceeds				[illegible]		
Prior year restructuring and redundancy costs		[illegible]				
Total continuing operations	**(324)**	**(2,534)**	**397**	**7,953**	**(27)**	**(4,864)**
Cash flows from discontinued operations	[illegible]	[illegible]	44	[illegible]		
Total	**(325)**	**(2,549)**	**441**	**7,240**	**(27)**	**(4,864)**

[illegible]

Note 5 Finance income and costs

[illegible]	Notes	[illegible]	[illegible]
Finance income			
Interest receivable and similar income		4	[illegible]
Finance income receivable on net investment in leases		5	5
Total finance income		**9**	**15**
Finance costs			
GBP MTNs and loans		[illegible]	(158)
EUR MTNs		(41)	[illegible]
USD bonds		(5)	(9)
Finance charges payable on lease liabilities		(405)	(446)
Other interest payable		(39)	(33)
Total finance costs before adjusting items		**(652)**	**(695)**
Fair value remeasurements of financial instruments*		123	(214)
Net pension finance costs	30	(22)	(43)
Total finance costs		**(551)**	**(952)**
Net finance costs		**(542)**	**(937)**

[illegible]

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group income statement

[illegible]	[illegible]	[illegible]
Current tax (credit)/charge		
UK corporation tax	[illegible]	[illegible]
Overseas tax	69	[illegible]
Adjustments in respect of prior years	[illegible]	[illegible]
	215	**178**
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	[illegible]	[illegible]
Adjustments in respect of prior years	[illegible]	[illegible]
Change in tax rate[a]	[illegible]	[illegible]
	295	**(74)**
Total income tax (credit)/charge	**510**	**104**

[illegible]

Reconciliation of effective tax charge

[illegible]	[illegible]	[illegible]
Profit/(loss) before tax	**2,033**	**636**
Tax credit/(charge) at [illegible]	[illegible]	[illegible]
Effect of:		
Non-qualifying depreciation	[illegible]	[illegible]
Expenses not deductible	[illegible]	[illegible]
Property items taxed on a different basis to accounting entries	[illegible]	4
Impairment of non-current assets	(43)	[illegible]
Banking surcharge tax	(13)	[illegible]
Differences in overseas taxation rates	[illegible]	[illegible]
Adjustments in respect of prior years	64	[illegible]
Share of losses of joint ventures and associates	3	[illegible]
Change in tax rate	[illegible]	[illegible]
Irrecoverable withholding tax		[illegible]
Total income tax credit/(charge)	**(510)**	**(104)**
Effective tax rate	**25.1%**	**16.4%**

[illegible]

Reconciliation of effective tax charge on adjusted profit before tax

[illegible]	[illegible]	[illegible]
Profit/(loss) before tax	**2,033**	**636**
Less: Adjusting items	164	498
Adjusted profit before tax	**2,197**	**1,134**
Tax credit/(charge) at 19.0% (2021: 19.0%)	[illegible]	[illegible]
Effect of:		
Non-qualifying depreciation	[illegible]	[illegible]
Expenses not deductible	[illegible]	[illegible]
Property items taxed on a different basis to accounting entries	[illegible]	
Impairment of non-current assets		[illegible]
Banking surcharge tax	[illegible]	[illegible]
Differences in overseas taxation rates	[illegible]	[illegible]
Adjustments in respect of prior years	[illegible]	[illegible]
Share of profits of joint ventures and associates	3	[illegible]
Change in tax rate	[illegible]	[illegible]
Irrecoverable withholding tax		[illegible]
Total income tax credit/(charge) before adjusting items	**(502)**	**(249)**
Adjusted effective tax rate	**22.8%**	**22.0%**

[illegible]

Tax on items credited directly to the Group statement of changes in equity

	[illegible]	[illegible]
Current tax credit/(charge) on:		
Share-based payments	[illegible]	–
Deferred tax credit/(charge) on:		
Share-based payments	[illegible]	[illegible]
Total tax on items credited/(charged) to the Group statement of changes in equity	**15**	**(6)**

Tax relating to components of the Group statement of comprehensive income/(loss)

	[illegible]	[illegible]
Current tax credit/(charge) on:		
Pensions	[illegible]	[illegible]
Deferred tax credit/(charge) on:		
Pensions	[illegible]	[illegible]
Fair value movement on financial assets at fair value through other comprehensive income	[illegible]	
Fair value movements on cash flow hedges	[illegible]	[illegible]
Total tax on items credited/(charged) to the Group statement of comprehensive income/(loss)	**(923)**	**252**

Deferred tax

The following are the major deferred tax liabilities/(assets) recognised by the Group and movements thereon during the current and prior financial years, measured using the tax rates that are expected to apply when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date:

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
At 29 February 2020	**(168)**	**(100)**	**512**	**51**	**93**	**4**	**17**	**409**
Discontinued operations	14		[illegible]	(6)	[illegible]			[illegible]
(Charge)/credit to the Group income statement	[illegible]	[illegible]	[illegible]	(3)	4	[illegible]	[illegible]	[illegible]
(Charge)/credit to the Group statement of changes in equity				[illegible]				[illegible]
(Charge)/credit to the Group statement of comprehensive income/(loss)			[illegible]				[illegible]	[illegible]
Acquisitions	[illegible]						[illegible]	[illegible]
Foreign exchange and other movements	[illegible]				[illegible]		[illegible]	
At 27 February 2021	**(125)**	**(98)**	**582**	**31**	**69**	**3**	**42**	**504**
Discontinued operations								
(Charge)/credit to the Group income statement	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
(Charge)/credit to the Group statement of changes in equity				[illegible]				[illegible]
(Charge)/credit to the Group statement of comprehensive income/(loss)			[illegible]				[illegible]	[illegible]
Acquisitions								
Foreign exchange and other movements			[illegible]			1		[illegible]
At 26 February 2022	**(352)**	**(108)**	**(451)**	**39**	**45**	**6**	**(4)**	**(825)**

[illegible]

[illegible]

Deferred tax assets and liabilities are offset when the Group has a legally enforceable right to do so. The following is the analysis of the deferred tax balances after offset:

	[illegible]	[illegible]
Deferred tax assets	86	[illegible]
Deferred tax liabilities	[illegible]	[illegible]
	(825)	**504**

No deferred tax liability is recognised on temporary differences of £4bn (2021 restated: £4bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 26 February 2022 is estimated to be £5m (2021: £5m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Note 6 Taxation continued

Unrecognised deferred tax assets

Deferred tax assets in relation to continuing operations have not been recognised in respect of the following items because it is not probable that future taxable profits will be available against which the Group can utilise the benefits:

	2022 £m	2021 £m
Deductible temporary differences	47	4
Tax losses	178	219
	225	**223**

As at 26 February 2022, the Group has unused trading tax losses from continuing operations of £590m (2021: £623m) available for offset against future profits. A deferred tax asset has been recognised in respect of £26m (2021: £19m) of such losses. No deferred tax asset has been recognised in respect of the remaining overseas tax losses of £564m (2021: £604m) due to the unpredictability of future profit streams. Due to recent law changes there are no losses that will expire included in unrecognised tax losses (2021: £555m of losses expiring between 2025 and 2041).

Changes in tax law or its interpretation

The Group operates in a number of territories and so the Group's profits are subject to tax in many jurisdictions. The Group monitors income tax developments in these territories which could affect the Group's tax liabilities. The Group notes recent developments in relation to the OECD Inclusive Framework on Base Erosion and Profit Shifting but does not expect it to have a material impact on the Group's tax charge.

Note 7 Discontinued operations and assets classified as held for sale

Assets and liabilities of the disposal group and non-current assets classified as held for sale

	2022 £m	2021 £m
Assets of the disposal group	11	474
Non-current assets classified as held for sale	357	131
Total assets of the disposal group and non-current assets classified as held for sale	**368**	**605**
Liabilities of the disposal group	(14)	(276)
Total net assets of the disposal group and non-current assets classified as held for sale	**354**	**329**

[illegible]

Discontinued operations

Income statement of discontinued operations

	2022			2021			
	Poland £m	Other £m	Total £m	Thailand and Malaysia £m	Poland £m	Other £m	Total £m
Revenue	32		32	3,932	974		4,906
Operating costs	(34)		(34)	(3,492)	(982)		(4,474)
Adjusted operating profit/(loss)	**(2)**	**–**	**(2)**	**440**	**(8)**	**–**	**432**
Share of post-tax profits/(losses) of joint ventures and associates				9			9
Finance (costs)/income				(26)	(19)		(45)
Adjusted profit/(loss) before tax	**(2)**	**–**	**(2)**	**423**	**(27)**	**–**	**396**
Taxation				(84)	(3)		(87)
Adjusted profit/(loss) after tax	**(2)**	**–**	**(2)**	**339**	**(30)**	**–**	**309**
Loss on disposal of Poland	(23)		(23)				
Homeplus (Korea) claims settlement		(33)	(33)			(88)	(88)
Other adjusting items	3	4	7	(3)	(56)		(59)
Tax on adjusting items		11	11				
Profit after tax on disposal of Thailand and Malaysia				5,264			5,264
Total adjusting items	**(20)**	**(18)**	**(38)**	**5,261**	**(56)**	**(88)**	**5,117**
Total profit/(loss) after tax of discontinued operations	**(22)**	**(18)**	**(40)**	**5,600**	**(86)**	**(88)**	**5,426**

[illegible]

On 18 June 2020, the Group reached agreement on the terms of a proposed corporate sale of its business in Poland, which was previously presented in the Group's Central Europe segment. The assets and liabilities related to the Group's Poland operation, as well as certain other properties that met the criteria to be classified as held for sale during the year ended 27 February 2021, were presented within discontinued operations. The corporate disposal completed on 16 March 2021.

The loss after tax for the Poland corporate sale comprises the following:

	£m
Gross proceeds*	**139**
Costs to sell[†]	[illegible]
Net proceeds	**127**
Net book value of assets disposed	
Goodwill and other intangible assets	[illegible]
Property, plant and equipment	[illegible]
Right of use assets	[illegible]
Inventories	[illegible]
Trade and other receivables	[illegible]
Cash and cash equivalents	[illegible]
Trade and other payables	[illegible]
Borrowings	[illegible]
Lease liabilities	[illegible]
Provisions	[illegible]
Net book value of assets and liabilities disposed	**(84)**
Currency translation reserve reclassified to income statement	[illegible]
Loss before and after tax on disposal	**(23)**

[illegible]

[illegible]

The disposal of the operations in Poland has reduced Net debt by £2[illegible]6m. This comprises £110m lease liabilities disposed and £166m net cash inflows, consisting of £139m proceeds less £15m received in the prior year, £57m reduction in overdrafts, less £[illegible]m cash disposed and £[illegible]m cash costs to sell. The total cash flows associated with the disposal are presented in 'disposal of subsidiaries, net of cash disposed' within investing cash flows.

During the year £6m was paid in relation to legal fees for the sale of the Asia business, expensed in the year ended 27 February 2021.

Cash flow statement

	2022	2021		
	Poland £m	Thailand and Malaysia £m	Poland £m	Total £m
Net cash flows from operating activities	(6)	2[illegible]5	(38)	1[illegible]
Net cash flows from investing activities	43	[illegible]	(9)	[illegible]
Net cash flows from financing activities	(2)	[illegible]	(15)	[illegible]
Net cash flows from discontinued operations	**35**	**(628)**	**(62)**	**(690)**

In the prior year, the profit after tax on disposal of the Group's Thailand and Malaysia operations was £5,264m. The disposal of the Asia operations and use of proceeds reduced Net debt by £5[illegible]m, consisting of £265m of lease liabilities disposed and total cash flows associated with the disposal of £(240)m. The £(240)m cash flow included gross proceeds of £7,938m, cash and cash equivalents disposed of £(464)m excluding intercompany loans repaid prior to closing, net intercompany loans repaid of £(249)m, additional contribution into the defined benefit pension scheme of £(2,500)m, £(4,916)m special dividends paid to equity holders and other associated cash flows. The £(240)m total cash flows were presented £(2,474)m in operating cash flows, £7,098m in investing cash flows and £(4,864)m in financing cash flows.

Note 8 Dividends

	2022		2021	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Paid prior financial year final dividend[(a)]	5.95	458	6.50	634
Paid interim dividend[(b)]	3.20	246	3.20	310
Paid special dividend			50.93	4,948
Dividends paid to equity owners in the financial year	**9.15**	**704**	**60.63**	**5,892**
Proposed final dividend at financial year end	**7.70**	**588**	**5.95**	**460**

(a) [illegible]
(b) [illegible]
(c) [illegible]

The proposed final dividend was approved by the Board of Directors on 12 April 2022 and is subject to the approval of shareholders at the AGM. The proposed dividend has not been included as a liability as at 26 February 2022, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 24 June 2022 to shareholders who are on the Register of members at close of business on 20 May 2022.

A dividend reinvestment plan (DRIP) is available to shareholders who would prefer to invest their dividends in the shares of the Company. For those shareholders electing to receive the DRIP the last date for receipt of a new election is 7 June 2022.

The Group has a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. £[illegible] (2021: £nil) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 31 for further details.

Notes to the Group financial statements continued

Note 9 Earnings/(losses) per share and diluted earnings/(losses) per share

Basic earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of Ordinary shares in issue during the financial year, excluding own shares held. The share consolidation and special dividend in [illegible] and the share buyback programme commencing in [illegible] affect earnings per share on a prospective basis with comparatives not restated.

Diluted earnings/(losses) per share amounts are calculated by dividing the profit/(loss) attributable to owners of the parent by the weighted average number of Ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive Ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned.

For the 52 weeks ended 26 February 2022 there were 88 million ([illegible]) potentially dilutive share options. As the Group has recognised a profit for the year from its continuing operations, dilutive effects have been considered in calculating diluted earnings per share.

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) (£m)						
Continuing operations	[illegible]		[illegible]	[illegible]		[illegible]
Discontinued operations	[illegible]		[illegible]	[illegible]		[illegible]
Total	**1,481**	**-**	**1,481**	**5,954**	**-**	**5,954**
Weighted average number of shares (millions)	**7,658**	**88**	**7,746**	**9,629**	**27**	**9,656**
Earnings/(losses) per share (pence)						
Continuing operations	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discontinued operations	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Total	**19.34**	**(0.22)**	**19.12**	**61.83**	**(0.17)**	**61.66**

[illegible]

APM: Adjusted diluted earnings/(losses) per share

Continuing operations	Notes	[illegible]	[illegible]
Profit/(loss) before tax (£m)		2,033	636
Less: adjusting items (£m)	4	164	498
Adjusted profit before tax (£m)		**2,197**	**1,134**
Adjusted profit before tax attributable to the owners of the parent (£m)		2,195	1,141
Taxation on adjusted profit before tax attributable to the owners of the parent (£m)		(502)	(249)
Adjusted profit after tax attributable to the owners of the parent (£m)		**1,693**	**892**
Basic weighted average number of shares (millions)		7,658	9,629
Adjusted basic earnings per share (pence)		**22.11**	**9.26**
Diluted weighted average number of shares (millions)		7,746	9,656
Adjusted diluted earnings per share (pence)		**21.86**	**9.24**

[illegible]

Refer to page 210 in the Glossary for the Group's APM Adjusted diluted earnings per share (adjusted for share consolidation).

Note 10 Goodwill and other intangible assets

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cost					
At 27 February 2021	4,719	1,837	718	395	7,669
Foreign currency translation		[illegible]		1	[illegible]
Additions		[illegible]		[illegible]	[illegible]
Acquired through business combinations	[illegible]	[illegible]			[illegible]
Disposals		[illegible]		[illegible]	[illegible]
At 26 February 2022	4,739	1,901	718	396	7,754
Accumulated amortisation and impairment losses					
At 27 February 2021	448	1,305	224	299	2,276
Foreign currency translation		[illegible]			[illegible]
Charge for the year		[illegible]	[illegible]	[illegible]	[illegible]
Impairment losses				[illegible]	[illegible]
Reversal of impairment losses		[illegible]		[illegible]	[illegible]
Reclassification		[illegible]		[illegible]	
Disposals		[illegible]		[illegible]	[illegible]
At 26 February 2022	448	1,344	300	302	2,394
Net carrying value					
At 26 February 2022	4,291	557	418	94	5,360
At 27 February 2021	[illegible]	[illegible]	494	96	5,393

[illegible]

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cost					
At 29 February 2020	5,477	1,868	715	458	8,518
Foreign currency translation	3			(1)	[illegible]
Additions		[illegible]		1	201
Acquired through business combinations	[illegible]		[illegible]	1	[illegible]
Reclassification		49		(49)	
Transfer to disposal group classified as held for sale	[illegible]	(56)			(848)
Disposals		(194)		(15)	(209)
At 27 February 2021	4,719	1,837	718	395	7,669
Accumulated amortisation and impairment losses					
At 29 February 2020	637	1,324	148	331	2,440
Foreign currency translation	5	(3)		[illegible]	4
Charge for the year		198	[illegible]	[illegible]	[illegible]
Impairment losses	[illegible]	24		[illegible]	[illegible]
Reversal of impairment losses		(9)		(1)	(10)
Reclassification		35		(35)	
Transfer to disposal group classified as held for sale	(489)	(70)			(559)
Disposals		(194)		[illegible]	[illegible]
At 27 February 2021	448	1,305	224	299	2,276

[illegible]

Notes to the Group financial statements continued

Note 11 Property, plant and equipment

	Land and buildings £m	Other £m	Total £m
Cost			
At 27 February 2021 (restated[b])	**21,653**	**5,743**	**27,396**
Foreign currency translation	[illegible]	(15)	[illegible]
Additions	[illegible]	[illegible]	[illegible]
Acquired through business combinations		[illegible]	[illegible]
Reclassification	[illegible]		[illegible]
Transfers to assets classified as held for sale	[illegible]	[illegible]	[illegible]
Disposals	[illegible]	[illegible]	[illegible]
At 26 February 2022	**21,977**	**5,649**	**27,626**
Accumulated depreciation and impairment losses			
At 27 February 2021 (restated[b])	**6,554**	**3,897**	**10,451**
Foreign currency translation	[illegible]	[illegible]	[illegible]
Charge for the year	[illegible]	[illegible]	[illegible]
Impairment losses	[illegible]	[illegible]	[illegible]
Reversal of impairment losses	[illegible]	[illegible]	[illegible]
Transfers to assets classified as held for sale	[illegible]	[illegible]	[illegible]
Disposals	[illegible]	(642)	[illegible]
At 26 February 2022	**6,814**	**3,752**	**10,566**
Net carrying value			
At 26 February 2022[a]	**15,163**	**1,897**	**17,060**
At 27 February 2021 (restated[b])	15,099	1,846	16,945
Construction in progress included above[c]			
At 26 February 2022	**97**	**212**	**309**
At 27 February 2021	[illegible]	210	[illegible]

[illegible]

	Land and buildings £m	Other £m	Total £m
Cost			
At 29 February 2020 (restated[b])	**24,693**	**6,925**	**31,618**
Foreign currency translation	(38)	(15)	(53)
Additions	731	623	1,354
Acquired through business combinations	6	4	[illegible]
Transfers (to)/from assets classified as held for sale	29		29
Transfer to disposal group classified as held for sale	(3,642)	(1,415)	(5,057)
Disposals	(128)	(379)	(507)
At 27 February 2021 (restated[b])	**21,653**	**5,743**	**27,396**
Accumulated depreciation and impairment losses			
At 29 February 2020 (restated[b])	**7,745**	**4,716**	**12,461**
Foreign currency translation	(15)	(10)	(25)
Charge for the year	429	489	918
Impairment losses	323	107	430
Reversal of impairment losses	(485)	(47)	(532)
Transfers (to)/from assets classified as held for sale	15		15
Transfer to disposal group classified as held for sale	(1,386)	(987)	(2,373)
Disposals	(72)	(371)	(443)
At 27 February 2021 (restated[b])	**6,554**	**3,897**	**10,451**
Net carrying value (restated[b])	**15,099**	**1,846**	**16,945**

[illegible]

Note 12 Leases

Group as lessee

Lease liabilities represent rentals payable by the Group for certain retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation-linked, fixed rates, resets to market rents and hybrids of these.

In prior years, the Group entered into several joint ventures and sold and leased back properties to and from these joint ventures over 20 to 30 year terms. In certain transactions, the Group has an option to buy back either the leased asset or the equity of the other party at market value and at a specified date, typically at year 10. In some of these transactions the Group also has a lease break option, which is exercisable if the buyback option is exercised and the associated debt in the joint venture is repaid. The lease liability in respect of these leases assumes that the lease break options are not exercised.

On 1 December 2021, the Group obtained control of The Tesco Sarum Limited Partnership (2021: The Tesco Property (No. 2) Limited Partnership on 18 September 2020), previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest, at which point the associated property leases from the joint venture became intercompany leases. Refer to Note 14 for further detail.

Right of use assets

	Land and buildings £m	Other £m	Total £m
Net carrying value at 27 February 2021	**5,866**	**85**	**5,951**
Additions	544	19	563
Depreciation charge for the year	(490)	(43)	(533)
Impairment losses	(195)		[illegible]
Reversal of impairment losses	234		234
Derecognition on acquisition of property joint venture (Note 14)	(243)		(243)
Other movements	(26)	25	(1)
Net carrying value at 26 February 2022	**5,634**	**86**	**5,720**

[illegible]

	Land and buildings £m	Other £m	Total £m
Net carrying value at 29 February 2020	**6,734**	**140**	**6,874**
Additions (including through business combinations)	308	42	350
Depreciation charge for the year	(517)	(49)	(566)
Impairment losses(a)	(225)		(225)
Reversal of impairment losses	230		230
Derecognition on acquisition of property joint venture	(130)		(130)
Transfer to disposal group classified as held for sale	(124)	(20)	(144)
Other movements	190	(28)	162
Net carrying value at 27 February 2021	**5,866**	**85**	**5,951**

(a) [illegible]

Lease liabilities

The following tables show the discounted lease liabilities included in the Group balance sheet and a maturity analysis of the contractual undiscounted lease payments.

	2022 £m	2021 £m
Current	547	575
Non-current	7,411	7,827
Total lease liabilities	**7,958**	**8,402**

Maturity analysis of undiscounted lease payments	2022 £m	2021 £m
Within one year	934	969
Greater than one year but less than two years	911	939
Greater than two years but less than three years	863	912
Greater than three years but less than four years	840	867
Greater than four years but less than five years	820	841
Greater than five years but less than ten years	3,407	3,597
Greater than ten years but less than fifteen years	2,223	2,443
After fifteen years	1,517	1,959
Total undiscounted lease payments	**11,515**	**12,527**

A reconciliation of the Group's opening to closing lease liabilities balance is presented in Note 33.

Amounts recognised in the Group income statement

Continuing operations	52 weeks 2022 £m	53 weeks 2021 £m
Interest on lease liabilities	415	446
Variable payment expenses not included in lease liabilities		[illegible]
Expenses relating to short-term leases	26	[illegible]
Expenses relating to leases of low value assets (excluding amounts already included in short-term leases above)	1	1

Notes to the Group financial statements continued

Note 12 Leases continued

Amounts recognised in the Group cash flow statement

	[illegible]	[illegible]
Total cash outflow for leases*	[illegible]	[illegible]

[illegible]

Future possible cash outflows not included in the lease liability
Some leases contain break clauses or extension options to provide operational flexibility. Potential future undiscounted lease payments not included in the reasonably certain lease term, and hence not included in lease liabilities, total £[illegible] (2021: £[illegible]).

Future increases or decreases in rentals linked to an index or rate are not included in the lease liability until the change in cash flows takes effect. Approximately [illegible] (2021: [illegible]) of the Group's lease liabilities are subject to inflation-linked rentals and a further [illegible] (2021: [illegible]) are subject to rent reviews. Rental changes linked to inflation or rent reviews typically occur on an annual or five-yearly basis.

The Group is committed to payments totalling £[illegible] (2021: £[illegible]) in relation to leases that have been signed but have not yet commenced.

Group as lessor

The Group leases out owned properties and sublets leased properties under operating and finance leases. Such properties include malls, mall units, stores, units within stores, distribution centres and residential properties.

Amounts recognised in the Group income statement

	[illegible]	[illegible]
[illegible]		
Finance lease – interest income	[illegible]	6
Operating lease – rental income	[illegible]	85

[illegible]

Finance lease payments receivable
The finance lease receivable (net investment in the lease) included in the Group balance sheet is £81m (2021: £86m).

Operating lease payments receivable maturity analysis

	[illegible]	[illegible]
Within one year	68	74
Greater than one year but less than two years	87	62
Greater than two years but less than three years	61	47
Greater than three years but less than four years	49	32
Greater than four years but less than five years	53	24
Greater than five years but less than ten years	68	[illegible]
Greater than ten years but less than fifteen years	23	36
After fifteen years	49	65
Total undiscounted operating lease payments receivable	**434**	**396**

Note 13 Investment property

	[illegible]	[illegible]
Cost		
At the beginning of the year	**93**	**100**
Foreign currency translation	(3)	[illegible]
Reclassification	[illegible]	(4)
Transfers from assets classified as held for sale	8	[illegible]
Disposals	[illegible]	(5)
At the end of the year	**98**	**93**
Accumulated depreciation and impairment losses		
At the beginning of the year	**74**	**74**
Foreign currency translation	(3)	[illegible]
Charge for the year	[illegible]	[illegible]
Impairment losses for the year*	6	[illegible]
Reversal of impairment losses for the year*	[illegible]	[illegible]
Reclassification		[illegible]
Transfers from assets classified as held for sale		[illegible]
Disposals	(1)	(1)
At the end of the year	**76**	**74**
Net carrying value at the end of the year	**22**	**19**

Rental income earned from investment properties under operating leases	[illegible]	[illegible]

* [illegible] Note [illegible]

The estimated fair value of the Group's investment property is £0.[illegible]bn (2021: £0.[illegible]bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

Note 14 Group entities

The Group consists of the ultimate Parent Company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 199 to 20[illegible] for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 26 February 2022.

Consolidated structured entities

The Group has a number of securitisation structured entities established in connection with Tesco Bank's credit card securitisation transactions. Although none of the equity of these entities is owned by the Group, the Group has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over them under contractual agreements. As such, these entities are effectively controlled by the Group and are therefore accounted for as subsidiaries of the Group.

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 26 February 2022 within these financial statements.

Unconsolidated structured entities

In prior years, the Group sponsored a number of structured entities. The Group led the formation of the entities and its name appears in the name of the entities and/or on the debt issued by the entities. The structured entities were set up to finance property purchases by some of the UK property joint ventures in which the Group typically holds a 50% equity interest. The structured entities obtain debt financing from third-party investors and lend the funds to these joint ventures, who use the funds to purchase the properties.

The liabilities of the UK property joint ventures include the loans due to these structured entities. The Group's exposure to the structured entities is limited to the extent of the Group's interests in the joint ventures. The liabilities of the structured entities are non-recourse to the Group.

The Group concluded that it does not control, and therefore should not consolidate, these structured entities since it does not have power over the relevant activities of the structured entities or exposure to variable returns from these entities.

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
Included in 'UK property joint ventures':					
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Arena Unit Trust	Joint venture	Property investment	50%	Jersey	United Kingdom
Included in 'Other joint ventures and associates':					
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Booker India Limited	Joint venture	Retail	49%	India	India
Trent Hypermarket Private Limited	Joint venture	Retail	50%	India	India

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2021 to 26 February 2022. The accounting period end dates of joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the parents, other than those imposed by the Companies Act 2006 or equivalent local regulations.

The UK property joint ventures involve the Group partnering with third parties in carrying out some property investments in order to enhance returns from property and access funding, while reducing risks associated with sole ownership. These property investments generally cover shopping centres and standalone stores. The Group enters into leases for some or all of the properties held in the joint ventures. These leases provide the Group with some rights over alterations and adjacent land developments. Some leases also provide the Group with options to purchase the other joint venturers' equity stakes at a future point in time. In some cases the Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria. In other cases, the Group carries out property management activities for third-party rentals of shopping centre units.

The property investment activities are carried out in separate entities, usually partnerships or limited liability companies. The Group has assessed its ability to direct the relevant activities of these entities and any impact on Group returns and concluded that the entities qualify as joint ventures since decisions regarding them require the unanimous consent of both equity holders. This assessment included not only rights within the joint venture agreements, but also any rights within other contractual arrangements between the Group and the entities.

Note 14 Group entities continued

The Group made a number of judgements in arriving at this determination, the key ones being:

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;
- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures nor do they offer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

During the financial year, the Group obtained control of Tesco Underwriting Limited, which was previously accounted for as a joint venture, through the acquisition of the other partner's 50.1% interest. The Group also obtained control of The Tesco Sarum Limited Partnership, which was previously accounted for as a joint venture, through the acquisition of the other partner's [illegible] interest. Refer to Note 34 for further details.

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information for UK property joint ventures has been aggregated in order to provide useful information to users without excessive detail, since these entities have similar characteristics and risk profiles largely based on their nature of activities and geographic market.

	[illegible] 2022 £m	[illegible] 2021 £m
Summarised balance sheet		
Non-current assets[a]	2,48[illegible]	2,9[illegible]
Current assets (excluding cash and cash equivalents)	31	5[illegible]
Cash and cash equivalents	3[illegible]	[illegible]
Current liabilities[b]	(3[illegible])	(4[illegible])
Non-current liabilities[b]	(2,907)	(3,[illegible]29)
Net assets/(liabilities)	**(675)**	**(656)**
Summarised income statement		
Revenue	[illegible]32	[illegible]5[illegible]
Profit/(loss) after tax[c]	**-**	**-**
Reconciliation to carrying amounts:		
Opening balance	**-**	**-**
Share of profits/(losses)[d]	20	14
Dividends received from joint ventures and associates	(20)	(14)
Closing balance	**-**	**-**
Group's share in ownership	50%	50%
Group's share of net assets/(liabilities)	(338)	(328)
Deferred property profits offset against carrying amounts	(60)	(60)
Cumulative unrecognised losses[d]	179	225
Cumulative unrecognised hedge reserves[d]	219	163
Carrying amount	**-**	**-**

(a) The non-current asset balances of UK property joint ventures [illegible] statements of the UK property joint ventures [illegible] 2021 [illegible]

(b) The current and non-current liabilities of UK property joint ventures [illegible] into to hedge the cash flow variability exposure of the joint ventures.

(c) Profit/(loss) after tax includes [illegible]

(d) The share of profit for the year for UK property joint ventures [illegible] share of the fair value arising from the [illegible] respectively.

As at 26 February 2022, the Group has £105m (2021: £103m) loans to UK property joint ventures.

Other joint ventures and associates

The Group also has interests in a number of individually immaterial joint ventures and associates excluding UK property joint ventures.

	Joint ventures 2022 £m	Joint ventures 2021 £m	Associates 2022 £m	Associates 2021 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	86	168		[illegible]
Group's share of profits/(losses) for the year	(5)	[illegible]		[illegible]

Note 15 Impairment of non-current assets

Impairment losses and reversals

No impairment of goodwill was recognised in the current year (2021: £295m impairment of goodwill associated with Tesco Bank).

The table below summarises the Group's pre-tax impairment losses and reversals on other non-current assets and investments in joint ventures and associates, with the former aggregated by segment due to the large number of individually immaterial store cash-generating units. This includes any losses recognised immediately prior to classifying an asset or disposal group as held for sale but excludes all impairments post classification as held for sale. There were no impairment losses or reversals in the year (2021: £nil) with respect to investments in joint ventures and associates and no impairments in other non-current assets and investments in joint ventures and associates in Tesco Bank (2021: £nil). All impairment losses and reversals are classified as adjusting items (2021: £[illegible]m net reversal).

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group balance sheet							
Other intangible assets	(11)	8	(5)		(16)	8	(8)
Property, plant and equipment	(456)	319	(50)	48	(506)	367	(139)
Right of use assets	(163)	228	(32)	6	(195)	234	39
Investment property	(6)	1			(6)	1	(5)
Total impairment (loss)/reversal of other non-current assets	**(702)**	**556**	**(23)**	**54**	**(725)**	**610**	**(115)**
Group income statement							
Cost of sales – adjusting	(682)	536	(9)	25	(691)	561	(130)
Administrative expenses – adjusting	(20)	20	(14)	29	(34)	49	15
Total impairment (loss)/reversal from continuing and discontinued operations	**(702)**	**556**	**(23)**	**54**	**(725)**	**610**	**(115)**

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group balance sheet											
Other intangible assets	(32)	9	(2)	7	(34)	16			(34)	16	(18)
Property, plant and equipment	(341)	473	(23)	36	(364)	509	(66)	23	(430)	532	102
Right of use assets	(209)	229	(16)	1	(225)	230			(225)	230	5
Investment property	(2)	2			(2)	2			(2)	2	
Total impairment (loss)/reversal of other non-current assets	**(584)**	**711**	**(41)**	**46**	**(625)**	**757**	**(66)**	**23**	**(691)**	**780**	**89**
Group income statement											
Cost of sales – non-adjusting	(2)				(2)				(2)		(2)
Cost of sales – adjusting	(534)	657	(41)	46	(575)	703			(575)	703	128
Administrative expenses – non-adjusting	(48)	54			(48)	54			(48)	54	6
Administrative expenses – adjusting											
Total impairment (loss)/reversal from continuing operations	**(584)**	**711**	**(41)**	**46**	**(625)**	**757**	**–**	**–**	**(625)**	**757**	**132**
Discontinued operations – non-adjusting											
Discontinued operations – adjusting							(66)	23	(66)	23	(43)
Total impairment (loss)/reversal	**(584)**	**711**	**(41)**	**46**	**(625)**	**757**	**(66)**	**23**	**(691)**	**780**	**89**

* Comparatives have been [illegible]

The net impairment loss in UK & ROI includes an impairment loss of £62m in the UK in respect of the Group obtaining control of The Tesco Sarum Limited Partnership (2021: £2m impairment loss in the UK & ROI in respect of the Group obtaining control of The Tesco Property (No. 2) Limited Partnership). Refer to Note 34 for further details.

The remaining other non-current assets impairment losses and reversals for the Group largely reflect normal fluctuations expected from store-level performance, property fair values and changes in discount rates, as well as any specific store closures.

Note 15 Impairment of non-current assets continued

Net carrying value of non-current assets

The net carrying values of other non-current assets and recoverable amounts of impaired other non-current assets for which an impairment loss has been recognised or reversed have been aggregated by segment due to the large number of individually immaterial store cash-generating units. The amounts below exclude assets of disposal groups classified as held for sale.

[illegible] 2022	[illegible]	[illegible]	[illegible]	[illegible]
Net carrying value				
Other intangible assets	[illegible]	–	[illegible]	[illegible]
Property, plant and equipment	15,635	1,451	68	[illegible]
Right of use assets	5,355	354	[illegible]	[illegible]
Investment property	14	9		[illegible]
Other non-current assets	**21,816**	**1,847**	**208**	**23,871**
Goodwill	3,791		500	4,291
Investments in joint ventures and associates	65	1		66
Net carrying value of non-current assets	**25,692**	**1,848**	**708**	**28,248**
Recoverable amount of impaired other non-current assets for which an impairment loss has been recognised or reversed, supported by:				
Value in use	2,534	78		2,612
Fair value less costs of disposal	1,456	51		1,507
	3,990	**129**	**–**	**4,119**

[illegible]

[illegible] 2021	[illegible]	[illegible]	[illegible]	[illegible]
Net carrying value				
Other intangible assets	959	32	131	1,122
Property, plant and equipment	15,173	1,107	65	16,345
Right of use assets	[illegible]	[illegible]	12	5,951
Investment property	18	1		19
Other non-current assets	**21,661**	**2,168**	**208**	**24,037**
Goodwill	3,791		480	4,271
Investments in joint ventures and associates	84	1	93	178
Net carrying value of non-current assets	**25,536**	**2,169**	**781**	**28,486**
Recoverable amount of impaired other non-current assets for which an impairment loss has been recognised or reversed, supported by:				
Value in use	2,365	152		2,517
Fair value less costs of disposal	1,400	122		1,522
	3,765	**274**	**-**	**4,039**

[illegible]

Impairment methodology

Cash-generating units

The Group treats each store as a separate cash-generating unit for impairment testing of other intangible assets, property, plant and equipment, right of use assets and investment property. The Group allocates goodwill to groups of cash-generating units, where each country represents a group of cash-generating units for the Group's retail operations, as this represents the lowest level at which goodwill is monitored by management. Tesco Bank represents a separate cash-generating unit.

The recoverable amount of each store cash-generating unit is the higher of its value in use and its fair value less costs of disposal. The recoverable amount of a group of cash-generating units to which goodwill has been allocated is determined based on value in use calculations.

Head office and central assets such as distribution centres and associated costs are allocated to store cash-generating units based on level of use, estimated with reference to sales. Urban fulfilment centres and associated costs that are part of a store are included in the store cash-generating unit. Standalone customer fulfilment centres and associated costs are each treated as a separate cash-generating unit.

Value in use

Retail

Estimates for value in use calculations include discount rates, long-term growth rates, expected changes to future cash flows, including volumes and prices, and the probabilities assigned to cash flow scenarios. Estimates are based on past experience and expectations of future changes in the market, including the prevailing economic climate and global economy, competitor activity, market dynamics, changing customer behaviours, structural challenges facing retail and the resilience afforded by the Group's operational scale.

Cash flow projections are based on the Group's three-year internal forecasts, the results of which are reviewed by the Board. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates. Long-term growth rates for the Retail business are based on inflation forecasts by recognised bodies. Business unit level forecast growth is allocated to store-level cash-generating unit cash flows based on their relative current year actual sales performance, after adjusting for one-off cash flows affecting particular stores.

The Group applies an expected cash flow approach by probability-weighting different cash flow scenarios. The greatest probability weighting is applied to the cash flows derived from the three-year internal forecasts. Additional scenarios take account of the risks presented by macroeconomic downturns, global supply pressures and climate change, consistent with the viability statement scenarios (see the Longer term viability statement in the Strategic report) as well as an upside scenario.

Management estimates discount rates using pre-tax rates that reflect the market assessment as at the balance sheet date of the time value of money and the risks specific to the cash-generating units. The pre-tax discount rates are derived from the Group's post-tax weighted average cost of capital as adjusted for the specific risks relating to each geographical region. Risk-free rates are based on government bond rates in each geographical region and equity risk premia are based on forecasts by recognised bodies.

Tesco Bank goodwill

Tesco Bank value in use is calculated by discounting equity cash flows, defined as the excess above the regulatory requirement. Cash flow projections are based on the Bank's three-year internal forecasts, approved by the Board. The forecasts are extrapolated to five years based on management's expectations and beyond five years based on estimated long-term average growth rates. The long-term growth rate is based on inflation and GDP growth forecasts by recognised bodies. The discount rate is the cost of equity of Tesco Bank. Risk-free rates and equity risk premia are derived from recognised bodies.

Fair value less costs of disposal

Fair values of owned properties are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. Fair values of leased properties are determined with regard to the discounted market rent for the property over the remaining period of the lease, reflecting the condition and location of the property and the local rental market, adjusted for a suitable void period. Fair values of the Group's properties were determined with the assistance of independent professional valuers where appropriate. Costs of disposal are estimated based on past experience in each geographical region.

Investments in joint ventures and associates

The recoverable values of investments in joint ventures and associates are estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses.

Key assumptions and sensitivity

Key assumptions

For value in use calculations, the key assumptions to which the recoverable amounts are most sensitive are discount rates, long-term growth rates, future cash flows (incorporating sales volumes, prices and costs) and probabilities assigned to cash flow scenarios. For fair value less costs of disposal calculations, the key assumption is property fair values.

The discount rates and long-term growth rates for each group of cash-generating units to which goodwill has been allocated are:

	UK 2022	UK 2021	[illegible] 2022	[illegible] 2021	Tesco Bank 2022	Tesco Bank 2021
Pre-tax discount rates	6.4-7.8	5.9	5.4	5.4	13.7	12.8
Post-tax discount rates	4.8-5.8	4.6	4.[illegible]	4.7	10.8	10.4
Long-term growth rates	1.9	1.9	1.9	1.9	1.6	1.6

The discount rates and long-term growth rates for the Group's portfolio of store cash-generating units, aggregated by segment due to the large number of individually immaterial store cash-generating units, are:

	UK & ROI 2022	UK & ROI 2021	Central Europe 2022	Central Europe 2021
Pre-tax discount rates	5.4-7.8	5.4-5.9	5.7-11.3	5.5-8.3
Post-tax discount rates	4.7-5.8	4.7-4.8	4.5-8.8	4.4-7.6
Long-term growth rates	1.9	1.9	2.0-3.0	2.0-3.0

Sensitivity

The Group has carried out sensitivity analyses on the reasonably possible changes in key assumptions in the impairment tests for (a) each group of cash-generating units to which goodwill has been allocated and (b) for its portfolio of store cash-generating units.

(a) With the exception of Tesco Bank goodwill, neither a reasonably possible of 1.0%pt increase in discount rates, a 5% decrease in future cash flows nor a of 1.0%pt decrease in long-term growth rates would indicate impairment in any group of cash-generating units to which goodwill has been allocated. Tesco Bank goodwill is not sensitive to a reasonably possible change in long-term growth rates, but is sensitive to a change in the discount rate and annual equity cash flows. An increase of 1.0%pt in the discount rate or a decrease in annual equity cash flows of 14.2% would reduce the year-end headroom of £212m to £nil.

Notes to the Group financial statements continued

Note 15 Impairment of non-current assets continued

(f) While there is not a significant risk of an adjustment to the carrying amount of any one store cash-generating unit that would be material to the Group as a whole in the next financial year, the table below summarises the reasonably possible changes in each key assumption and its impact on the impairment of the Group's entire portfolio of store cash-generating units, presented in aggregate due to the large number of individually immaterial store cash-generating units.

[illegible]	[illegible]	[illegible]	[illegible]
Post-tax discount rates	Increase of 1.0%pt for each geographic region	Increase	[illegible]
	Decrease of 1.0%pt for each geographic region	Decrease	[illegible]
Future cash flows	Increase of 5.0% for each geographic region	Decrease	[illegible]
	Decrease of 5.0% for each geographic region	Increase	[illegible]
Long-term growth rates	Increase of 1.0%pt for each geographic region	Decrease	[illegible]
	Decrease of 1.0%pt for each geographic region	Increase	[illegible]
Property fair value	Increase of 5.0% for each geographic region	Decrease	[illegible]
	Decrease of 5.0% for each geographic region	Increase	[illegible]

The probability applied to each cash flow scenario differs by country depending on the expected likelihood of each scenario occurring in each country. The base case represents the cash flows derived from the three-year internal forecasts and is assigned a weighted average probability of 64%. The impairment is not highly sensitive to the upside and climate change scenarios, both assigned 5% weighted average probabilities. The table below sets out the weighted average probability assigned to each of the remaining scenarios to which the impairment is most sensitive, and shows the impact on impairment of a reasonably possible change in probability for each scenario, where the corresponding opposite change in probability is applied to the base case. The scenarios modelled differ to last year, consistent with the scenarios modelled for the viability statement.

[illegible]	Weighted average probability	[illegible]	[illegible]	[illegible]
Global supply pressures	[illegible]	Increase of 5.0%pt for each geographic region	Increase	[illegible]
		Decrease of 5.0%pt for each geographic region	Decrease	[illegible]
Macroeconomic downturn	[illegible]	Increase of 5.0%pt for each geographic region	Increase	[illegible]
		Decrease of 5.0%pt for each geographic region	Decrease	[illegible]

Note 16 Other investments

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Investments in debt instruments	857		585	1,442
Investments in equity instruments			12	12
Property fund and other investments		25		25
Other investments	**857**	**25**	**597**	**1,479**
Of which:				
Current	[illegible]		[illegible]	[illegible]
Non-current	782	25	446	1,253
	857	**25**	**597**	**1,479**

[illegible]

[illegible]	[illegible]	Fair value through profit or loss £m	[illegible]	[illegible]
Investments in debt instruments	928			928
Expected credit loss allowance*	(1)			(1)
Investments in equity instruments			14	14
Other investments	**927**		**14**	**941**
Of which:				
Current	175		3	178
Non-current	752		11	763
	927	**-**	**14**	**941**

* [illegible]

Note 17 Inventories

	2022 £m	2021 £m
Goods held for resale	2,336	2,066
Development properties	3	3
	2,339	**2,069**

Goods held for resale are net of commercial income. Refer to Note 2.

Cost of inventories from continuing operations recognised as an expense for the 52 weeks ended 26 February 2022 was £45,136m (52 weeks ended 27 February 2021: £42,462m). Inventory losses and provisions from continuing operations recognised as an expense for the 52 weeks ended 26 February 2022 were £[illegible]m (52 weeks ended 27 February 2021: £[illegible]m).

Note 18 Trade and other receivables

	2022 £m	2021 £m
Trade receivables	[illegible]	[illegible]
Prepayments	[illegible]	[illegible]
Accrued income	[illegible]	[illegible]
Other receivables	[illegible]	[illegible]
Amounts owed by joint ventures and associates (Note 13)	[illegible]	[illegible]
Total trade and other receivables	**1,422**	**1,433**
Of which:		
Current	1,26[illegible]	1,263
Non-current	159	[illegible]
	1,422	**1,433**

(a) [illegible]

(b) [illegible]

Trade receivables include commercial income. Refer to Note 2. Trade receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from seven to 60 days.

The tables below present the ageing of receivables and related allowances for expected credit losses.

At 26 February 2022	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	More than 12 months past due £m	Total £m
Trade receivables	430	52	4	6	492
Other receivables	442	34	4	19	499
Trade and other receivables	**872**	**86**	**8**	**25**	**991**
Allowance for expected credit losses:					
At the beginning of the year	**(22)**	**(11)**	**(6)**	**(30)**	**(69)**
Decrease in allowance including recoveries released to the Group income statement		7	1	1	9
Amounts written off				4	4
At the end of the year	**(22)**	**(4)**	**(5)**	**(25)**	**(56)**

At 27 February 2021	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	More than 12 months past due £m	Total £m
Trade receivables	403	54	3	11	471
Other receivables	413	15	5	19	452
Trade and other receivables	**816**	**69**	**8**	**30**	**923**
Allowance for expected credit losses:					
At the beginning of the year	**(7)**	**(9)**	**(8)**	**(30)**	**(54)**
Transfer to disposal group held for sale		1	1	4	6
Foreign currency translation	(1)				(1)
Increase in allowance including recoveries charged to the Group income statement	(14)	(4)		(6)	(24)
Amounts written off		1	1	2	4
At the end of the year	**(22)**	**(11)**	**(6)**	**(30)**	**(69)**

Notes to the Group financial statements continued

Note 19 Loans and advances to customers

Tesco Bank has loans and advances to customers as follows:

	2022 £m	2021 £m
Loans and advances to customers	**6,490**	**6,402**
Of which:		
Current	3,349	3,093
Non-current	3,141	3,309
	6,490	**6,402**

The maturity of these loans and advances is as follows:

	2022 £m	2021 £m
Repayable on demand or at short notice	4	4
Within three months	3,561	[illegible]
Greater than three months but less than one year	167	94
Greater than one year but less than five years	[illegible]	[illegible]
After five years	537	654
	6,979	**7,027**
Expected credit loss allowance for loans and advances to customers	(489)	(625)
	6,490	**6,402**

At 26 February 2022, £3.0bn (2021: £3.0bn) of the credit card portfolio had its beneficial interest assigned to a securitisation special purpose entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1.2bn (2021: £nil).

At 26 February 2022, Delamare Cards MTN Issuer PLC had £1.8bn (2021: £1.8bn) notes in issue in relation to securitisation transactions.

At 26 February 2022, £1.4bn (2021: £1.5bn) of the class A retained credit card-backed notes are held within their single collateral pool.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £30m (2021: £7m) are in respect of fixed-rate loans. These adjustments are largely offset by derivatives, which are used to manage interest rate risk and are designated as fair value hedges within loans and advances to customers.

Refer to Note 26 for allowance for expected credit losses disclosures.

Note 20 Cash and cash equivalents and short-term investments

Cash and cash equivalents

	2022 £m	2021 £m
Cash at bank and on hand	2,322	2,495
Short-term deposits	23	15
Cash and cash equivalents in the Group balance sheet	**2,345**	**2,510**
Bank overdrafts	(574)	(532)
Cash and cash equivalents in the Group cash flow statement	**1,771**	**1,978**

Short-term investments

	2022 £m	2021 £m
Money market funds and similar instruments	2,076	1,011

Cash and cash equivalents includes £84m (2021: £101m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

Note 21 Trade and other payables

	2022 £m	2021 £m
Trade payables	5,641	5,131
Other taxation and social security	411	369
Other payables	1,9[illegible]5	1,653
Amounts payable to joint ventures and associates (Note [illegible])	9	23
Accruals	[illegible]	956
Contract liabilities	441	376
Total trade and other payables	**9,234**	**8,508**
Of which:		
Current	9,181	8,399
Non-current	53	109
	9,234	**8,508**

Trade and other payables are net of commercial income. Refer to Note 22.

Contract liabilities represent consideration received for performance obligations not yet satisfied, predominantly in relation to Clubcard points. The majority of the revenue deferred at the current financial year end will be recognised in the following financial year.

Trade payables include £935m (2021: £572m) that suppliers have chosen to early fund under supplier financing arrangements. Refer to Note 1. Amounts in trade payables that are overdue for payment to the provider are immaterial.

Note 22 Commercial income

Below are the commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables. Amounts received in advance of income being earned are included in accruals.

	2022 £m	2021 £m
Current assets		
Inventories	[illegible]	[illegible]
Trade and other receivables		
Trade and other receivables	[illegible]	90
Accrued income	124	125
Current liabilities		
Trade and other payables		
Trade payables	[illegible]	170
Accruals		[illegible]

Note 23 Insurance

On 4 May 2021, the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, Tesco Underwriting Limited (TU). TU is an authorised insurance company which provides the insurance underwriting service for a number of the Group's general insurance products. Refer to Note 34 for further details regarding the acquisition. As balances in this note have arisen as a result of the acquisition of TU on 4 May 2021, there are no prior period comparative balances for the Group. Refer to Note 26 for further details regarding insurance risk.

Insurance profit/(loss)

Continuing operations	52 weeks 2022 £m
Gross insurance premium income	**239**
Insurance premium income ceded to reinsurers	**(105)**
Current year claims paid	(104)
Change in prior year claims provision	52
Additional liabilities arising during the year	(98)
Insurance claims incurred	**(150)**
Reinsurers' share of claims incurred[a]	62
Net insurance claims	**(88)**
Net insurance profit/(loss)[b]	**46**

(a) [illegible]
(b) [illegible]

Note 23 Insurance continued

Insurance contract provisions and reinsurance assets

The following tables show the breakdown of the Group's insurance contract provisions and reinsurance assets at 26 February 2022:

	Gross £m	Reinsurance £m	Net £m
Unearned premiums	156	(64)	92
Claims	494	[illegible]	[illegible]
Total insurance contract provisions	**650**	**(245)**	**405**
Of which:			
Current	[illegible]	[illegible]	[illegible]
Non-current	[illegible]	(184)	[illegible]

Gross insurance provisions (and reinsurance assets) are classified as current or non-current based on contractual rights to defer settlement for at least 12 months after the reporting period, rather than expected timing of settlement. See Note [illegible] for the expected cash outflows in relation to these balances.

[illegible]	Gross £m	Reinsurance £m	Net £m
Balance at 27 February 2021	–	–	–
Acquired through business combinations	[illegible]	[illegible]	403
Claims (paid)/recovered through current	[illegible]	66	[illegible]
Movement in claims outstanding	[illegible]	[illegible]	[illegible]
Changes in provisions for unearned premiums	[illegible]	(6)	10
Balance at 26 February 2022	**650**	**(245)**	**405**

[illegible]	£m
Balance at 27 February 2021	–
Acquired through business combinations	141
Premiums written during the period	254
Less: premiums earned during the period	(239)
Balance at 26 February 2022	**156**

Analysis of movements in outstanding claims	Gross £m	[illegible] £m	Net £m
Balance at 27 February 2021	–	–	–
Acquired through business combinations	509	(16)	493
Current period claims	213	(20)	193
Change in prior period claims	(57)	14	(43)
Current period claims paid	(104)		(104)
Prior period claims paid	(67)		(67)
Balance at 26 February 2022	**494**	**(22)**	**472**

Funds withheld

Funds withheld of £115m, included within trade and other payables, represent the balance due to reinsurers arising from Quota Share arrangements, by which a fixed proportion of both premiums and losses are ceded to third-party reinsurers as part of the overall reinsurance protection strategy.

Process used to determine the assumptions

The nature of insurance makes it very difficult to predict with certainty the likely outcome of any particular claim and the ultimate cost of notified claims. Each notified claim is assessed on a separate, case-by-case basis with due regard to the claim circumstances and historical evidence of the size of similar claims and provisions are based on information currently available. However, the ultimate liabilities may vary as a result of subsequent developments.

Sources of data

The sources of data used as inputs for the assumptions are internal, using detailed studies that are carried out at least annually to ensure that the assumptions are consistent with observable market prices or other published information. When there is insufficient information to make a reliable best estimate of claims development, suitable benchmark assumptions are used.

Methods

The cost of outstanding claims and the incurred but not reported (IBNR) claims provisions are estimated using various statistical methods, which extrapolate the development of paid and incurred claims, average cost per claim and ultimate claim numbers for each accident period based upon observed development of earlier periods, with reference to suitable benchmarks. The key methods are:

- development factor methods, which use historical data to estimate the paid and incurred to date as proportions of the ultimate claim cost;
- individual claim assessment methods, which use claim specific details for large individual claims to estimate the ultimate claim cost; and
- benchmarking methods, which use the experience of comparable, more mature classes, or market data to estimate the cost of claims.

To the extent that these methods use historical claims development information, they also assume that the historical claims development pattern will occur again in the future, after allowing (where possible) for instances where this might not be the case, such as changing economic or legal trends.

Recoveries

The provisions are initially estimated at a gross level and a separate calculation is carried out to estimate the size of reinsurance recoveries. The Group is covered by a variety of excess of loss reinsurance programmes. The methods used by the Group take into account historical data, specific details for individual large claims and details of the reinsurance programme to assess the expected size of reinsurance recoveries. Recoveries through salvage and subrogation are estimated and recorded separately based on a combination of suitable benchmark assumptions and the observed development to date.

Ogden rate

The majority of claims are not discounted as they are expected to settle within four years or less. For long-term personal injury claims the personal injury discount rate (Ogden rate) is used. This is set by the Ministry of Justice and is used by the courts to calculate compensation for personal injury payments. Reserves are assessed at the current rate of (0.25)%.

Analysis of claims development – gross of reinsurance and net of salvage and subrogation recoveries

Estimate of ultimate claims costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total
At end of accident year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
One year later	534	[illegible]	[illegible]	343	[illegible]	249	[illegible]	[illegible]	[illegible]			[illegible]
Two years later	[illegible]	[illegible]	[illegible]	[illegible]	335	269	264	[illegible]				[illegible]
Three years later	[illegible]	363	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
Four years later	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	263						[illegible]
Five years later	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]							[illegible]
Six years later	[illegible]	[illegible]	[illegible]	[illegible]								[illegible]
Seven years later	[illegible]	[illegible]	[illegible]									[illegible]
Eight years later	[illegible]	[illegible]										[illegible]
Nine years later	[illegible]											[illegible]
Current estimate of cumulative claims	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cumulative payments to date	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Claims outstanding prior to 2012 accident year												6
Current gross claims provision	**23**	**12**	**16**	**9**	**22**	**12**	**47**	**83**	**84**	**111**	**39**	**464**
Provision for claims handling costs												5
Fair value adjustment to claims outstanding provisions as a result of [illegible] acquisition												3
Total gross claims outstanding provisions	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**472**

[illegible]

Analysis of claims development – net of reinsurance and net of salvage and subrogation recoveries

Estimate of ultimate claims costs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total
At end of accident year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	259	[illegible]	144	[illegible]	[illegible]	2,939
One year later	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	259	255	[illegible]			[illegible]
Two years later	[illegible]	[illegible]	349	331	[illegible]	[illegible]	233	[illegible]				2,591
Three years later	[illegible]	[illegible]	343	[illegible]	[illegible]	[illegible]	[illegible]					[illegible]
Four years later	505	359	[illegible]	[illegible]	292	239						[illegible]
Five years later	[illegible]	[illegible]	338	[illegible]	[illegible]							[illegible]
Six years later	504	356	[illegible]	[illegible]								[illegible]
Seven years later	503	355	334									[illegible]
Eight years later	506	353										859
Nine years later	506											506
Current estimate of cumulative claims	506	[illegible]	334	[illegible]	[illegible]	239	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Cumulative payments to date	(498)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	(85)	[illegible]	[illegible]	[illegible]	[illegible]
Claims outstanding prior to 2012 accident year												4
Current net claims provision	**8**	**6**	**11**	**9**	**11**	**7**	**36**	**59**	**38**	**60**	**34**	**283**
Provision for claims handling costs												5
Fair value adjustment to claims outstanding provisions as a result of [illegible] acquisition												3
Total net claims	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**291**

[illegible]

Notes to the Group financial statements continued

Note 24 Borrowings

Borrowings are classified as current and non-current based on their scheduled redemption date and not their maturity date. Repayments of principal amounts are classified as current if the repayment is scheduled to be made within one year of the balance sheet date.

	Par value	Maturity	2022 £m	2021 £m
Bank loans and overdrafts			608	584
6.125% MTN	£411m	Feb 2022		41[illegible]
5% MTN	£[illegible]m	Mar 2023	[illegible]	[illegible]
1.375% MTN	€[illegible]m	Oct 2023	[illegible]	[illegible]
2.5% MTN	€[illegible]m	[illegible] 2024	[illegible]	[illegible]
[illegible]% MTN	£[illegible]m	May 2025	[illegible]	[illegible]
3.5% Tesco Bank Senior MREL Note	£250m	[illegible] 2025	[illegible]	[illegible]
5.5% LPI MTN	£[illegible]m	Nov 2025	[illegible]	364
[illegible]% MTN	€[illegible]m	May 2027	[illegible]	[illegible]
[illegible]% MTN	£[illegible]m	Nov 2028	[illegible]	
[illegible]% Secured Bond	£[illegible]m	Feb 2029	[illegible]	[illegible]
[illegible]% Secured Bond	£[illegible]m	Feb 2029	[illegible]	[illegible]
SONIA + [illegible]% Secured Bond	£[illegible]m	Feb 2029	46	4[illegible]
0.[illegible]% MTN	€750m	Jun 2029	[illegible]	[illegible]
6% MTN	£[illegible]m	Dec 2029	44	4[illegible]
2.75% MTN	£450m	Apr 2030	4[illegible]4	[illegible]
LIBOR + [illegible]% Secured Bond	£18[illegible]m	Jan 2032		184
LIBOR + [illegible]% Secured Bond	£[illegible]m	Jan 2032		[illegible]
[illegible]% MTN	£[illegible]m	Jan 2033	[illegible]	[illegible]
[illegible]% RPI MTN	£[illegible]m	Mar 2036	[illegible]	[illegible]
6.15% USD Bond	$[illegible]m	Nov 2037	338	33[illegible]
[illegible]% Secured Bond	£445m	Oct 2039	[illegible]	[illegible]
5.661% Secured Bond	£436m	Oct 2041	[illegible]	
4.875% MTN	£14m	Mar 2042	14	14
5.125% MTN	€[illegible]m	Apr 2047	[illegible]	[illegible]
5.2% MTN	£14m	Mar 2057	14	14
			7,399	**7,268**
Of which:				
Current			725	1,060
Non-current			6,674	6,186
			7,399	**7,268**

[illegible]

Note 25 Financial instruments

The Group recognises the following financial instruments on its balance sheet. The Group's exposure to the risks associated with its financial assets and liabilities is discussed in Note 26.

26 February 2022	Notes	Amortised cost £m	Fair value through profit or loss £m	Fair value through other comprehensive income £m	Total £m
Financial assets					
Cash and cash equivalents	[illegible]	[illegible]	26		[illegible]
Short-term investments	[illegible]	[illegible]			[illegible]
Trade receivables	15	[illegible]			[illegible]
Other receivables	15	[illegible]			[illegible]
Joint ventures and associates loan receivables	[illegible]	[illegible]			[illegible]
Loans and advances to customers – Tesco Bank	[illegible]	[illegible]			[illegible]
Other investments	16	[illegible]	[illegible]	[illegible]	[illegible]
Derivative financial instruments:					
Interest rate swaps			[illegible]		[illegible]
Cross currency swaps			[illegible]		[illegible]
Index-linked swaps			[illegible]		[illegible]
Forward contracts			[illegible]		[illegible]
		12,782	**1,062**	**597**	**14,441**
Financial liabilities					
Trade payables	21	(5,641)			(5,641)
Other payables	21	[illegible]			[illegible]
Accruals	21	(827)			(827)
Borrowings	24	[illegible]			[illegible]
Customer deposits – Tesco Bank	[illegible]	(5,321)			(5,321)
Deposits from banks – Tesco Bank	[illegible]	[illegible]			[illegible]
Lease liabilities	12	[illegible]			[illegible]
Derivative financial instruments:					
Interest rate swaps			[illegible]		[illegible]
Cross currency swaps			(85)		(85)
Forward contracts			(25)		(25)
		(30,109)	**(383)**	**-**	**(30,492)**

27 February 2021	Notes	Amortised cost £m	Fair value through profit or loss £m	Fair value through other comprehensive income £m	Total £m
Financial assets					
Cash and cash equivalents	[illegible]	2,496	14		2,510
Short-term investments	[illegible]	1,011			1,011
Trade receivables	15	424			424
Other receivables	15	430			430
Joint ventures and associates loan receivables	13	122			122
Loans and advances to customers – Tesco Bank	19	6,402			6,402
Other investments	16	927		14	941
Derivative financial instruments:					
Interest rate swaps			42		42
Cross currency swaps			298		298
Index-linked swaps			1,080		1,080
Forward contracts			42		42
		11,812	**1,476**	**14**	**13,302**
Financial liabilities					
Trade payables	21	(5,131)			(5,131)
Other payables	21	(1,653)			(1,653)
Accruals	21	(956)			(956)
Borrowings	24	(7,668)			(7,668)
Customer deposits – Tesco Bank	22	(5,138)			(5,138)
Deposits from banks – Tesco Bank	22	(609)			(609)
Lease liabilities	12	(8,402)			(8,402)
Derivative financial instruments:					
Interest rate swaps			(162)		(162)
Cross currency swaps			(38)		(38)
Index-linked swaps			(729)		(729)
Forward contracts			(78)		(78)
		(29,748)	**(1,007)**	**-**	**(30,755)**

Note 25 Financial instruments continued

The fair values are determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value is calculated by discounting expected future cash flows at prevailing interest rates. The fair value of assets measured at amortised cost is shown below.

The expected maturity of financial assets and liabilities is not considered to be materially different to their current and non-current classification.

Fair value of financial assets and liabilities measured at amortised cost

The table excludes cash and cash equivalents, short-term investments, trade receivables, payables, other receivables, payables and accruals where the carrying values approximate fair value. The levels in the table refer to the fair value measurement.

Financial assets measured at amortised cost				
Loans and advances to customers – Tesco Bank (Level 3)	[illegible]	6,566	[illegible]	[illegible]
Investment securities at amortised cost (Level 1 and 2)	[illegible]	56	[illegible]	[illegible]
Joint ventures and associates loan receivables (Level 3)	[illegible]	120	[illegible]	153
Financial liabilities measured at amortised cost				
Borrowings				
Amortised cost (Level 1 and 2)	[illegible]	[illegible]	[illegible]	[illegible]
Bonds in fair value hedge relationships (Level 1)	[illegible]	[illegible]	[illegible]	(2,655)
Customer deposits – Tesco Bank (Level 2)	[illegible]	[illegible]	[illegible]	[illegible]
Deposits from banks – Tesco Bank (Level 2)	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Fair value measurement by level of fair value hierarchy

The following table presents the Group's financial assets and liabilities that are measured at fair value by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

Level 2 assets are valued by discounting future cash flows using externally sourced market yield curves, including interest rate curves and foreign exchange rates from highly liquid markets. For Level 3 assets, uncollateralised derivatives are valued as per Level 2 but include certain data sources which are significantly less liquid; unlisted investments are valued based on less observable inputs such as recent funding rounds.

At 26 February 2022	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Investments at fair value through other comprehensive income	585		12	597
Cash and cash equivalents at fair value through profit or loss		26		26
Investments at fair value through profit or loss		23	2	25
Derivative financial instruments:				
Interest rate swaps		55		55
Cross currency swaps		25	198	223
Index-linked swaps		115	551	666
Forward contracts		67		67
Total assets	**585**	**311**	**763**	**1,659**
Liabilities				
Derivative financial instruments:				
Interest rate swaps		(273)		(273)
Cross currency swaps		(85)		(85)
Forward contracts		(25)		(25)
Total liabilities	**–**	**(383)**	**–**	**(383)**
Net assets/(liabilities)	**585**	**(72)**	**763**	**1,276**

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Assets				
Investments at fair value through other comprehensive income		3	11	14
Cash and cash equivalents at fair value through profit or loss		14		14
Derivative financial instruments:				
Interest rate swaps		[illegible]		[illegible]
Cross-currency swaps		[illegible]		[illegible]
Index-linked swaps		[illegible]		[illegible]
Forward contracts		[illegible]		[illegible]
Total assets	–	1,479	11	1,490
Liabilities				
Derivative financial instruments:				
Interest rate swaps		[illegible]		[illegible]
Cross-currency swaps		[illegible]		[illegible]
Index-linked swaps		[illegible]		[illegible]
Forward contracts		[illegible]		[illegible]
Total liabilities	–	(1,007)	–	(1,007)
Net assets/(liabilities)	–	472	11	483

During the financial year, there were no transfers (2021: no transfers) between Level 1 and Level 2 fair value measurements.

Level 3 instruments

At the end of the period there was a transfer of £749m into Level 3 fair value measurement from Level 2 (2021: no transfers) arising from inclusion of a funding valuation adjustment (FVA) to certain derivatives due to evolving market practices, which incorporate unobservable input elements. There were no other transfers into or out of Level 3 (2021: no transfers).

As part of financial risk management, the Group holds certain uncollateralised derivative financial instruments including interest rate and inflation swaps, cross-currency swaps, and forward contracts. These are valued using relevant inputs which are considered observable (Level 2) such as forward rates and FX rates from available market data. Unobservable inputs (Level 3) relate to the FVA, which is the estimate of the adjustment to the fair value that a market participant would make to account for funding costs. These are calculated on the future valuation of the derivative, based on the best estimate available to management of suitable relevant cost of funds. A 10 basis points increase in the cost of funds would increase the FVA by £38m.

The following table presents the changes in Level 3 instruments:

	[illegible]	[illegible]	[illegible]	[illegible]
At the beginning of the year	–	11	–	10
Gains/(losses) recognised in the Group statement of comprehensive income/(loss)		4		3
Disposal of financial asset at fair value through other comprehensive income		[illegible]		(4)
Addition of financial asset at fair value through other comprehensive income		[illegible]		2
Transfers into Level 3	[illegible]			
At the end of the year	749	14	–	11

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial assets						
Derivative financial instruments	1,011		1,011	(246)	(18)	747
Trade receivables	526	(69)	457			457
Total assets	1,537	(69)	1,468	(246)	(18)	1,204
Financial liabilities						
Derivative financial instruments	(383)		(383)	246		(137)
Trade payables	(5,710)	69	(5,641)			(5,641)
Repurchases, securities lending and similar agreements	(150)		(150)		150	
Total liabilities	(6,243)	69	(6,174)	246	150	(5,778)

Note 25 Financial instruments continued

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial assets						
Derivative financial instruments	1,462		1,462	(234)		1,228
Trade receivables	520	(96)	424			424
Total assets	**1,982**	**(96)**	**1,886**	**(234)**	**-**	**1,652**
Financial liabilities						
Derivative financial instruments	(1,003)		(1,003)	234	42	(727)
Trade payables	(5,231)	96	(5,135)			(5,135)
Total liabilities	**(6,234)**	**96**	**(6,138)**	**234**	**42**	**(5,862)**

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Note 26 Financial risk management

The Group's financial risk management is carried out under policies approved and authority delegated by the Board of Directors, including parameters for risk management across the Group. The financial risk management in relation to Retail is carried out by a central treasury department. Tesco Bank has a separate formal structure for reporting, monitoring and managing its financial risks appropriate to the nature of its business as a regulated financial institution.

The main financial risks faced by the Group, including Retail and Tesco Bank, and the management of these risks are set out below and include market risk (foreign exchange, interest rate, inflation and commodity prices), credit risk, liquidity risk, capital risk and insurance risk. Additional information on the management of the financial risks relating to Tesco Bank is also set out below.

(a) Market risk

The Group is exposed to various elements of market risk, which include foreign exchange risk, interest rate risk, commodity price risk and inflation risk.

Risks	Exposure arising from	Mitigation
Foreign exchange risk	Transactional exposure that arises from the cost of future purchases of goods, where those purchases are denominated in a currency other than the functional currency of the purchasing company.	Forward foreign currency contracts or purchased currency options which are designated as cash flow hedges. The Group's policy is to hedge currency exposure that could significantly impact the Group income statement with a minimum (20%) and maximum (80%) hedge level of forecast uncommitted exposure within at least the next 12 months.
	Net investment exposure that arises from changes in the value of net investments denominated in currencies other than Pound Sterling.	Foreign currency derivatives and borrowings in matching currencies which are formally designated as net investment hedges. The Group's policy is to hedge a part of its investments in international subsidiaries.
	Loans to and from subsidiaries in currencies other than in the entity's functional currency.	Foreign currency derivatives and borrowings in matching currencies. The Group's policy is that 100% of the foreign exchange risk is hedged. These are not formally designated as accounting hedges as gains and losses will naturally offset in the income statement.
	Debt issued in a currency other than Pound Sterling.	Cross-currency swaps which swap the non-sterling debt back into a net sterling exposure. The Group's policy is to swap foreign currency debt back to Pound Sterling, unless there are appropriate matching foreign currency assets.
Interest rate risk	Debt issued at variable interest rates as well as cash deposits and short-term investments, giving rise to cash flow risk, and debt issued at fixed interest rates giving rise to fair value risk.	The issuance of debt at variable and floating interest rates as well as forward rate agreements, interest rate swaps, and caps and floors, which may be used to achieve the desired mix of fixed and floating rate debt. Hedging relationships are formally designated as either fair value or cash flow hedges. The Group's policy is to target fixing a minimum of 50% of interest costs for senior unsecured debt excluding Tesco Bank. At 26 February 2022, the percentage of interest-bearing debt at fixed rates was 66% (2021: 67%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 2.34% (2021: 3.07%). The Group has RPI-linked debt where the principal is indexed to increases in RPI. RPI-linked debt is treated as floating rate debt. The Group also has LPI-linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI-linked debt is treated as fixed rate debt. RPI-linked debt and LPI-linked debt are hedged for the effects of inflation until maturity. During 2022 and 2021, Group net debt was managed using derivative instruments to hedge interest rate risk (refer to the table on next page).
Inflation risk	Index-linked debt, where the principal is indexed to increase/decrease in line with RPI or LPI and lease liabilities where rent payments are indexed to increase/decrease in line with inflation indices such as RPI.	Inflation risk is managed via index-linked swaps, which are used to hedge the respective inflation measure.
Commodity price risk	Changes in commodity prices largely relating to diesel for own use.	Forward derivative contracts which are designated as cash flow hedges. These are used to hedge future purchases of diesel for own use which are forecast to occur within a 12-month period. The Group policy is to hedge a minimum of 50% of the forecast uncommitted exposure within the next 12 months.

The table below shows the interest rate risk profile for the Group's financial instruments:

	[illegible] Fixed £m	[illegible] Floating £m	Total £m	[illegible] Fixed £m	[illegible] Floating £m	Total £m
Cash and cash equivalents		[illegible]	[illegible]		[illegible]	[illegible]
Short-term investments		[illegible]	[illegible]		[illegible]	[illegible]
Investment securities at amortised cost	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Investments at fair value through other comprehensive income	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Investments at fair value through profit or loss	[illegible]		[illegible]			
Joint ventures and associates loan receivables	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
Loans and advances to customers – Tesco Bank	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Lease liabilities	[illegible]		[illegible]	[illegible]		[illegible]
Bank and other borrowings	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Customer deposits – Tesco Bank	[illegible]		[illegible]	[illegible]		[illegible]
Deposits from banks – Tesco Bank		[illegible]	[illegible]		[illegible]	[illegible]
Derivative effect:						
Interest rate swaps	[illegible]	[illegible]		[illegible]	[illegible]	
Cross-currency swaps	[illegible]	[illegible]		[illegible]	[illegible]	
Index-linked swaps	[illegible]	[illegible]		[illegible]	[illegible]	
Total	**(15,363)**	**6,122**	**(9,241)**	**(15,633)**	**4,611**	**(11,022)**

Hedge accounting of market risks

Derivatives are used to hedge exposure to market risks, some of which are economic hedges and others are formally designated hedging instruments with hedge accounting applied. The main sources of hedge ineffectiveness are the effects of the counterparties' and the Group's own credit risk on the fair value of derivatives.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed-rate debt issued by the Group and investment securities held by the Group.

Derivative contracts hedging fixed-rate debt issued by the Group receive a fixed rate of interest and pay a variable interest rate.

Derivative contracts held by the Group receive a floating rate of interest and pay a fixed interest rate to hedge investment securities where the Group receives a fixed rate of interest.

There is an economic relationship between the hedged item and the hedging instrument as the terms of the swap contract match the terms of the fixed-rate borrowings, including notional amount, maturity, payment and rate set dates. The Group has established a hedge ratio of 1:1 for the hedging relationship as the underlying risk of the swap contract is identical to the hedged item.

Cash flow hedges

The Group is exposed to foreign currency risk arising from purchases of goods for resale in currencies other than the functional currency of the purchasing entity. Foreign currency forwards are utilised to hedge this risk and are formally designated as cash flow hedges.

Under the Group's hedging policy, the critical terms of the forward contracts must align with the hedged items. The foreign currency forwards are denominated in the same currency as the highly probable future sales and purchases, which are expected to occur within a maximum 24-month period, and the hedging relationship is determined to be 1:1.

The Group also uses forward contracts to hedge the price of certain commodities. These mainly relate to forward contracts to hedge future purchases of diesel for own use, which are forecast to occur within a 12-month period. These are denominated in the same currency and volume as the forecast purchases and the hedging relationship is determined to be 1:1.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt and interest rate swaps to hedge interest cash flows on debt.

Net investment hedging

The Group uses Euro-denominated borrowings to hedge the exposure of a portion of its net investments in overseas operations which have a Euro functional currency, against changes in value due to changes in foreign exchange rates. The hedged risk in the net investment hedge is the risk of a weakening Euro against Pound Sterling that will result in a reduction in the carrying amount of the Group's Euro net investments.

To assess hedge effectiveness, the Group determines the economic relationship between the hedging instrument and the hedged item by comparing changes in the carrying amount of the debt that are attributable to a change in the spot rate with changes in the investment in foreign operations due to movements in the spot rate. The Group has established a hedge ratio of 1:1, as the underlying risk of the hedging instrument is identical to the hedged risk component.

The details of the hedging instruments and movements in cumulative losses on net investment hedges in other comprehensive income are set out below:

[illegible]	Notional amount of the hedged item £m	Notional amount of the hedging instrument £m	Carrying amount £m	Cumulative losses £m
At 29 February 2020	**1,290**	**1,290**	**6**	**(1,065)**
Change in value for calculating ineffectiveness	10	10	(10)	
Reclassified to Group income statement				57
At 27 February 2021	**1,300**	**1,300**	**(4)**	**(1,008)**
Change in value for calculating ineffectiveness	(40)	(40)	40	
Reclassified to Group income statement				243
At 26 February 2022	**1,260**	**1,260**	**36**	**(765)**

Net investment hedge ineffectiveness was £nil (2021: £nil) during the year.

Note 26 Financial risk management continued

During the current financial year, the Group disposed of its Polish business resulting in a reclassification to the income statement from the translation reserve of £243m relating to net investment hedging. In the prior financial year the Group disposed of its Asia business, resulting in a reclassification of £57m.

During the current financial year, currency movements decreased the net value, after the effects of hedging, of the Group's overseas assets by £59m (2021: decrease by £68m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets.

Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group income statement. These instruments include index-linked swaps, interest rate swaps, cross-currency swaps and forward foreign currency contracts.

IBOR reform

During the year, the Group transitioned to alternative benchmark rates for all remaining hedging instruments, implementing the relevant risk-free rate benchmarks into its ISDA (International Swaps and Derivatives Association) and other relevant agreements. As at 26 February 2022, there are no hedging relationships which include IBOR benchmarks and are yet to be transitioned to a risk-free rate benchmark.

Derivatives and hedging exposures

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2022				2021			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps	5[illegible]	2,904	(65)	1,386	4[illegible]	2,0[illegible]5	(54)	[illegible]
Cross-currency swaps			(65)	630			(36)	65[illegible]
Cash flow hedges								
Interest rate swaps			([illegible])	5[illegible]			(105)	346
Index-linked swaps	23[illegible]	683			1[illegible]5	660		
Forward contracts	56	1,329	(6)	435	3[illegible]	1,118	(59)	1,468
Derivatives not in a formal hedge relationship								
Interest rate swaps	2	86	(19)	55		13		[illegible]
Cross-currency swaps	223	845		15	296	787	(3)	60
Index-linked swaps	436	2,514			6[illegible]	3,209	(779)	4,982
Forward contracts	11	750	(17)	644	5	479	(9)	1,043
Total	**1,011**	**9,261**	**(383)**	**3,418**	**1,462**	**8,279**	**(1,007)**	**11,450**

The following tables set out the maturity profile and average interest rates and foreign currency exchange rates of the hedging instruments used in the Group's hedging strategies:

	2022			2021		
Maturity profile	Up to one year	One to five years	More than five years	Up to one year	One to five years	More than five years
Fair value hedges						
Interest rate risk						
Interest rate swaps – GBP						
Notional amount (£m)	551	2,296	607	1,384	2,156	607
Average net interest rate (pay)/receive	0.14%	0.49%	[illegible]	0.52%	1.29%	0.59%
Interest rate swaps – EUR						
Notional amount (£m)		630			650	
Average net interest rate (pay)/receive		0.82%			0.66%	
Interest rate/Foreign currency risk						
Cross-currency swaps (GBP:EUR)						
Notional amount (£m)			63[illegible]			65[illegible]
Average exchange rate			1.13			1.13
Average net interest rate (pay)/receive			[illegible]			[illegible]
Cash flow hedges						
Interest rate risk						
Index-linked swaps						
Notional amount (£m)		373	3[illegible]		360	30[illegible]
Average net interest rate (pay)/receive		(4.23%)	(4.2[illegible]%)		(4.23%)	(4.21%)
Interest rate swaps						
Notional amount (£m)			50			346
Average net interest rate (pay)/receive			(4.40%)			4.9[illegible]%

At 26 February 2022, forward foreign currency contracts, designated as cash flow hedges, equivalent to £1.[illegible]bn were outstanding (2021: £2.5bn). These forward contracts are largely in relation to purchases of Euros (notional €0.[illegible]bn) (2021: notional €[illegible]m) and US Dollars (notional $0.[illegible]bn) (2021: notional $1.3bn) with varying maturities up to February 2023.

For the above currencies the rates ranged from Euro/GBP 1.082 to 1.195 (2021: 1.09 to 1.156) and USD/GBP from 1.319 to 1.419 (2021: 1.22 to 1.416).

Forward commodity contracts hedging diesel purchases for own use as at 26 February 2022 had a GBP notional of £65m (2021: £54m) at a rate of £267 to £531 (2021: £[illegible] to £451) per tonne.

The notional and fair values of these contracts is shown on page 164.

The following tables set out the details of the hedged exposures covered by the Group's fair value hedges:

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interest rate risk						
Fixed rate loans[illegible]	3,764		(3[illegible])		(3[illegible])	
Fixed rate savings[illegible]		(1,[illegible])				
Fixed rate investment securities	504		[illegible]		([illegible])	
Fixed rate bonds		(1,[illegible]96)		(40)	([illegible])	([illegible])

[illegible]

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Interest rate risk						
Fixed rate loans[illegible]	3,663		[illegible]		(3)	([illegible])
Fixed rate savings		(1,[illegible])				
Fixed rate investment securities	500		[illegible]		6	
Fixed rate bonds[illegible]		(2,9[illegible])		(96)	(59)	(97)

[illegible]

The following tables set out information regarding the change in value of the hedged item used in calculating hedge ineffectiveness as well as the impacts on the cash flow hedge reserve and cost of hedging reserve:

26 February 2022	[illegible]	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Interest rate risk					
Index-linked bonds	Index-linked swaps	2	(2)	90	
Borrowings	Interest rate swaps	([illegible])	[illegible]	[illegible]	
Foreign currency risk					
Trade payables	Forward contracts	62	(62)	[illegible]9	
Interest rate/Foreign currency risk					
MTNs	Cross-currency swaps				36

[illegible]

27 February 2021	[illegible]	[illegible] £m	[illegible] £m	[illegible] £m	[illegible] £m
Interest rate risk					
Index-linked bonds	Index-linked swaps	[illegible]	([illegible])	[illegible]1	
Borrowings	Interest rate swaps	3[illegible]	(3[illegible])	18	
Foreign currency risk					
Trade payables	Forward contracts	(44)	44	([illegible]4)	
Interest rate/Foreign currency risk					
MTNs	Cross-currency swaps	6	(6)		4[illegible]

[illegible]

Note 26 Financial risk management continued

The following table sets out information regarding the effectiveness of hedging relationships designated by the Group, as well as the impacts on profit or loss and other comprehensive income.

Fair value hedges – interest rate risk				
Borrowings	[illegible]	1	[illegible]	

The following table presents a reconciliation by risk category of the cash flow hedge and cost of hedging reserves and an analysis of other comprehensive income in relation to hedge accounting.

Opening balance	**90**	**–**		**154**	**(15)**	
Interest rate risk						
Index-linked swaps						
Net fair value gains/(losses)	[illegible]			[illegible]		
Amount reclassified to Group income statement	[illegible]		Finance income/costs	[illegible]		Finance income/costs
Interest rate swaps						
Net fair value gains/(losses)	[illegible]			[illegible]		
Amount reclassified to Group income statement	[illegible]		Finance income/costs	[illegible]		Finance income/costs
Interest rate/Foreign currency risk						
Cross-currency swaps						
Net fair value gains/(losses)				(4)	[illegible]	
Amount reclassified to Group income statement	[illegible]		Finance income/costs	[illegible]		Finance income/costs
Foreign currency/Commodity risk						
Forward contracts						
Net fair value gains/(losses)*	34			[illegible]		
Amount reclassified to inventories	30		Inventories	(78)		Inventories
Tax	(22)			11	(2)	
Closing balance	**130**	**–**		**90**	**–**	

* [illegible]

Sensitivity analysis

The impact on the financial statements of the Group, including Retail and Tesco Bank, from foreign currency, inflation and interest rate volatility is discussed below.

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment benefit obligations and on the retranslation of overseas net assets. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 26 February 2022. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked borrowings, which have been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges against movements in interest rates or foreign exchange rates have an immaterial effect on the Group income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of financial instruments designated as net investment hedges against movements in foreign exchange rates are recorded directly in the Group statement of comprehensive income/(loss);
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group income statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rate affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the quantitative effect on the Group income statement and the Group statement of changes in equity that would result at the balance sheet date, from changes in interest rates, inflation rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	[illegible]	[illegible]	[illegible]	[illegible]
1% increase in interest rates (2021: 1%)	12	4	[illegible]	[illegible]
10% appreciation of the Euro (2021: 10%)	(12)	(24)	[illegible]	[illegible]
10% appreciation of the US Dollar (2021: 10%)	[illegible]	69	[illegible]	-
100 basis points parallel upward shift in the forward inflation curve (2021: 25 basis points)	[illegible]		[illegible]	

A decrease in interest rates, depreciation of foreign currencies and downward shift in the forward inflation curve would have the opposite effect to the impact in the table above.

The impact on the Group income statement resulting from changes in foreign exchange rates against GBP in relation to financial instruments (excluding those arising on consolidation) is minimal as Group policy dictates that all material income statement foreign exchange exposures are hedged.

In prior years, the Group entered into a number of derivative index-linked contracts with external counterparties, to economically hedge a proportion of the Group's exposure to index-linked lease liabilities with its joint ventures. These are specifically not designated as accounting hedges, but are economic hedges. However, the gains and losses on the hedging instrument and hedged item do not naturally offset in the Group income statement. This mismatch arises due to different accounting outcomes of IFRS 9 and IFRS 16, which results in a timing difference.

The impact on the Group statement of comprehensive income/(loss) from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group statement of comprehensive income/(loss) will largely be offset by the revaluation in equity of the hedged assets in the Group statement of changes in equity.

(b) Credit risk

Credit risk represents the risk that a counterparty will not meet its obligations leading to a financial loss for the Group. Credit risk arises from cash and cash equivalents, short-term investments, trade receivables, other receivables, joint venture and associate loan receivables, loans and advances to customers and banks, investment securities at amortised cost, financial assets at fair value through other comprehensive income and derivative financial instruments.

For financial assets other than trade receivables, other receivables, joint ventures and associates loan receivables, and loans and advances to customers, the Group holds positions with an approved list of investment grade rated counterparties and monitors the exposure, credit rating outlook and credit default swap levels of these counterparties on a regular basis. Counterparty credit limits are reviewed on an annual basis, and may be updated throughout the financial year. The limits are set to minimise the concentration of risk and are set taking into account the type and value of the specific financial asset.

For trade receivables, other receivables, joint venture and associate loan receivables, and loans and advances to customers, the Group's credit risk is managed with various mitigating controls including credit checks, credit insurance and master netting agreements. Due to the nature of the Retail and Tesco Bank businesses, there is little concentration of risk due to the large number of customers which are spread across wide geographical areas.

Maximum exposure to credit risk

The maximum exposure to credit risk at the end of the reporting period reflects the carrying amount of each class of financial assets, including loan commitments which are not recognised on the balance sheet. Joint venture and associate loan receivables in the table below are gross of deferred profits historically arising from the sale of property assets to joint ventures (see Note 32). The Group's maximum exposure to credit risk is £26.8bn (2021: £26.9bn).

The net counterparty exposure under derivative contracts is £0.7bn (2021: £1.2bn).

Note 26 Financial risk management continued

The Group's maximum gross exposure to credit risk is analysed below by class of financial instrument, including for financial instruments that are not subject to ECL i.e. derivative financial instruments and cash balances with central bank.

	[illegible]	[illegible]
Cash and cash equivalents*	[illegible]	[illegible]
Short-term investments	[illegible]	[illegible]
Trade receivables	[illegible]	[illegible]
Other receivables	[illegible]	[illegible]
Joint venture and associate loan receivables	[illegible]	[illegible]
Loans and advances to customers – Tesco Bank	[illegible]	[illegible]
Investment securities at amortised cost	[illegible]	[illegible]
Investments at fair value through other comprehensive income	[illegible]	[illegible]
Investments at fair value through profit or loss	[illegible]	
Derivative financial instruments:		
Interest rate swaps	55	42
Cross currency swaps	223	298
Index-linked swaps	666	1,080
Forward contracts	67	42
Off balance sheet:		
Loan commitments	12,363	[illegible]
Maximum exposure to credit risk	**26,842**	**26,008**

* [illegible]

For reinsurance assets the maximum exposure to credit risk is their carrying amount.

Counterparty credit rating

The table below provides detail of financial assets by long-term credit rating of investment grade rated counterparties.

	2022					2021				
£m	AAA	AA	A	BBB	**Total**	AAA	AA	A	BBB	**Total**
Money market funds	1,170	360	481	[illegible]	**2,076**	955		56		**1,011**
Investment securities at amortised cost	529	92	[illegible]		**857**	[illegible]	65	[illegible]		**927**
Investments at fair value through other comprehensive income	[illegible]	95	[illegible]	[illegible]	**585**		5			**5**
Investments at fair value through profit or loss[b]		2			**2**					**–**
Derivative financial assets:										
Interest rate swaps		45	10		**55**		9	[illegible]	6	**42**
Cross currency swaps			[illegible]	2	**223**			[illegible]	[illegible]	**298**
Index-linked swaps			115	551	**666**			[illegible]	467	**1,080**
Forward contracts		2	50	15	**67**		1	[illegible]	14	**42**

(a) Excludes £12m (2021: [illegible]) [illegible]

(b) Excludes [illegible]

The low credit risk exemption has been applied to cash and cash equivalents, money market funds, investments at fair value through other comprehensive income (FVOCI), investments at fair value through profit or loss (FVPL) and investment securities at amortised cost, except those investment securities held in Tesco Bank, as these are held with counterparties with investment-grade ratings (BBB or above) or are short-term in nature. The expected credit loss is immaterial.

Expected credit losses

For trade receivables, contract assets and lease receivables the Group applies the simplified approach with lifetime ECLs recognised from initial recognition of the receivables. For loans and advances to customers, short-term investments, investment securities at amortised cost, investments at fair value through other comprehensive income and loan receivables from joint ventures and associates, the three-stage model for impairment has been applied. The expected lifetime of a financial asset is generally the contractual term.

The Group's financial assets are written off when the balance is known not to be recoverable or the Group is time-barred from recovering a balance under local legislation.

The expected credit losses for Retail are immaterial. For details on the expected credit losses relating to Tesco Bank see below.

Gross loans to related parties of £143m (2021: £160m) are presented net of loss allowances of £nil (2021: £nil) and deferred profits of £38m (2021: £38m) on the Group balance sheet. The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and the loss given default (LGD) for the relevant time period and for each specific loan and by discounting back to the balance sheet date.

Reinsurance assets are subject to annual impairment assessment based on the credit ratings of the existing reinsurers which are monitored by TU's Reinsurance Committee.

(c) Liquidity risk

Liquidity risk is the risk that the Group will encounter difficulty in meeting the obligations associated with its financial liabilities.

The Group finances its liquidity position and its operations by a combination of retained profits, disposals of assets, debt capital market issuance, commercial paper, bank borrowings and leases. The policy is to maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise, to maintain a smooth debt profile and ensure maturing senior unsecured debt will not exceed £1.5bn in any 12-month period.

The Group retains access to capital markets so that maturing debt may be refinanced as it falls due and the Group is investment grade rated with all three major credit rating agencies.

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Rating agency						
Fitch	F3	BBB	Stable	F3	BBB	Stable
Moody's	P-3	Baa3	Stable	P-3	Baa3	Stable
Standard & Poor's	A-3	BBB	Stable	A-3	BBB	Stable

The Group has a £15.0bn Euro Medium Term Note programme, of which £[illegible]bn was in issue at 26 February 2022 (2021: £4.6bn), plus £[illegible]bn equivalent of USD-denominated notes issued under 144A documentation (2021: £[illegible]bn).

Liquidity risk is continuously monitored by short-term and long-term cash flow forecasts.

During the year, the Group issued a £400m sustainability-linked bond maturing in [illegible] in the capital markets.

Borrowing facilities

The Group has the following undrawn committed facilities available at 26 February 2022, in respect of which all conditions precedent had been met as at that date:

	2022 £m	2021 £m
Expiring in less than one year	38	[illegible]
Expiring between one and two years		
Expiring in more than two years	2,500	2,500
Total	**2,538**	**2,538**

During the current financial year, the multicurrency £2.5bn revolving facility was extended for a year, maturing in 2024. The cost of the facility is linked to three ESG targets and includes the use of risk-free rates rather than LIBOR. All three targets were met during the financial year ending 26 February 2022, leading to a reduction in the interest rate loan margin.

The facility incurs commitment fees at market rates and would provide funding at floating rates. There were no withdrawals from the facility during the year.

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 1[illegible].

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivative liabilities, taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow is considered acceptable as it is offset by financial assets.

The undiscounted cash flows will differ from both the carrying values and fair values. Floating-rate interest and inflation is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date.

At 26 February 2022	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	[illegible]	[illegible]	(705)	(896)	(701)	[illegible]
Interest payments on borrowings	(199)	[illegible]	(179)	[illegible]	(134)	(999)
Customer deposits – Tesco Bank	[illegible]	(444)	[illegible]	(24)	(25)	
Deposits from banks – Tesco Bank	(163)	[illegible]	(115)	(805)		
Lease liabilities	(934)	[illegible]	(863)	(840)	[illegible]	[illegible]
Trade payables	[illegible]					
Other payables	[illegible]	(1)		(1)	(1)	(29)
Accruals	[illegible]					
Derivative financial liabilities						
Net settled derivative contracts – receipts	4	9	4	3		
Net settled derivative contracts – payments	[illegible]	(65)	[illegible]	(6)	(7)	[illegible]
Gross settled derivative contracts – receipts						1
Gross settled derivative contracts – payments	(13)	[illegible]	(17)	[illegible]	(14)	(68)
Total on balance sheet	**(14,956)**	**(2,411)**	**(2,186)**	**(2,747)**	**(1,702)**	**(11,972)**
Off balance sheet						
Contractual lending commitments	(12,363)					
Total	**(27,319)**	**(2,411)**	**(2,186)**	**(2,747)**	**(1,702)**	**(11,972)**

Notes to the Group financial statements continued

Note 26 Financial risk management continued

[illegible]	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	[illegible]	[illegible]	[illegible]	[illegible]	(858)	[illegible]
Interest payments on borrowings	(149)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Customer deposits – Tesco Bank	[illegible]	(468)	[illegible]	[illegible]	[illegible]	
Deposits from banks – Tesco Bank	[illegible]		[illegible]			
Lease liabilities	(969)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Trade payables	[illegible]					
Other payables	(1,543)	[illegible]	[illegible]	[illegible]		[illegible]
Accruals	[illegible]					
Derivative financial liabilities						
Net settled derivative contracts – receipts	68	[illegible]	[illegible]	26	4	[illegible]
Net settled derivative contracts – payments	(55)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Gross settled derivative contracts – receipts	2	–	–	–	[illegible]	–
Gross settled derivative contracts – payments	[illegible]	(8)	[illegible]	[illegible]	[illegible]	[illegible]
Total on balance sheet	**(15,248)**	**(2,163)**	**(2,410)**	**(2,027)**	**(1,917)**	**(12,949)**
Off balance sheet						
Contractual lending commitments	(12,668)					
Total	**(27,916)**	**(2,163)**	**(2,410)**	**(2,027)**	**(1,917)**	**(12,949)**

The table below shows information about the timing of cash outflows in relation to insurance claims liabilities, net of salvage and subrogation recoveries, based on current best estimates, at 26 February 2022. The estimated phasing is based on current estimates and the actual timing of future settlement cash flows may differ from that disclosed below. These cash flows arise for the Group following the acquisition of TU on 4 May 2021, therefore there are no prior year comparatives.

	2022 [illegible]	[illegible]
Due within one year	83	18
Due between two to five years	194	41
Due beyond five years	195	41
Total outstanding claims, net of salvage and subrogation recoveries	**472**	**100**

The Group is not subject to covenants in relation to its facilities and borrowings. There is an element of seasonality in the Group's operations, however the overall impact on liquidity is not considered significant.

(d) Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the Group balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them or issue new shares. During the current financial year, the Group has undertaken a share buyback programme and commenced cancellation of these shares (refer to Note 31).

The Group raises finance in the public debt markets and borrows centrally and locally from financial institutions, using a variety of capital market instruments and borrowing facilities to meet the requirements of each local business.

In line with the Group's objectives, during the current financial year, the Group issued a £400m bond maturing in 2028.

Refer to Note 33 for the value of the Net debt, and the Group statement of changes in equity for the value of the Group's equity.

(e) Operational insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events in its operations. The Group purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only.

The risk not transferred to the insurance market is retained within the Group with some cover being provided by the Group's captive insurance company, ELH Insurance Limited in Guernsey, which is consolidated in the Group financial statements, covering assets, earnings and combined liability.

Tesco Bank

Information on the management of the financial risks relating to Tesco Bank, which is additional to the information provided for the Group overall, is set out below.

(a) Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates and from unexpected changes to the yield curve. Tesco Bank is exposed to interest rate risk through dealings with retail customers as well as through lending to and borrowing from the wholesale market. Tesco Bank has established limits for risk appetite and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. Tesco Bank also uses the capital at risk approach, which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates.

The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to assess impacts across a suitable range of severe but plausible movements in interest rates. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

(b) Liquidity risk

Liquidity risk is the risk that Tesco Bank has insufficient liquidity resources to meet its obligations as they fall due. Funding risk is the risk that Tesco Bank does not have sufficiently stable and diverse sources of funding.

Tesco Bank operates within a liquidity risk management policy framework (LRMP) to ensure that sufficient funds are available at all times to meet demands from depositors, to fund agreed advances, to meet other commitments as and when they fall due, and to ensure risk appetite is met.

Liquidity and funding risks are assessed through the individual liquidity adequacy assessment process on at least an annual basis. Formal limits are set within the LRMP to maintain liquidity risk exposures within the liquidity risk appetite set by Tesco Bank's Board of Directors and key liquidity measures are monitored on a regular basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal and stressed market conditions.

(c) Credit risk

Credit risk is the risk that a retail customer or counterparty to a wholesale transaction will fail to meet its obligations in accordance with contractually agreed terms and Tesco Bank will incur losses as a result. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time. To minimise the potential exposure to bad debts that are outside risk appetite, processes, systems and limits have been established that cover the end-to-end retail credit risk customer life cycle. These include credit scoring, affordability, credit policies and guides, and monitoring and reporting. The Bank is also exposed to wholesale credit risk primarily through its treasury activities. Controls and risk mitigants include daily monitoring of exposures, investing in counterparties with investment grade ratings, restricting the amount that can be invested with one counterparty and credit rating mitigation techniques. Assessment of the expected credit loss (ECL) on loans and advances to customers has taken into account a range of macroeconomic scenarios.

Maximum exposure to credit risk

The table below presents Tesco Bank's maximum exposure to credit risk, i.e. total gross exposure, by stages and by class of financial instruments. For financial assets, the balances are based on gross carrying amounts. For loan commitments, the amounts represent the amounts for which Tesco Bank is contractually committed.

26 February 2022	Stage 1 £m	Stage 2 Not past due £m	Stage 2 <30 days past due £m	Stage 2 >30 days past due £m	Stage 2 Total £m	Stage 3 £m	Total £m
Loans and advances to customers	5,973	797	22	16	835	201	7,009
Investment securities at FVOCI	585						585
Investment securities at amortised cost	857						857
Loan commitments – loans and advances to customers (a)	12,029	325	2	1	328	6	12,363
Total gross exposure	**19,444**	**1,122**	**24**	**17**	**1,163**	**207**	**20,814**
Loss allowance							
Loans and advances to customers (a)	95	247	9	10	266	128	489
Investment securities at FVOCI (b)	1						1
Investment securities at amortised cost							
Total loss allowance	**96**	**247**	**9**	**10**	**266**	**128**	**490**
Net exposure							
Loans and advances to customers	5,878	550	13	6	569	73	6,520
Investment securities at FVOCI	584						584
Investment securities at amortised cost	857						857
Total net exposure	**7,319**	**550**	**13**	**6**	**569**	**73**	**7,961**
Coverage							
Loans and advances to customers	2%	31%	41%	63%	32%	64%	7%

(a) The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers, except to the extent that the loss allowance exceeds the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, it is presented as a provision.
(b) The loss allowance for investment securities at FVOCI is not recognised in the balance sheet as the carrying amount of investment securities at FVOCI is their fair value.

Notes to the Group financial statements continued

Note 26 Financial risk management continued

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loans and advances to customers	5,749	981	25	25	1,031	242	7,022
Investment securities at FVOCI	5						5
Investment securities at amortised cost	928						928
Loan commitments – loans and advances to customers	12,379	283	2		285	4	12,668
Total gross exposure	**19,061**	**1,264**	**27**	**25**	**1,316**	**246**	**20,623**
Loss allowance							
Loans and advances to customers	131	314	11	16	341	153	625
Investment securities at FVOCI							
Investment securities at amortised cost	1						1
Total loss allowance	**132**	**314**	**11**	**16**	**341**	**153**	**626**
Net exposure							
Loans and advances to customers	5,618	667	14	9	690	89	6,397
Investment securities at FVOCI	5						5
Investment securities at amortised cost	927						927
Total net exposure	**6,550**	**667**	**14**	**9**	**690**	**89**	**7,329**
Coverage							
Loans and advances to customers	2%	32%	44%	64%	33%	63%	9%

[illegible]

Expected credit losses (ECL)

The ECL is determined by multiplying together the probability of default (PD), exposure at default (EAD) and loss given default (LGD) for the relevant time period and for each asset category and by discounting back to the balance sheet date. The ECL calculation and the measurement of significant deterioration in credit risk both incorporate forward-looking information using a range of macroeconomic scenarios, with key variables being the Bank of England base rate, unemployment rate and gross domestic product. The key economic variables are based on historical patterns observed over a range of economic cycles.

The tables below present the reconciliations of ECL allowances on loans and advances to customers.

	2022			
	Stage 1	Stage 2	Stage 3	Total
[illegible]	£m	£m	£m	£m
Gross exposure	5,973	835	201	7,009
Loan commitment	12,029	328	6	12,363
Total exposure	**18,002**	**1,163**	**207**	**19,372**
Allowance for expected credit losses				
At 27 February 2021	**(131)**	**(341)**	**(153)**	**(625)**
Transfers:				
Transfers from stage 1 to stage 2	19	(19)		
Transfers from stage 2 to stage 1	(45)	45		
Transfers to stage 3	5	38	(43)	
Transfers from stage 3	(2)	(3)	5	
Movements recognised in the Group income statement:				
Net remeasurement following transfer of stage	34	(12)	(58)	(36)
New financial assets originated	(21)	(9)	(4)	(34)
Financial assets derecognised during the current financial year	15	16	3	34
Changes in risk parameters and other movements	36	24	(10)	50
Other movements:				
Write-offs and asset disposals		2	132	134
Transfers to provisions for liabilities and charges	(5)	(7)		(12)
At 26 February 2022	**(95)**	**(266)**	**(128)**	**(489)**
Reconciliation to Group balance sheet				
Gross exposure	5,973	835	201	7,009
Allowance for expected credit losses	(95)	(266)	(128)	(489)
	5,878	**569**	**73**	**6,520**
Fair value adjustment				(30)
Carrying value at 26 February 2022				**6,490**

At 27 February 2021	[illegible]	[illegible]	[illegible]	[illegible]
Gross exposure	5,749	1,031	242	7,022
Loan commitments	12,379	285	4	12,668
Total exposure	**18,128**	**1,316**	**246**	**19,690**
Allowance for expected credit losses				
At 29 February 2020	**(83)**	**(219)**	**(186)**	**(488)**
Transfers:				
Transfers from stage 1 to stage 2	[illegible]	[illegible]		
Transfers from stage 2 to stage 1	[illegible]	[illegible]		
Transfers to stage 3	[illegible]	42	(44)	
Transfers from stage 3	[illegible]	[illegible]	4	
Movements recognised in the Group income statement:				
Net remeasurement following transfer of stage	[illegible]	[illegible]	[illegible]	[illegible]
New financial assets originated	[illegible]	[illegible]	[illegible]	[illegible]
Financial assets derecognised during the current financial year	[illegible]	[illegible]	[illegible]	[illegible]
Changes in risk parameters and other movements	[illegible]	[illegible]	[illegible]	[illegible]
Other movements:				
Write-offs and asset disposals		[illegible]	[illegible]	[illegible]
Transfers to provisions for liabilities and charges	8	[illegible]		[illegible]
At 27 February 2021	**(131)**	**(341)**	**(153)**	**(625)**
Reconciliation to Group balance sheet				
Gross exposure	5,749	1,031	242	7,022
Allowance for expected credit losses	(131)	(341)	(153)	(625)
	5,618	**690**	**89**	**6,397**
Fair value adjustment				5
Carrying value at 27 February 2021				**6,402**

Tesco Bank defines four classifications of credit quality for all credit exposures: high, satisfactory, low and below standard. Credit exposures are segmented according to the probability of default (PD), with credit impaired reflecting a PD of 100%.

At 26 February 2022	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loans and advances to customers:					
High quality	[illegible]–3.02	5,666	300		5,966
Satisfactory quality	3.03–11.10	288	390		678
Low quality and below standard	[illegible]11.11	19	145		164
Credit impaired	100			201	201
		5,973	**835**	**201**	**7,009**

At 27 February 2021	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Loans and advances to customers:					
High quality	[illegible]–3.02	5,314	445		5,759
Satisfactory quality	3.03–11.10	392	389		781
Low quality and below standard	[illegible]11.11	43	197		240
Credit impaired	100			242	242
		5,749	**1,031**	**242**	**7,022**

Default

An account is deemed to have defaulted when Tesco Bank considers that a customer is in significant financial difficulty and that the customer meets certain quantitative and qualitative criteria regarding their ability to make contractual payments when due. This includes instances where:

- the customer makes a declaration of significant financial difficulty;
- the customer or third-party agency communicates that it is probable that the customer will enter bankruptcy or another form of financial restructure such as insolvency or repossession;
- the account has been transferred to recoveries and the relationship is terminated;
- an account's contractual payments are more than 90 days past due; or
- where the customer is deceased.

A loan deemed uncollectable is written off against the related provision after all of the necessary procedures have been completed and the amount of the loss has been determined. Tesco Bank may write off loans that are still subject to enforcement activity. The outstanding contractual amount of such assets written off was £110m (2021: £154m).

Significant increase in credit risk

At each reporting date, the change in credit risk of the financial asset is observed using a set of quantitative and qualitative criteria, together with a backstop based on arrears status. For each financial asset, Tesco Bank compares the lifetime PD at the reporting date with the lifetime PD that was expected at the reporting date at initial recognition (PD threshold). Tesco Bank has established PD thresholds for each type of product which vary depending on initial term and term remaining. A number of qualitative criteria are in place such as: forbearance offered to customers in financial difficulty, risk-based pricing post-origination, credit indebtedness, credit limit decrease, and pre-delinquency information. As a backstop, Tesco Bank considers that if an account's contractual payments are more than 30 days past due then a significant increase in credit risk has taken place.

Note 26 Financial risk management continued

Tesco Bank has commissioned four scenarios from its third-party provider, all of which were based on an economic outlook that sought to take account of the ramifications of the COVID-19 pandemic and cost-of-living pressures. These scenarios include a Base scenario, an Upside scenario and two different Downside scenarios. As the economic outlook continues to remain uncertain, the scenarios are based on the speed at which consumer and business confidence will support the recovery in GDP and the labour market. The Base scenario sees a return to pre-pandemic GDP by Q3 2022, with cost-of-living pressures stagnating growth and unemployment peaking at 4.2% by Q2 2022. The Upside scenario sees a sharper recovery driven by utilisation of accumulated savings from lockdown periods, while Downside scenario 1 assumes a 6.2% unemployment peak by Q2 2022. Downside scenario 2 postulates the impact of recurrent COVID-19 variants driving new restrictions, with subsequent GDP declines and an 9.0% unemployment peak in Q2 2022. These scenarios are also reviewed to ensure an unbiased estimate of ECL by ensuring the credit loss distribution under a larger number of scenarios is adequately captured using these four scenarios and their respective weightings. The Base, Upside, Downside 1 and Downside 2 scenarios have been assigned weighting of 40%, 30%, 25% and 5% respectively.

The economic scenarios used include the following ranges of key indicators:

[illegible]	Base %	Upside %	Downside 1 %	Downside 2 %
Bank of England base rate[a]	[illegible]	[illegible]	[illegible]	[illegible]
Gross domestic product	1.8%	[illegible]	[illegible]	[illegible]
Unemployment rate	4.1%	3.9%	[illegible]	[illegible]
Unemployment rate peak in year	4.2%	3.9%	[illegible]	[illegible]

[illegible]	Base %	Upside %	Downside 1 %	Downside 2 %
Bank of England base rate[a]	[illegible]	[illegible]	[illegible]	[illegible]
Gross domestic product[b]	[illegible]	3.5%	[illegible]	[illegible]
Unemployment rate	5.5%	4.7%	[illegible]	[illegible]
Unemployment rate peak in year	5.8%	4.9%	[illegible]	[illegible]

[illegible]
[illegible]

Key assumptions and sensitivity

The key assumptions to which the Tesco Bank ECL is most sensitive are macroeconomic factors, probability of default (PD), loss given default (LGD), PD threshold (staging) and expected lifetime (revolving credit facilities). The table below sets out the changes in the ECL allowance that would arise from reasonably possible changes in these assumptions from those used in Tesco Bank's calculations as at 26 February 2022 and excludes specific management overlays which are discussed further below.

Key assumption	Reasonably possible change	2022 £m	2021 £m
Closing ECL allowance		**489**	**625**
Macroeconomic factors (100% weighted)	Upside scenario	(27)	(66)
	Base scenario	(13)	[illegible]
	Downside scenario 1	[illegible]	[illegible]
	Downside scenario 2	[illegible]	[illegible]
Probability of default	Increase of 2.5%	6	8
	Decrease of 2.5%	(6)	(8)
Loss given default	Increase of 2.5%	7	10
	Decrease of 2.5%	[illegible]	(10)
Probability of default threshold (staging)	Increase of 20%	(9)	[illegible]
	Decrease of 20%	13	11
Expected lifetime (revolving credit facility)	Increase of 1 year	11	9
	Decrease of 1 year	(10)	(9)

COVID-19 and cost-of-living pressures have had a significant impact on the UK economy and there remains a large degree of uncertainty around the scale and stress of the peak of the economic downturn and the speed and shape of any subsequent recovery. While there has been significant recovery observed in the wider economy, the degree of uncertainty remains high. As a result, Tesco Bank has recognised certain specific management overlays, to address the prevailing downside risks and ensure the potential impacts of future stress are adequately provided for, detailed below.

Overlay	Description of adjustment	2022 £m	2021 £m
Consumer spending[a]	In respect of the beneficial masking impact of lower consumer spending through the pandemic	113	129
Cost of living[b]	A portion of Tesco Bank's customers may be more impacted by cost-of-living pressures, with deterioration in their ability to repay unsecured lending balances	75	
Emergence of customer defaults	The emergence of defaults will be more aligned with previous economic downturns	19	
War in Ukraine	Further potential inflationary pressures on cost of living	6	
Customer support	The impact of customer support measures on arrears and defaults		64
Payment holidays	Increase in credit risk in respect of customers who sought an extension to their initial payment holiday		21
Total overlays		**213**	**214**

[illegible]
[illegible]

Forbearance

Tesco Bank could be exposed to unacceptable levels of bad debt and also suffer reputational damage if it did not provide adequate support to customers who are experiencing financial difficulties. Forbearance is relief granted by a lender to assist customers in financial difficulty, through arrangements which temporarily allow the customer to pay an amount other than the contractual amounts due. These temporary arrangements may be initiated by the customer or Tesco Bank where financial distress would prevent repayment within the original terms and conditions of the contract. The main aim of forbearance is to support customers in returning to a position where they are able to meet their contractual obligations.

Tesco Bank has adopted the definition of forbearance in the European Banking Authority's (EBA) final draft implementing technical standards (ITS) of July 2014 and reports all accounts meeting this definition, providing for them appropriately.

Tesco Bank has well defined forbearance policies and processes. A number of forbearance options are made available to customers. These routinely, but not exclusively, include the following:

- arrangements to repay arrears over a period of time, by making payments above the contractual amount, that ensure the loan is repaid within the original repayment term; and
- short-term concessions, where the borrower is allowed to make reduced repayments (or, in exceptional circumstances, no repayments) on a temporary basis to assist with short-term financial hardship.

	[illegible] 2022 £m	[illegible] 2021 £m	[illegible] 2022 %	[illegible] 2021 %	[illegible] 2022 %	[illegible] 2021 %
Credit cards	100	119	3	4	51	[illegible]
Loans	34	48	1	1	47	56

(d) Insurance risk

The Group is exposed to insurance risk through its wholly owned subsidiary, TU. The Group defines insurance risk as the risks accepted through the provision of insurance products in return for a premium. These risks may or may not occur as expected and the amount and timing of these risks are uncertain and determined by events outside of the Group's control (e.g. flood or vehicular accident). TU operates a separate risk framework with dedicated risk and compliance teams and a suite of TU risk policies to ensure that the TU insurance portfolio is operating within agreed risk appetite.

Types of insurance risk

Risk	Description of risk	Mitigation
Underwriting	Policies not priced correctly due to underestimating the frequency and/or severity of the claims and/or that payments are required under conditions that were not anticipated.	The Group has large numbers of policyholders with homogeneous exposures such as car and home policies. Products are priced based on the Group's knowledge using past exposures, historical losses (plus an appropriate allowance for IBNR losses) and external data sources, with the appropriate adjustments to reflect anticipated future market conditions and expenses.
Claims reserving	Estimates of insurance liabilities prove to be insufficient through inaccurate forecasting, adverse random variation and additional expenses.	The aim of the reserving policy is to provide estimates of insurance liabilities that are accurate and reliable across each line of business and are consistent over the time period required to settle all the claims. Provisions are monitored on an ongoing basis by a Reserving Committee and the TU Board, and an annual independent review is undertaken.
Claims management	Claims management risk may arise in the event of inaccurate or incomplete case reserving or settlement, poor customer service, claims fraud, ineffective or inefficient claim processes or excessive costs of handling claims.	The Group's approach to claims management focuses upon creating a successful balance between satisfying the needs of the customer against control of the overall cost of the provision of the service that meets those needs in agreement with its service provider. Customers include both the insured as well as others that believe the insured has breached a duty of care.
Reinsurance	Reinsurance contracts, placed to reduce exposure to specific risks, events, and accumulations, fail to perform as planned and do not reduce the gross cost of claims in terms of the limits purchased, by risks not being appropriately covered, by reinsurance bad debts or by there not being gaps in the programme.	The reinsurance programme is subject to considerable scenario planning and approved by the Reinsurance Committee and the TU Board. All reinsurers in the reinsurance programme have a minimum credit rating of A.

Notes to the Group financial statements continued

Note 26 Financial risk management continued

Concentration of insurance risk

Concentration of insurance risk may exist where a particular event or series of events could impact significantly upon the Group's liabilities. Such concentrations may arise from a single insurance contract or through a small number of related contracts. The following are key categories of concentration risks that might result in significant impacts to the Group.

Category	Description	Mitigation
High-severity, low frequency concentrations	High-severity, low frequency events (e.g. natural disasters) represent a material risk as the occurrence of such an event would have a significant adverse impact on TU's cash flows and profitability.	Making appropriate allowance within the price calculated by underwriters and by purchasing a reinsurance programme that limits the impact of these events using non-proportional reinsurance treaties to manage retention levels and the limits of protection.
Geographic and demographic concentrations	Material geographical concentrations of risk exist in property portfolios such that natural disasters (e.g. floods) may give rise to a large number of material damage and business interruption claims.	The Group only writes policies in the UK and Channel Islands. TU models its exposure to this risk to estimate its probable maximum loss and purchases reinsurance to significantly reduce its exposure to such events.
Economic conditions	The insurance portfolio exposes a potential accumulation of different risks in the event of difficult economic conditions or more challenging points in the underwriting cycle.	The Group aims to ensure it charges the right premium for the business underwritten and it focuses on maintaining prices in such difficult market conditions. It also monitors claims closely to identify any that may be exaggerated or fraudulent.
Total aggregate exposure	The total aggregate exposure that the Group is prepared to accept in relation to concentrations of risk.	The exposures are monitored on a regular basis by reviewing reports which show the key aggregations to which the Group is exposed and by using a number of modelling tools to monitor aggregation and simulate catastrophe losses in order to measure the effectiveness of the reinsurance programmes, and to quantify the net exposure. Additional stress and scenario tests are run using these models during the year.
Third-party injury claims and credit hire	The increase in the frequency and value of third-party injury claims, arising mainly in the motor market driven by an increased level of litigation and the activities of companies actively persuading potential victims to instigate claims. In addition, the growth in credit hire has also had a significant impact.	The Group monitors the development of this risk closely, adjusting the prices of its products accordingly.

TU has carried out sensitivity analyses on the reasonably possible changes in its key business drivers, including interest yields, expenses and gross loss ratio, as well as executing the stress and scenario testing programme on the insurance risk as part of their contingency planning. These do not indicate a material impact to the Group's overall financial position and performance.

Insurance capital

Solvency II (SII) came into force on 1 January 2016. It provides a framework for managing and measuring the risks and the solvency position for all insurance companies in the EU. Following the UK's departure from the EU, the SII framework continues to be applied in the UK and its requirements are applicable to TU. TU assesses its Solvency Capital Requirement (SCR) using a Partial Internal Model for capital which was approved by the Prudential Regulation Authority (PRA) in 2020. TU models a range of stress and scenario tests that are published in its annual Solvency and Financial Condition Report. These show that TU's capital position is resilient to a range of possible scenarios. TU also maintains a capital contingency plan supported by its direct shareholder, Tesco Personal Finance plc. Available capital has remained above the SCR requirement during the period to 26 February 2022, and capital coverage of TU's SCR at the end of February 2022 was 151.0% (unaudited).

Note 27 Customer deposits and deposits from banks

	2022 £m	2021 £m
Customer deposits	5,327	5,738
Deposits from banks	1,052	600
	6,379	**6,338**
Of which:		
Current	4,729	5,321
Non-current	1,650	1,017
	6,379	**6,338**

Deposits from banks include balances of £nil (2021: £500m) drawn under the Bank of England's Term Funding Scheme (TFS) and £902m (2021: £100m) drawn under the Bank of England's Term Funding Scheme with incentives for small and medium-sized enterprises (TFSME). Also included are balances of £150m (2021: £nil) which have been sold under sale repurchase agreements.

Note 28 Provisions

	Property provisions £m	Restructuring provisions £m	Legal and regulatory provisions £m	Operational insurance provisions £m	Other provisions £m	Total £m
At 27 February 2021	**132**	**–**	**123**	**10**	**40**	**305**
Foreign currency translation			[illegible]	[illegible]		[illegible]
Reclassifications				149		149
Amount released in the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amount provided in the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amount utilised in the year	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Unwinding of discount	1					[illegible]
At 26 February 2022	**213**	**44**	**44**	**135**	**30**	**466**

The balances are analysed as follows:

	2022 £m	2021 £m
Current	[illegible]	[illegible]
Non-current	[illegible]	[illegible]
	466	**305**

Provisions are discounted based on the relevant risk-free rate and are risk adjusted through adjusting the cash flow estimates. Refer to Note 15 for details of how risk-free rates are derived.

Property provisions

Property provisions comprise onerous contracts related to unprofitable stores and vacant properties, decommissioning provisions and remediation works and dilapidations provisions.

Dilapidations are recognised where there is a present obligation to repair and restore leased properties to their pre-occupancy state at the end of the lease term. The provision is based on best estimates for individual properties with reference to previous experience and size of leased property, or specific agreements with the landlord where relevant. The term is measured in accordance with the outstanding length of leases or the expected timing of specific obligations.

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The timing of provisions is determined by reference to the contract giving rise to the obligations.

Decommissioning provisions reflect the Group's long-term obligation for site-level environmental remediation works arising from government regulations and changing consumer habits. The extent and cost of future environmental remediation represents a best estimate applied across the property portfolio based on past experience, the extent of remediation work required and the expected timing of activity, for which there is a high level of uncertainty.

Amounts provided in the year primarily relate to decommissioning, and amounts released in the year primarily relate to releases of dilapidation and similar remediation provisions.

The expected undiscounted aging of property provisions as at 26 February 2022:

	Current [illegible]	[illegible]	[illegible]	[illegible]	[illegible]	Total £m
Property provisions	37	51	23	12	135	**258**

Restructuring provisions

Restructuring provisions of £44m, primarily relating to expected employee costs, are expected to be fully utilised in the following financial year to 25 February 2023. The provision is calculated in line with the expected settlement costs of impacted employees and excludes future operating costs.

Legal and regulatory provisions

Legal and regulatory provisions contain balances in relation to either ongoing or expected legal proceedings against the Group, or for costs associated with regulatory matters and/or breaches. Due to the nature of legal and regulatory matters, including unpredictable timings of legal cases or regulatory investigations, there is often uncertainty as to when provisions will be fully utilised.

During the year, the Group recognised a charge of £193m in relation to 2020 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profit announced in 2014. These claims were settled in full during the year and, given that the legal timeframe for bringing a claim has now elapsed, no further related claims can be brought by shareholders.

During the year, an Arbitral Tribunal made findings of liability relating to claims regarding the sale of Homeplus (Korea) against the Group and made a Final Award of £119m in damages, interest and costs. Arbitration judgments are final and may not be appealed by either party. The Group recognised a charge of £33m within discontinued operations, increasing the provision held. The Final Award was cash settled during the year.

Other legal and regulatory provisions of £44m include a £14m (2021: £22m) provision relating to customer redress from Payment Protection Insurance (PPI) sales, with the remainder relating to various individually immaterial provisions.

Operational insurance provisions

Insurance provisions relate to outstanding liabilities from public and employer's liability and third-party motor claims across the Group's trading operations, separate to the Tesco Underwriting insurance balances in Note 23. Provisions relate to claims arising from incidents reported prior to the reporting date, including an allowance for those currently incurred but not reported. Amounts are measured considering claims history including claims volume and average cost of claims, with assessment and projection by third-party actuaries. Releases in the year primarily relate to improved estimates of future outflows from revised actuarial valuations. The balance as at the financial year end is expected to be materially utilised within three years from the reporting date. This was reclassified to a provision during the financial year from trade and other payables, reflecting the uncertainties around the expected outflow for these balances.

Other provisions

Other provisions amounts primarily relate to a Tesco Bank expected credit loss provision recognised under IFRS 9 which exceeds the gross carrying amount of the related financial asset, primarily loans to customers. Further information on expected credit losses can be found within Note 26. The remaining balance relates to individually immaterial provisions that do not fall into any of the other categories.

Notes to the Group financial statements continued

Note 29 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £122m (2021: £73m), comprising £122m (2021: £69m) of continuing operations and £nil (2021: £4m) of discontinued operations, which is made up of share option schemes and share bonus payments. Of this amount, £109m (2021: £64m) will be settled in equity (refer to Note 30) and £13m (2021: £9m) in cash representing National Insurance contributions.

The share-based payment income statement charge is split in the cash flow statement with £66m (2021: £30m) in the 'Share-based payments' non-cash movement line and £56m (2021: £43m) in the working capital movement 'Increase/(decrease) in trade and other payables' line, where the latter represents shares withheld from employees in order to settle their tax liability and National Insurance. The 'Own shares purchased for share schemes' financing cash outflow of £144m (2021: £66m) represents £191m (2021: £80m) cash paid to purchase own shares including related fees and taxes, offset by £47m (2021: £14m) cash received from employees exercising SAYE options.

Share option schemes

The Company had 11 share option schemes in operation during the financial year, all of which are equity-settled schemes:

i. The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of Ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.

ii. The Irish Savings-related Share Option Scheme (2000) permits the grant to ROI colleagues of options in respect of Ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.

iii. The Executive Incentive Plan (2004) permitted the grant of options in respect of Ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

iv. The Executive Incentive Plan (2014) permits the grant of options in respect of Ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.

v. The Performance Share Plan (2011) permits the grant of options in respect of Ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

vi. The Group Bonus Plan permitted the grant of options in respect of Ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

vii. The Long Term Incentive Plan (2015) permits the grant of options in respect of Ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The vesting of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

viii. The Booker Group PLC Savings Related Share Option Plan (2008) (Booker SAYE) permitted the grant to Booker colleagues of options in respect of Ordinary shares in Booker Group PLC (Booker Shares) linked to a building society/bank save-as-you-earn contract for a term of three years with contributions from Booker colleagues of an amount between £5 and £500 per four-weekly period. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker colleagues elected to roll over their existing options over Booker Shares under the Booker SAYE into equivalent options over Ordinary shares in Tesco PLC (Tesco Shares). The options over Tesco Shares are capable of being exercised at the end of the three-year period at a subscription price equivalent to not less than 80% of the average of the middle-market quotations of a Booker Share over the three dealing days immediately preceding the offer date.

ix. The Booker Group PLC Performance Share Plan (2008) (Booker PSP) permitted the grant of options in respect of Booker Shares to selected Booker senior colleagues (Booker PSP Options). Under the Booker PSP, tax approved Company Share Option Plan options (Booker CSOP Options) were also granted to selected Booker senior colleagues. Following completion of the acquisition of Booker Group PLC by Tesco PLC, Booker senior colleagues elected to roll over their existing Booker PSP and Booker CSOP Options over Booker Shares into equivalent options over Tesco Shares. Booker PSP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant for nil consideration. The vesting of options is normally conditional upon the achievement of specified performance targets over a three-year period and continuous employment. Conditional on the vesting of the relevant Booker PSP Options, Booker CSOP Options are normally exercisable between the third anniversary of the original date of grant and 10 years from the date of grant at a subscription price equivalent to the market value of the Booker Shares at the time of grant.

x. The Savings-related Share Option Scheme (2021) permits the grant to UK colleagues of options in respect of Ordinary shares linked to a building society/bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.

xi. The International Savings-related Share Option Scheme (2021) permits the grant to colleagues outside the UK of options in respect of Ordinary shares linked to a savings scheme for a term of three or five years with contributions from colleagues of an amount between the local currency equivalent of £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

For the 52 weeks ended 26 February 2022

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Outstanding at 27 February 2021	**166,407,076**	**193.86**	**7,586,269**	**194.35**	**7,217,383**	**-**	**686,755**	**152.58**	**860,757**	**-**
Granted	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					
Forfeited	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	
Exercised	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	
Outstanding at 26 February 2022	**160,485,413**	**208.34**	**6,801,511**	**212.23**	**2,012,486**	**-**	**10,417**	**152.01**	**541,516**	**-**
Exercise price range (pence)		[illegible]		[illegible]				[illegible]		
Weighted average remaining contractual life (years)		[illegible]		[illegible]		[illegible]		[illegible]		
Exercisable at 26 February 2022	**2,014,843**	**189.58**	**78,774**	**189.57**	**2,012,486**	**-**	**2,171**	**149.09**	**541,516**	**-**
Exercise price range (pence)		[illegible]		[illegible]				[illegible]		
Weighted average remaining contractual life (years)		0.42		[illegible]		[illegible]		[illegible]		

[illegible]

Share options were exercised on a regular basis throughout the financial year. The average share price during the 52 weeks ended 26 February 2022 was 254.05p (2021: 227.0[illegible]p).

For the 52 weeks ended 27 February 2021

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Outstanding at 29 February 2020	**215,812,094**	**175.06**	**6,855,613**	**185.35**	**18,455,841**	**-**	**5,100,149**	**151.21**	**4,976,236**	**-**
Granted	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]					
Forfeited	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	
Exercised	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	
Outstanding at 27 February 2021	**166,407,076**	**193.86**	**7,586,269**	**194.35**	**7,217,383**	**-**	**686,755**	**152.58**	**860,757**	**-**
Exercise price range (pence)		[illegible] to 214.00		[illegible] to 214.00				[illegible] to 162.79		
Weighted average remaining contractual life (years)		[illegible]		2.79		[illegible]		[illegible]		
Exercisable at 27 February 2021	**4,780,919**	**151.11**	**108,223**	**151.00**	**7,217,383**	**-**	**686,755**	**152.58**	**860,757**	**-**
Exercise price range (pence)		[illegible] to 214.00		[illegible] to 214.00				[illegible] to 162.79		
Weighted average remaining contractual life (years)		0.42		0.42		[illegible]		0.42		

[illegible]

The fair value of savings-related share options schemes is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

	2022 SAYE	2021 SAYE
Expected dividend yield (%)	4.10-4.17	4.90-5.05
Expected volatility (%)	21.79-21.89	[illegible]-25.60
Risk-free interest rate (%)	1.36-1.39	0.15-0.26
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value of options granted (pence)	38.57	[illegible]
Probability of forfeiture (%)	[illegible]	[illegible]
Share price (pence)	268.50	219.60
Weighted average exercise price (pence)	242.00	196.00

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus and incentive schemes

Selected executives participate in the Annual Bonus Plan and Deferred Bonus Plan, performance-related bonus schemes. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011), the Long Term Incentive Plan (2015) and the Long Term Incentive Plan (2021). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

Notes to the Group financial statements continued

Note 29 Share-based payments continued

The Executive Directors participate in short-term bonus and long-term incentive schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' remuneration report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

The number and weighted average fair value (WAFV) of share bonuses granted during the financial year were:

	[illegible] Number of shares	WAFV pence	[illegible] Number of shares	WAFV pence
Group Bonus Plan	[illegible] 715,313	232.25	15,502,146	246.[illegible]
Performance Share Plan	41,639,089	240.31	[illegible]5,124,309	[illegible]
Joining award*	2,336,887	223.35		

* [illegible]

Note 30 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and defined contribution schemes.

Defined contribution

Defined contribution schemes are open to all Tesco employees in the UK.

Under the Group's defined contribution pension schemes, employees of the Group pay contributions to an independently administered fund into which the Group also pays contributions based upon a fixed percentage of the employee's contributions. The Group has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes in continuing operations of £361m (2021: £347m) have been recognised in the Group income statement. This includes £136m (2021: £132m) of salaries paid as pension contributions.

Defined benefit schemes

The Group has a defined benefit pension deficit of £303m (2021: £1,222m deficit) and a defined benefit pension surplus of £3,150m (2021: £nil), comprising a number of schemes. The most significant schemes are for the Group's employees in the UK, which are closed to future accrual, and ROI. The defined benefit pension surplus in the UK represents 103% (2021: 86%) of the net Group surplus/deficit.

The Trustees of the Londis Pension Scheme entered into a buy-in agreement to secure the Londis Scheme's pension benefits in full with an insurer through the purchase of a bulk annuity policy. A premium of £8m was paid to the insurer on 24 March 2021. The Londis Scheme Trustees have subsequently announced that the buy-in will be converted to a buy-out, with individual annuity policies issued to the Londis Scheme members, and the Londis Scheme will be wound up. Commencement of the wind-up was triggered on 29 June 2021. The income statement charge in respect of this transaction is £1m based on the market conditions on the wind-up date and has been included in the Group income statement.

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the Scheme), the assets of which are held as a segregated fund and administered by the Trustee.

The Scheme is established under trust law and has a corporate trustee (the Trustee) that is required to run the Scheme in accordance with the Scheme's Trust Deed and Rules and to comply with all relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

1. representatives of the Group;
2. independent trustees; and
3. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Scheme funding

The Group considers two measures of the pension surplus/deficit. The accounting position is shown on the Group balance sheet. The funding position, calculated at the triennial actuarial assessment, is used to agree contributions made to the schemes. The two measures will vary because they are for different purposes, and are calculated at different dates and in different ways. The key calculation difference is that the funding position considers the expected returns of scheme assets when calculating the liability, whereas the accounting position calculated under IAS 19 discounts liabilities based on corporate bond yields.

The most recent completed triennial funding assessment of the Scheme was performed as at 31 December 2019 using the projected unit credit method. After the £2.5bn contribution from the Group's sale of its operations in Thailand and Malaysia, the funding position was a surplus of £570m. The market value of the Scheme's assets was £18,492m and these assets represented 103% of the benefits that had accrued to members, after allowing for expected increases in pensions in payment.

Subsequent to the last triennial actuarial assessment it was agreed that no further pension deficit contributions would be required, with contributions being assessed at the 31 March 2022 triennial review. The £2.5bn contribution has significantly reduced the prospect of having to make further pension deficit contributions in the future. The Group currently pay £25m per annum to meet expenses of the Scheme, including the Pension Protection Fund levy. In addition the market value of assets held as security in favour of the Scheme is at least £775m (2021: £775m).

The most recent Booker Pension Scheme triennial valuation showed a funding deficit of £103m at 31 March 2019, with agreed contributions of £15m per annum until the end of 2028. The most recent Budgens Pension Scheme triennial valuation showed a funding surplus of £0.4m at 31 March 2021. No contributions were required for the Budgens Scheme.

IFRIC 14

The Group is not required to recognise any additional liabilities in relation to funding plans or limit the recognition of any surpluses, as any future economic benefits will be available to the Group by way of future refunds.

Maturity profile of obligations

The estimated duration of the Scheme obligations is an indicator of the weighted average term of benefit payments after discounting. For the Scheme this is 22 years.

Around 42% of the undiscounted benefits are due to be paid beyond 20 years' time, with the last payments expected to be over 80 years from now. The estimated undiscounted benefit payments expected to be paid out over the life of the Scheme are shown below.

The liabilities held by the Scheme are broken down as follows:

■ Deferred members □ Current pensioners

Deferred members	[illegible]
Current pensioners	[illegible]

Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

Risk	Description of risk	Mitigation
Investment	The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting surplus will decrease. If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Group.	The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy. The Trustee and the Group take a balanced approach to investment risk and have a long-term plan to significantly reduce the investment risk within the Scheme. The Trustee considers climate risk as one of the key investment risks faced by the Scheme and has set up a Responsible Investment Committee to consider climate-related issues relating to the Scheme.
Inflation	The Scheme's benefit obligations are linked to inflation. A higher rate of expected long-term inflation will therefore lead to higher liabilities, both for the IAS 19 and funding liability. If the Scheme's funding liability increases, this may require additional contributions to be made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as inflation expectations increase. This mitigates the impact of any adverse movement in long-term inflation expectations. The Scheme's holdings are designed to hedge against inflation risk up to the value of the funded liabilities. Additionally, changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).
Interest rate	A decrease in corporate bond yields will decrease the accounting surplus under IAS 19. Similarly, a decrease in gilt yields will have an adverse impact on the funding position of the Scheme. This may lead to additional contributions being made by the Group.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a LDI portfolio. The portfolio invests in assets which increase in value as interest rates decrease. The Scheme's holdings are designed to hedge against interest rate risk up to the value of the funded liabilities. Because the aim of the portfolio is to mitigate risk for the funding position, ineffectiveness in hedging for the accounting deficit under IAS 19 can arise where corporate bond and gilt yields diverge. This is partially offset by the Scheme's holdings in corporate bonds.
Life expectancy	The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities.	To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years. The Trustee and the Group regularly monitor the impact of changes in longevity on Scheme obligations.

Notes to the Group financial statements continued

Note 30 Post-employment benefits continued

The operations and audit pensions committee was set up in 2015 and established to further strengthen the Scheme's Trustee governance and provide greater oversight and stronger internal control over the Group's risks. The Group pensions committee was also set up in 2018 to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who considers the funding position, fund performance and impacts of any regulatory changes.

Scheme principal assumptions

Financial assumptions

The principal assumptions on a weighted average basis used by the actuaries to value the defined benefit obligation of the Scheme were as follows:

	[illegible]	[illegible]
Discount rate	2.8	[illegible]
Price inflation	3.3	[illegible]
Rate of increase in deferred pensions*	2.9	[illegible]
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	3.1	[illegible]
Benefits accrued after 1 June 2012	2.8	[illegible]

[illegible]

Discount rate

The discount rate for the Scheme is determined by reference to market yields of high quality corporate bonds of suitable currency and term to the Scheme cash flows and extrapolated based on the trend observable in corporate bond yields to produce a single equivalent discount rate.

Inflation

The inflation assumption is used to determine increases in pensions linked to RPI and CPI inflation within sections of the Scheme, subject to relevant maximum and minimum increases.

RPI inflation is derived by reference to the difference between fixed-interest and index-linked long-term government bonds. To account for the premium that investors are willing to pay to mitigate the risk that inflation is higher than expected, the inflation assumption incorporates an inflation risk premium. CPI inflation is set by reference to RPI.

The Group uses a bifurcated approach to pre- and post-2030 assumptions, reflecting the impact of the RPI reforms from 2030 onwards. In consultation with external actuaries, the inflation risk premium has been set at 0.42% (2021: 0.42%), representing the weighted average of 0.3% p.a. pre-2030 and 0.5% p.a. post-2030. The CPI differential has been set as 0.39% lower than RPI (2021: 0.43%), representing the weighted average of 1.0% p.a. pre-2030 and 0.1% p.a. post-2030.

Mortality assumptions

The Group, in consultation with an independent actuary, conducted a mortality analysis of the Scheme as part of the triennial funding valuation process. Subsequent to this analysis, the Group adopted the best estimate assumptions for the calculation of the IAS 19 pension liability for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2018 improvements. In addition, the allowance for future mortality improvements from 2017 have been updated to be in line with CMI 2020, with a long-term improvement rate of 1.25% p.a.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

		[illegible]	[illegible]
Male	Staff	90% of SAPS S3 Normal Heavy	9[illegible]% of SAPS S3 Normal Heavy
	Senior Manager	95% of SAPS S3 Normal Light	104% of SAPS S3 Normal Light
Female	Staff	[illegible]% of SAPS S3 Normal Heavy	114% of SAPS S3 Normal Heavy
	Senior Manager	95% of SAPS S3 All Middle	100% of SAPS S3 All Middle

The following table illustrates the expectation of life of an average member retiring at age 65 at the balance sheet date and a member reaching age 65 at the balance sheet date +25 years. A comparison between the two retiree dates illustrates the expected improvements in mortality over the next 25 years.

		2022 years	[illegible] years
Retiring at the balance sheet date at age 65	Male	20.8	20.7
	Female	22.4	22.2
Retiring at the balance sheet date +25 years at age 65	Male	22.1	22.0
	Female	24.1	23.9

Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligation are detailed below:

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Impact of 0.1% increase of the assumption	(404)	367	(461)	(400)
Impact of 0.1% decrease of the assumption	404	374	459	(386)
Impact of 1.0% increase of the assumption	(3,461)	2,898	(4,358)	4,018
Impact of 1.0% decrease of the assumption	4,[illegible]	[illegible]	5,5[illegible]	(3,418)

Mortality assumption [illegible]	[illegible]	[illegible]
Impact of 1 year increase in longevity	697	[illegible]
Impact of 1 year decrease in longevity	(715)	(7[illegible])

Sensitivities are calculated by changing the relevant assumption while holding all other assumptions constant. The sensitivities reflect the range of recent assumption movements and illustrate that the financial assumption sensitivities do not move in a linear fashion. Movements in the defined benefit obligation from discount rate and inflation rate changes may be partially offset by movements in assets.

Overseas

The Group operates defined benefit schemes in ROI. An independent actuary, using the projected unit credit method, carried out the latest assessment of the ROI schemes as at 26 February 2022. At the financial year end, the IAS 19 deficit relating to ROI was £97m (2021: £169m).

During the year, the Irish business entered consultation and agreed to close the two Irish DB schemes to future accrual. This will take place in the next financial year and a new defined contribution scheme will be opened. There is no impact on the results for the year ended 26 February 2022.

Post-employment benefits other than pensions

The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 26 February 2022 of £6m (2021: £7m) was determined in accordance with the advice of independent actuaries. During the current financial year, £nil (2021: £nil) has been charged to the Group income statement and £nil (2021: £nil) of benefits were paid.

Plan assets

The Group's pension schemes hold assets that both provide returns and mitigate risk, including the volatility of future pension payments.

The table below shows a breakdown of the combined investments held by the Group's schemes.

	2022 Quoted £m	2022 Unquoted £m	2022 Total £m	2022 %	2021 Quoted £m	2021 Unquoted £m	2021 Total £m	2021 %
Equities								
UK	136		136	1	89		89	1
Europe	691		691	3	889		889	4
Rest of the world	3,492		3,492	16	4,502		4,502	22
	4,319	**–**	**4,319**	**20**	**5,480**	**–**	**5,480**	**27**
Bonds								
Government	1,394		1,394	6	1,377		1,377	6
Corporates – investment grade	3,376		3,376	15	3,334		3,334	[illegible]
Corporates – non-investment grade	1,123		1,123	5	197		197	1
	5,893	**–**	**5,893**	**26**	**4,908**	**–**	**4,908**	**24**
Property								
UK	94	1,514	1,608	7	76	1,041	1,117	6
Rest of the world	7	550	557	2	8	440	448	2
	101	**2,064**	**2,165**	**9**	**84**	**1,481**	**1,565**	**8**
Alternative assets								
Hedge funds		311	311	1	1	312	313	2
Private equity		1,509	1,509	7		1,020	1,020	5
Other	218	1,779	1,997	9	210	1,288	1,498	7
	218	**3,599**	**3,817**	**17**	**211**	**2,620**	**2,831**	**14**
LDI portfolio	**5,163**	**(4)**	**5,159**	**23**	**3,241**	**(493)**	**2,748**	**14**
Cash	**1,037**	**–**	**1,037**	**5**	**2,550**	**–**	**2,550**	**13**
Total fair value of plan assets	**16,731**	**5,659**	**22,390**	**100**	**16,474**	**3,608**	**20,082**	**100**

Quoted assets are those with a quoted price in an active market. Unquoted assets are valued in accordance with IFRS 13, using the most appropriate level within the fair value hierarchy based on the specifics of the asset class, and in line with industry standard guidelines, including the RICS methodology for property and the IPEV guidelines for private equity.

The LDI portfolio consists of assets, including gilts and index-linked gilts, of the value of £8,966m (2021: £8,425m) and associated repurchase agreements and swaps of £(3,827)m (2021: £(5,677)m). Other alternative assets include infrastructure and private credit investments. Other derivatives are included in the asset category to which they relate, reflecting the underlying nature and exposure of the derivative.

The plan assets include £244m (2021: £222m) relating to property used by the Group. Group property with net carrying value of £914m (2021: £826m) (refer to Note 11) and a value to the Scheme of at least £775m (2021: £775m) is held as security in favour of the Scheme.

Note 30 Post-employment benefits continued

Movement in the Group pension surplus/(deficit) during the financial year

	[illegible]		[illegible]		[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Opening balance	**20,082**	**17,425**	**(21,304)**	**(20,510)**	**(1,222)**	**(3,085)**
Current service cost			(39)	[illegible]	[illegible]	[illegible]
Past service cost				[illegible]		[illegible]
Settlement charge			[illegible]		[illegible]	
Finance income/(costs)	[illegible]	341	[illegible]	[illegible]	[illegible]	[illegible]
Included in the Group income statement	**391**	**341**	**(453)**	**(432)**	**(62)**	**(91)**
Remeasurement gains/(losses)						
Financial assumptions gains/(losses)			[illegible]	[illegible]	[illegible]	[illegible]
Demographic assumptions gains/(losses)			[illegible]	18	[illegible]	[illegible]
Experience gains/(losses)			[illegible]	[illegible]	[illegible]	554
Return on plan assets excluding finance income	[illegible]	[illegible]			[illegible]	[illegible]
Foreign currency translation	[illegible]	1	[illegible]	(4)	4	[illegible]
Included in the Group statement of comprehensive income/(loss)	**2,376**	**(135)**	**1,703**	**(825)**	**4,079**	**(960)**
Member contributions	[illegible]	[illegible]	[illegible]	[illegible]		
Employer contributions	[illegible]	54			[illegible]	54
Additional employer contributions	16	2,896			16	2,896
Benefits paid	[illegible]	[illegible]	[illegible]	436	[illegible]	[illegible]
Scheme settlement	(8)		5			
Classified as held for sale				29		29
Other movements	**(459)**	**2,451**	**511**	**463**	**52**	**2,914**
Closing balance	**22,390**	**20,082**	**(19,543)**	**(21,304)**	**2,847**	**(1,222)**
Consisting of:						
Schemes in deficit					(303)	(1,222)
Schemes in surplus					3,150	
					2,847	**(1,222)**
Deferred tax asset/(liability)					(726)	218
Surplus/(deficit) in schemes at the end of the year, net of deferred tax					**2,121**	**(1,004)**

[illegible]

Note 31 Called-up share capital and reserves

	2022 Number of shares	2022 £m	2021 Number of shares	2021 £m
Allotted, called-up and fully paid:				
At the beginning of the year	**7,731,707,820**	**490**	**9,793,496,561**	**490**
Share consolidation (including shares issued)(a)			(2,061,788,741)	
Shares purchased and cancelled	(93,721,289)	(6)		
At the end of the year	**7,637,986,531**	**484**	**7,731,707,820**	**490**

(a) [illegible]

In order to maintain the comparability of the Company's share price before and after a special dividend of £5.0bn was declared in the prior financial year, a share consolidation was approved at the General Meeting held on 11 February 2021. Shareholders received 15 new Ordinary shares of 6 1/3 pence each for every existing 19 Ordinary shares of 5 pence each.

No shares were issued during the current financial year in relation to share options.

The Group has a share forfeiture programme, following the completion of a tracing and notification exercise to any shareholders who have not had contact with the Company over the past 12 years, in accordance with the provisions set out in the Company's Articles of Association. Under the share forfeiture programme, the shares and dividends associated with shares of untraced members are forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. During the current financial year, the Group received £nil (2021: £nil) proceeds from sale of untraced shares and £nil (2021: £nil) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 26 February 2022, the Directors were authorised, on behalf of the Company, to purchase up to a maximum in aggregate of 773.2 million (2021: 773.2 million) Ordinary shares until the conclusion of the 2022 AGM.

The holders of Ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Own shares held

The own shares held represents shares in Tesco PLC purchased from the market and held by the Tesco International Employee Benefit Trust to satisfy share awards under the Group's share scheme plans (refer to Note 29) and shares purchased for cancellation as part of the share buyback programme. Shares purchased for cancellation are included in own shares held until cancellation, at which point the consideration is transferred to retained earnings, and the nominal value of the shares is transferred from share capital to the capital redemption reserve. Own shares held can include equity elements of forward contracts where the Group has an obligation to purchase its own shares.

In relation to own shares purchased for cancellation, the Group had total cash outflows of £278m (2021: £nil) with the purchase of 98.5 million (2021: Nil) shares of 6 1/3 pence each at an average price of £2.82 per share (2021: n/a). 93.7 million shares were cancelled, representing 1.2% (2021: Nil) of the called-up share capital as at 26 February 2022, with total consideration of £264m (2021: £nil), including expenses of £1m, charged to retained earnings. At 26 February 2022, the Group had not yet cancelled 4.8 million (2021: Nil) shares with a total consideration of £14m (2021: £nil), representing 0.1% of the called-up share capital as at 26 February 2022 (2021: Nil). The uncancelled shares are included in the £37m (2021: £nil) increase in own shares purchased for cancellation within the statement of changes in equity, with the remaining £23m (2021: £nil) relating to shares to be delivered under a share repurchase agreement with an external bank.

In relation to own shares purchase for share schemes in the Group statement of changes in equity, the £279m (2021: £246m) increase in own shares held includes £191m (2021: £213m) paid to purchase own shares (including related fees and taxes), £50m (2021: £nil) of shares to be delivered under a share repurchase agreement with an external bank, £38m (2021: £30m) of shares withheld to settle employee tax and other minor movements of £nil (2021: £3m). The £139m (2021: £308m) decrease in own shares held is the gross amount of shares that employees were entitled to receive (of which £38m (2021: £30m) is withheld to settle employee tax). The £12m increase (2021: £97m decrease) in retained earnings primarily relates to £139m (2021: £308m) shares delivered to employees offset by £47m (2021: £147m) cash received from employees exercising SAYE options, £109m (2021: £64m) income statement charge and other minor movements of £(5)m (2021: £nil).

The number of Ordinary shares held by the Tesco International Employee Benefit Trust at 26 February 2022 was 49.9 million (2021: 58.4 million). This represents 0.65% of called-up share capital at the end of the year (2021: 0.76%).

A financial liability of £73m (2021: £nil) in respect of shares to be delivered under share repurchase agreements with external banks is included in other payables.

Capital redemption reserve

The capital redemption reserve relates to the repurchase and cancellation of shares of the Company. During the financial year, the aggregate nominal value of shares cancelled and transferred to the capital redemption reserve was £6m (2021: £nil).

Merger reserve

The merger reserve represents the difference between the market value and nominal value of shares issued for the acquisition of Booker on 2 March 2018.

Note 32 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below.

Transactions

	[illegible]		[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]
Sales to related parties	[illegible]	[illegible]		
Purchases from related parties	[illegible]	5		[illegible]
Dividends received	[illegible]	18		8
Injection of equity funding	[illegible]	14		

Sales to related parties consist of services, management fees and loan interest.

Transactions between the Group and the Group's pension plans are disclosed in Note [illegible].

Balances

	[illegible]		[illegible]	
	[illegible]	[illegible]	[illegible]	[illegible]
Amounts owed to related parties	(49)	[illegible]		
Amounts owed by related parties	36	40		
Lease liabilities payable to related parties	[illegible]	[illegible]		[illegible]
Loans to related parties (net of deferred profits)	[illegible]	[illegible]		

[illegible]

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 apply. The financial statements for those partnerships have been consolidated into these financial statements pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Cost of key management personnel compensation for the financial year was as follows:

	[illegible]	[illegible]
Salaries and short-term benefits	21	[illegible]
Pensions and cash in lieu of pensions	2	2
Share-based payments	24	[illegible]
Joining costs and loss of office costs	2	[illegible]
	49	**42**
Attributable to:		
The Board of Directors (including Non-executive Directors)	11	14
Executive Committee members not on the Board of Directors	38	28
	49	**42**

During the year 8,946,423 (2021: 6,403,309) performance shares and 1,178,795 (2021: 2,615,921) bonus shares were granted to key management personnel under the Performance Share Plan and Deferred Bonus Plan 2019, respectively. Vesting will be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment. The cost of these awards will be spread over the vesting period.

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following balances were held at the financial year end:

	[illegible]		[illegible]	
	Number of key management personnel	[illegible]	Number of key management personnel	[illegible]
At 26 February 2022	**5**	**–**	**4**	**–**
At 27 February 2021	4	[illegible]	[illegible]	[illegible]

Note 33 Analysis of changes in net debt

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group balance sheet and the Group cash flow statement.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total Group										
Bank and other borrowings excluding overdrafts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]
Lease liabilities	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net derivative financial instruments	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]			[illegible]
Arising from financing activities	**(14,683)**	**1,081**	**650**	**182**	**75**	**(643)**	**(315)**	**(492)**	**(10)**	**(14,155)**
Cash and cash equivalents in the Group balance sheet	[illegible]		[illegible]		[illegible]				[illegible]	[illegible]
Overdrafts	[illegible]		[illegible]		[illegible]				[illegible]	[illegible]
Cash and cash equivalents including overdrafts in the Group cash flow statement	[illegible]		[illegible]		[illegible]				[illegible]	[illegible]
Short-term investments	[illegible]		[illegible]		[illegible]					[illegible]
Joint venture loans	[illegible]		4				[illegible]			[illegible]
Interest and other receivables			[illegible]			4				[illegible]
Net debt of the disposal group	[illegible]						[illegible]		[illegible]	[illegible]
Total Group	**(11,713)**	**1,081**	**1,506**	**182**	**85**	**(639)**	**(226)**	**(492)**	**-**	**(10,216)**
Less: Tesco Bank	**242**	**25**	**14**	**68**	**-**	**(7)**	**(42)**	**-**	**-**	**300**
Retail										
Bank and other borrowings excluding overdrafts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	(585)			[illegible]
Lease liabilities	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Net derivative financial instruments	[illegible]	[illegible]	[illegible]	[illegible]		(29)	(64)			[illegible]
Arising from financing activities	**(14,124)**	**1,056**	**645**	**114**	**75**	**(636)**	**(294)**	**(492)**	**(10)**	**(13,666)**
Cash and cash equivalents in the Group balance sheet	[illegible]		[illegible]		[illegible]				[illegible]	[illegible]
Overdrafts	[illegible]		[illegible]		1				[illegible]	[illegible]
Cash and cash equivalents including overdrafts in the Group cash flow statement	1,198		[illegible]		[illegible]				[illegible]	[illegible]
Short-term investments	[illegible]		[illegible]		[illegible]					[illegible]
Joint venture loans	101		4							105
Interest and other receivables			(3)			4				1
Net debt of the disposal group	(141)						10		[illegible]	[illegible]
Net debt APM	**(11,955)**	**1,056**	**1,492**	**114**	**85**	**(632)**	**(184)**	**(492)**	**-**	**(10,516)**

[illegible]

Note 33 Analysis of changes in net debt continued

Total Group										
Bank and other borrowings excluding overdrafts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]
Lease liabilities	[illegible]	[illegible]	[illegible]			[illegible]	[illegible]	[illegible]	134	[illegible]
Net derivative financial instruments	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]			[illegible]
Arising from financing activities	**(16,486)**	**1,917**	**729**	**(244)**	**(2)**	**(734)**	**571**	**(568)**	**134**	**(14,683)**
Cash and cash equivalents on the Group balance sheet	[illegible]		[illegible]		[illegible]				[illegible]	[illegible]
Overdrafts	[illegible]		539						35	[illegible]
Cash and cash equivalents including overdrafts in the Group cash flow statement	[illegible]		[illegible]		[illegible]					[illegible]
Short-term investments	[illegible]		[illegible]		[illegible]					[illegible]
Joint venture loans	[illegible]		[illegible]			[illegible]	[illegible]			[illegible]
Interest and other receivables	[illegible]		[illegible]			[illegible]				
Net debt of the disposal group									(41)	(41)
Total Group	**(12,251)**	**1,917**	**(411)**	**(244)**	**3**	**(721)**	**562**	**(568)**	**-**	**(11,713)**
Less: Tesco Bank	**47**	**777**	**(578)**	**2**	**-**	**(6)**	**-**	**-**	**-**	**242**
Retail										
Bank and other borrowings excluding overdrafts	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]			[illegible]
Lease liabilities	[illegible]	[illegible]	486		-	[illegible]	[illegible]	[illegible]	134	[illegible]
Net derivative financial instruments	243	[illegible]	[illegible]	[illegible]	-	[illegible]	[illegible]			[illegible]
Arising from financing activities	**(15,148)**	**1,140**	**723**	**(246)**	**(2)**	**(728)**	**571**	**(568)**	**134**	**(14,124)**
Cash and cash equivalents on the Group balance sheet	[illegible]		[illegible]		8				[illegible]	[illegible]
Overdrafts*	[illegible]		539						35	[illegible]
Cash and cash equivalents including overdrafts in the Group cash flow statement	[illegible]		[illegible]		8				[illegible]	[illegible]
Short-term investments	[illegible]		[illegible]		[illegible]					[illegible]
Joint venture loans	[illegible]		[illegible]			[illegible]	[illegible]			[illegible]
Interest and other receivables	1		[illegible]			[illegible]				
Net debt of the disposal group			-						(41)	(41)
Net debt APM	**(12,298)**	**1,140**	**167**	**(246)**	**3**	**(715)**	**562**	**(568)**	**-**	**(11,955)**

[illegible]

Net increase/(decrease) in cash and cash equivalents including overdrafts	(212)	(1,068)
Elimination of Tesco Bank movement in cash and cash equivalents including overdrafts*	(9)	564
Retail cash movement in other Net debt items		
Net increase/(decrease) in short-term investments	[illegible]	(62)
Net increase/(decrease) in joint venture loans	4	[illegible]
Net (increase)/decrease in borrowings and lease liabilities	933	560
Net cash flows from derivative financial instruments	[illegible]	[illegible]
Net interest paid on components of Net debt	642	[illegible]
Change in Net debt resulting from cash flow	**2,548**	**1,307**
Retail net interest charge on components of Net debt	[illegible]	[illegible]
Retail fair value and foreign exchange movements	199	(243)
Retail other non-cash movements	(492)	(568)
Acquisition of property joint venture (Note 34)	[illegible]	(16)
Acquisition of Best Food Logistics		[illegible]
Disposal of Poland operations (Note 7)	110	
Disposal of the Asia business		[illegible]
(Increase)/decrease in Net debt	**1,439**	**343**
Opening Net debt	(11,955)	(12,298)
Closing Net debt	**(10,516)**	**(11,955)**

* [illegible]

Note 34 Acquisitions

Acquisition of Tesco Underwriting Limited

On 4 May 2021 the Group acquired the remaining 50.1% ordinary share capital of its joint venture entity, Tesco Underwriting Limited (TU), from its joint venture partner, Ageas (UK) Limited. TU is an authorised insurance company which provides the insurance underwriting service for several of the Group's general insurance products.

The transaction has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. The acquisition is in line with the Group's strategy of focusing on propositions which better meet the needs of Tesco shoppers. The investment will significantly enhance the Group's insurance capability. Total cash consideration of £96m has been paid to date, with an additional deferred payment of £5m due to be paid on expiry of the exit period, subject to the fulfilment of the joint venture partner's obligations in relation to the migration and transition of the TU business to the Group. Payment is expected to take place in May 2022. In line with the requirements of IFRS 3, the existing equity interest in TU held by the Group immediately before the acquisition date was remeasured to a fair value of £89m. This resulted in a remeasurement gain for the Group of £5m, included in the Group income statement.

The Group also recognised a gain of £5m in relation to its share of TU's available-for-sale (AFS) reserve immediately prior to acquisition, included in the Group income statement.

	£m
Cash consideration paid	96
Contingent consideration	[illegible]
Non-cash settlement of pre-existing relationship	[illegible]
Fair value of the Group's 49.9% investment	[illegible]
Total purchase consideration	**196**

The table below sets out the fair values of the identifiable assets and liabilities acquired:

	£m
Assets	
Cash and balances with central banks	[illegible]
Investment securities	635
Reinsurance assets	[illegible]
Prepayments and accrued income	[illegible]
Other assets	24
Intangible assets	[illegible]
Property, plant and equipment	[illegible]
Total assets	**969**
Liabilities	
Accruals and deferred income	[illegible]
Other liabilities	(5)
Deferred tax liability	[illegible]
Insurance fund withheld	[illegible]
Insurance contract provisions	[illegible]
Subordinated liabilities	[illegible]
Total liabilities	**(793)**
Total fair value acquired	**176**

	£m
Total purchase consideration	196
Less: Fair value recognised	(176)
Goodwill recognised	**20**

The goodwill arising on the acquisition is primarily attributable to synergies which are expected to be realised from the acquisition and having full control over the insurance business and has been allocated to the Tesco Bank segment. None of the goodwill is expected to be deductible for tax purposes. Acquired intangible assets comprise internally generated computer software of £18m, which is amortised over a period of five years. The fair value of acquired insurance and other receivables was £26m.

The contribution of the business since acquisition to revenue, operating profit and profit before tax was £239m, £13m and £16m respectively. If the acquisition had occurred on 28 February 2021, the Group's revenue for the year would have increased by £51m to £61,395m, operating profit would have increased by £5m to £2,565m and profit before tax would have increased by £2m to £2,035m.

Transaction costs of £3m, included in administrative expenses, were incurred by the Group in relation to the acquisition during the year to 26 February 2022 (2021: £nil).

Note 34 Acquisitions continued

Acquisition of property joint venture – The Tesco Sarum Limited Partnership

On 17 December 2021, the Group obtained control of The Tesco Sarum Limited Partnership (the partnership), previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest for £35m. The Group paid £13m stamp duty on the acquisition. The partnership had bond and derivative liabilities, and owned [illegible] stores which the partnership previously leased to the Group. The acquisition, which has been treated as an asset acquisition, increased the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities.

The table below sets out the values to the Group in respect of obtaining control of the partnership:

	Notes	£m
Property, plant and equipment	[illegible]	[illegible]
Cash and cash equivalents		[illegible]
Other working capital		[illegible]
Borrowings	[illegible]	[illegible]
Derivative liabilities	[illegible]	[illegible]
Total assets and liabilities acquired		**(64)**
Consideration paid		[illegible]
Stamp duty paid		13
Derecognition of the Group's lease liabilities with the partnership	[illegible]	[illegible]
Derecognition of the Group's right of use assets with the partnership	[illegible]	[illegible]
Total cost*		**(64)**

* [illegible]

The Group recognised the following gains and losses as an adjusting item within cost of sales on the Group income statement. The related tax charge on acquisition of £25m has also been classified as an adjusting item. Refer to Note 4 for further details.

	Notes	£m
Impairment of property, plant and equipment acquired	15	[illegible]
Total adjusting gain/(loss) within cost of sales		**(62)**
Taxation on adjusting item	4	(25)
Total adjusting gain/(loss) after taxation		**(87)**

Note 35 Commitments and contingencies

Capital commitments

At 26 February 2022, there were commitments for capital expenditure contracted for, but not incurred, of £193m (2021: £203m), principally relating to store development.

Contingent liabilities

As previously reported, Tesco Stores Limited (TSL) (along with all the major supermarkets) has received claims from current and former hourly paid store colleagues alleging that they do work of equal value to that of colleagues working in its distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable (the Equal Pay Claims). The claimants are seeking the differential between the pay terms looking back, and equivalence of pay terms moving forward. As at the date of this disclosure, there are approximately 30,000 claims against TSL, with the number of claims expected to continue to increase as the litigation progresses.

UK equal pay law provides that an employee is entitled to the same terms in relation to pay as those of a comparator of the opposite sex in the same employment if they are employed to do work of equal value. The legislation achieves this by implying a clause into the contract of employment, which has the effect of importing into the employee's contract the more favourable term(s) of the comparator.

Equal pay claims are typically heard in three stages and the claimants have to win at every stage in order to succeed. The first stage is comparability which is effectively a technical gateway to the claims proceeding. The claimants have to show that their pay and the pay of any comparator are set by the same body. Following superior court decisions involving other major supermarkets, TSL has conceded this point.

The second and third stages are an equal value assessment and the consideration of TSL's material factor defences (non-discriminatory reasons for differentials in pay terms) to any claims which succeed at the equal value assessment stage. These two stages remain some time away and it is currently estimated that the Equal Pay Claims are unlikely to be determined before 2027, although a final date is impossible to predict with any certainty and any final decision may be delayed further by any appeals.

At present, the total number of Equal Pay Claims that may be received, the merits, and likely outcome of those claims and of TSL's defences to them, and the potential impact on the Group, are subject to various and substantial uncertainties. There are multiple factual and legal defences to these claims and the Group intends to defend them vigorously, while at the same time taking appropriate steps to mitigate the risks. The Group therefore cannot make an assessment of the likely outcome of the litigation, or the potential quantum of its liability or the potential impact on the Group at this stage. In the event TSL were to be unsuccessful in its legal defences at all stages of the Equal Pay Claims, and dependent on the number of any ultimately successful claims, the potential quantum of its liability could be material.

There are a number of other contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group.

Subsidiary audit exemptions

The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 (the Act) relating to the audit of individual accounts by virtue of section 479A of the Act.

Name	Company number	Name	Company number	Name	Company number
Buttoncase Limited	5298861	Tesco Aqua (GP) Limited	5721654	The Tesco Red Limited Partnership	LP011512
Day and Nite Stores Limited	1146058	Tesco Brislington Limited	[illegible]	The Tesco Property (No. 2) Limited Partnership	LP5572
Dillons Newsagents Limited	1406724	Tesco Family Dining Limited	8634615	Tesco Property Partner (GP) No. 2 Limited	5199510
Launchgrain Limited	5260656	Tesco Food Sourcing Limited	5612196		
Oakwood Distribution Limited	5721635	Tesco Freetime Limited	4348023		
Spen Hill Developments Limited	4827213	Tesco Gateshead Property Limited	6311953		
Spen Hill Management Limited	2460426	Tesco Mobile Communications Limited	[illegible]		
Spen Hill Properties (Holdings) PLC	2412613	Tesco Mobile Services Limited	4781754		
Spen Hill Regeneration Limited	6416300	Tesco Red (GP) Limited	5721639		
T & S Stores Limited	1228935	Tesco TLB Properties Limited	3183475		
Tapesilver Limited	5205362	The Tesco Aqua Limited Partnership	LP011510		

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 26 February 2022 in accordance with section 479C of the Act, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012. In addition, Tesco PLC will guarantee any contingent and prospective liabilities that these subsidiaries are subject to.

Tesco Bank

At 26 February 2022, Tesco Bank had contractual lending commitments totalling £12.4bn (2021: £12.1bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

Note 36 Tesco Bank capital resources

The following table analyses the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date.

	2022 £m	2021 £m
Common equity tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,519	1,433
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests		
Total tier 2 regulatory adjustments	(42)	(11)
Total regulatory capital	**1,712**	**1,657**

IFRS 9 'Financial Instruments' became effective for annual periods beginning on or after 1 January 2018 and is reflected in the Tesco Bank disclosures. Tesco Bank has elected to use the transitional arrangements available under Article 473a of the Capital Requirements Regulations (CRR). These arrangements allow the IFRS 9 impact on capital to be phased in over a period of five years. On 27 June 2020, the CRR was further amended to accelerate specific CRR2 measures and implement a new IFRS 9 transitional relief calculation which applies additional relief to increases in expected credit losses (ECL) provisions arising as a result of the COVID-19 pandemic.

The resulting impact is the IFRS 9 transitional arrangements have been extended by two years and a new modified calculation has been introduced.

It is Tesco Bank's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, Tesco Bank has regard to the supervisory requirements of the Prudential Regulation Authority (PRA).

Note 37 Events after the reporting period

See Note 1 for further details of the Group's assessment of the impact of the war in Ukraine, both before and after the balance sheet date. There were no other events after the reporting period requiring disclosure.

Tesco PLC – Parent Company balance sheet

	Notes	[illegible] £m	[illegible] £m
Non-current assets			
Investments	6	[illegible]	[illegible]
Receivables	7	[illegible]	[illegible]
Derivative financial instruments	10	1,069	1,536
		18,343	**18,758**
Current assets			
Receivables	7	518	1,514
Cash in hand		29	96
		547	**1,610**
Current liabilities			
Borrowings	9	[illegible]	(467)
Payables	8	[illegible]	[illegible]
		(813)	**(1,273)**
Net current assets/(liabilities)		**(266)**	**337**
Non-current liabilities			
Borrowings	9	(1,433)	(1,415)
Payables	8	(1,863)	(1,293)
Derivative financial instruments	10	(86)	(630)
		(3,382)	**(3,338)**
Net assets		**14,695**	**15,757**
Equity			
Share capital	13	484	[illegible]
Share premium		5,165	5,165
Other reserves		2,804	[illegible]
Retained earnings (including profit/(loss) for the financial year of [illegible])		6,242	[illegible]
Total equity		**14,695**	**15,757**

The notes on pages 194 to 198 form part of these financial statements.

Ken Murphy **Imran Nawaz**
Directors

The Parent Company financial statements on pages 192 to 198 were approved and authorised for issue by the Directors on 12 April 2022.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

At 27 February 2021	490	5,165	16	94	(188)	3,050	7,130	15,757
Profit/(loss) for the year							[illegible]	[illegible]
Other comprehensive income/(loss)								
Gains/(losses) on cash flow hedges				[illegible]				[illegible]
Reclassified and reported in the Company income statement				[illegible]				[illegible]
Tax relating to components of other comprehensive income				[illegible]				[illegible]
Total other comprehensive income/(loss)	–	–	–	3	–	–	–	3
Total comprehensive income/(loss)	–	–	–	3	–	–	31	34
Transactions with owners								
Own shares purchased for cancellation (Note [illegible])	(6)		[illegible]		[illegible]		[illegible]	[illegible]
Own shares purchased for share schemes					[illegible]			[illegible]
Share-based payments					[illegible]		49	[illegible]
Dividends							[illegible]	[illegible]
Total transactions with owners	(6)	–	6	–	(177)	–	(919)	(1,096)
At 26 February 2022	484	5,165	22	97	(365)	3,050	6,242	14,695

At 29 February 2020	490	5,165	16	(19)	153	(250)	3,050	8,847	17,452
Profit/(loss) for the year								4,250	4,250
Other comprehensive income/(loss)									
Gains/(losses) on cash flow hedges				[illegible]	[illegible]				[illegible]
Reclassified and reported in the Company income statement					[illegible]				[illegible]
Tax relating to components of other comprehensive income				[illegible]	[illegible]				[illegible]
Total other comprehensive income/(loss)	–	–	–	19	(59)	–	–	–	(40)
Total comprehensive income/(loss)	–	–	–	19	(59)	–	–	4,250	4,210
Transactions with owners									
Own shares purchased for share schemes						(246)			(246)
Share-based payments						308		(75)	233
Dividends								(5,892)	(5,892)
Total transactions with owners	–	–	–	–	–	62	–	(5,967)	(5,905)
At 27 February 2021	490	5,165	16	–	94	(188)	3,050	7,130	15,757

The Company has considered the profits available for distribution to shareholders. At 26 February 2022, the Company had retained earnings of £6.2bn, of which the unrealised profit elements are £1.7bn of share-based payment reserves and £0.7bn of dividends received from subsidiary undertakings not yet settled by qualifying consideration. After deducting the cost of its own shares held in trust of £0.4bn, the Company had profits available for distribution of £3.4bn.

The notes on pages 194 to 198 form part of these financial statements.

Notes to the Parent Company financial statements

Note 1 Authorisation of financial statements and statement of compliance with FRS 101

The Parent Company financial statements for the 52 weeks ended 26 February 2022 were approved by the Board of Directors on 12 April 2022 and the Company balance sheet was signed on the Board's behalf by Ken Murphy and Imran Nawaz.

These financial statements were prepared in accordance with Financial Reporting Standard 101 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act).

FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of adopted IFRS.

The financial year represents the 52 weeks to 26 February 2022 (prior financial year 52 weeks to 27 February 2021).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, impairment of assets, share-based payments and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment. The Company tests the investment balances for impairment annually or when there are indicators of impairment.

Foreign currencies

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date.

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Company income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Own shares held

Own shares represent the shares of Tesco PLC that are held by the Tesco International Employee Benefit Trust or which are purchased and held for cancellation as part of the share buyback programme. The Company adopts a 'look-through' approach which in substance accounts for the trust as an extension of the Company. Shares purchased for cancellation are included in own shares held until cancellation, at which point they are transferred to retained earnings. Own shares held can include equity elements of forward contracts where the Group has an obligation to purchase its own shares.

Financial instruments

Financial assets and financial liabilities are recognised in the Company balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method less any expected credit losses.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings

Interest-bearing bank loans and overdrafts are initially recognised at fair value and net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any differences between proceeds and redemption value being recognised in the Company income statement over the period of the borrowings on an effective interest basis.

Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

The Company is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting date to ensure that the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the reporting date are disclosed as non-current.

Fair value hedging

Derivative financial instruments are classified as fair value hedges when they hedge the Company's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Company income statement, together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item is amortised to the Company income statement over the remaining period to maturity.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative designated as the hedging instrument is recognised directly in the Company statement of comprehensive income and accumulated in the hedging reserve. Any cost of hedging, such as the change in fair value related to forward points and currency basis adjustment is separately accumulated in the cost of hedging reserve. The ineffective element is recognised immediately in the Company income statement.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Company income statement in the same period or periods during which the hedged transaction affects the Company income statement. The classification of the effective portion when recognised in the Company income statement is the same as the classification of the hedged transaction. Any element of the remeasurement criteria of the derivative instrument which does not meet the criteria for an effective hedge is recognised immediately in the Company income statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

Pensions

The Company participates in a Group defined benefit pension scheme which is closed to future accrual. The net defined benefit cost and deficit/surplus for the scheme are borne and recognised by another Group company, Tesco Stores Limited, as per the stated policy of the Group. The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

Taxation

The tax expense included in the Company income statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the financial year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Company income statement except to the extent that it relates to items recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, in which case it is recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, respectively.

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

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

Judgements and sources of estimation uncertainty

The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses.

The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an on-going basis, with revisions to accounting estimates applied prospectively.

The preparation of the Company financial statements for the financial year did not require the exercise of any critical accounting judgements or significant estimates.

New standards and amendments effective for the current financial year

- 'Interest rate benchmark reform' phase 2 amendments, which were early adopted in the prior year. Refer to Note 26 to the Group financial statements for the impact of IBOR reform amendments on the Company; and
- 'COVID-19-related rent concessions beyond 30 June 2021' amendment to IFRS 16 'Leases', which did not have a material impact on the Company.

Other standards and amendments

Refer to Note 1 to the Group financial statements.

Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 to the Group financial statements.

Note 4 Dividends

For details of dividends see Note 8 to the Group financial statements.

Notes to the Parent Company financial statements continued

Note 5 Employment costs, including Directors' remuneration

	Notes	2022 £m	2021 £m
Wages and salaries		[illegible]	[illegible]
Social security costs		2	[illegible]
Pension costs	[illegible]	1	[illegible]
Share-based payment expense	[illegible]	3	4
Total		**19**	**24**

The amounts above include recharges from other Group companies for Tesco PLC-related activities.

The average number of employees (all Directors of the Company) during the financial year was [illegible] (2021: [illegible]).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' remuneration report on pages [illegible]4 to 99.

Note 6 Investments

	£m
Cost	
At 27 February 2021	**20,063**
Capital contributions	[illegible]
Return of capital contributions	(19)
Disposals	(2,225)
At 26 February 2022	**17,926**
Accumulated impairment losses	
At 27 February 2021	**(3,100)**
Impairment	(31)
Disposals	2,218
At 26 February 2022	**(913)**
Net carrying value	
At 26 February 2022	**17,013**
At 27 February 2021	16,963

The impairment losses of £31m relate to impairment of the subsidiary holding company Cornar Limited to a recoverable amount of £nil based on remaining net assets subsequent to a dividend payment of £31m.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 199 to 203.

Note 7 Receivables

	2022 £m	2021 £m
Amounts owed by Group undertakings*	760	1,737
Other receivables	19	36
Total receivables	**779**	**1,773**
Of which:		
Current	518	1,514
Non-current	261	259
	779	**1,773**

* Amounts owed by Group undertakings [illegible]

The expected credit loss on receivables is immaterial (2021: immaterial).

Note 8 Payables

	2022 £m	2021 £m
Amounts owed to Group undertakings*	[illegible]	2,017
Other payables	105	65
Taxation and social security	2	4
Deferred tax liability	32	17
Total payables	**2,626**	**2,103**
Of which:		
Current	763	810
Non-current	1,863	1,293
	2,626	**2,103**

* Amounts owed to Group undertakings [illegible]

The deferred tax liability recognised by the Company and the movements thereon during the current financial year are as follows:

	[illegible] £m	[illegible] £m	[illegible] £m
At 27 February 2021	**(22)**	**–**	**(22)**
Movement in other comprehensive income for the year	(10)		[illegible]
At 26 February 2022	**(32)**	**–**	**(32)**

Note 9 Borrowings

	[illegible]	Maturity	[illegible] £m	[illegible] £m
Bank loans and overdrafts			15	[illegible]
6 1/8% MTN	£[illegible]m	Feb 2022		[illegible]
5% MTN	£[illegible]m	Mar 2023	[illegible]	[illegible]
[illegible] RPI MTN	£[illegible]m	Nov 2025	[illegible]	[illegible]
6% MTN	£[illegible]m	Dec 2029	11	45
[illegible] MTN	£[illegible]m	Jan 2033	[illegible]	[illegible]
[illegible] RPI MTN	£[illegible]m	Mar 2036	312	[illegible]
6.15% USD Bond	$[illegible]m	Nov 2037	338	[illegible]
[illegible] MTN	£14m	Mar 2042	14	14
[illegible] MTN	£[illegible]m	Apr 2047	[illegible]	[illegible]
5.2% MTN	£14m	Mar 2057	14	14
			1,483	**1,878**
Of which:				
Current			50	463
Non-current			1,433	1,415
			1,483	**1,878**

[illegible]

Note 10 Derivative financial instruments

	2022				2021			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	5	65			9	65		
Cash flow hedges								
Index-linked swaps	231	695			149	660		
Derivatives not in a formal hedge relationship								
Cross-currency swaps	197	447		16	266	372	[illegible]	56
Index-linked swaps	636	[illegible]			[illegible]	4,006	[illegible]	[illegible]
Interest rate swaps and similar instruments			(86)					
Total	**1,069**	**4,284**	**(86)**	**16**	**1,536**	**5,103**	**(630)**	**4,050**

Note 11 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors.

For further information on these schemes, including the valuation models and assumptions used, refer to Note 29 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

For the 52 weeks ended 26 February 2022

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
Outstanding at 27 February 2021	**9,574**	**188.00**	**3,140,804**	**–**
Granted			87,736	
Forfeited	(1,596)	188.00		
Exercised	(7,978)	188.00	(3,228,540)	
Outstanding at 26 February 2022	**–**	**–**	**–**	**–**
Exercise price range (pence)				
Weighted average remaining contractual life (years)				
Exercisable at 26 February 2022	**–**	**–**	**–**	**–**
Exercise price range (pence)				
Weighted average remaining contractual life (years)				

Notes to the Parent Company financial statements continued

Note 11 Share-based payments continued

For the 52 weeks ended 27 February 2021

	[illegible]	WAEP [illegible]	[illegible]	WAEP [illegible]
Outstanding at 29 February 2020	**19,148**	**188.00**	**10,633,867**	**–**
Granted*			[illegible]	
Forfeited	[illegible]	[illegible]	[illegible]	
Exercised			[illegible]	
Outstanding at 27 February 2021	**9,574**	**188.00**	**3,140,804**	**–**
Exercise price range (pence)		[illegible]		
Weighted average remaining contractual life (years)		[illegible]		[illegible]
Exercisable at 27 February 2021	**–**	**–**	**3,140,804**	**–**
Exercise price range (pence)				
Weighted average remaining contractual life (years)				[illegible]

* [illegible]

Share bonus and incentive schemes

Executive Directors participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to Executive Directors who have completed a required service period and depend on the achievement of the corporate and individual performance targets. For further information on these schemes, including the valuation models and assumptions used, refer to Note 29 to the Group financial statements.

The number and weighted average fair value (WAFV) of share bonuses granted during the financial year were:

	[illegible] Number of shares	WAFV (pence)	[illegible] Number of shares	WAFV (pence)
Group Bonus Plan			[illegible]044	[illegible]
Performance Share Plan	[illegible]	[illegible]	[illegible]	[illegible]
Joining award*	[illegible]	[illegible]		

* [illegible]

Note 12 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £1m (2021: £1m). Further disclosure relating to all schemes can be found in Note 30 to the Group financial statements.

Note 13 Called-up share capital and reserves

Refer to Note 31 to the Group financial statements.

Note 14 Contingent liabilities and guarantees

Contingent liabilities

Refer to Note 35 to the Group financial statements.

Guarantees

The Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £3,452m (2021: £3,200m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £373m (2021: £790m) at the reporting date. These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed-use retail developments amounting to £5,609m (2021: £5,825m).

The likelihood of the above items being called upon is considered remote.

Note 15 Events after the reporting period

There were no events after the reporting period requiring disclosure.

Related undertakings of the Tesco Group

In accordance with section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office address and the percentage of share class owned as at 26 February 2022 are disclosed below. Changes to the list of related undertakings since the year end date are detailed in the footnotes below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated.

Subsidiary undertakings incorporated in the United Kingdom

Related undertakings of the Tesco Group continued

Subsidiary undertakings incorporated in the United Kingdom continued

[illegible]

International subsidiary undertakings

Related undertakings of the Tesco Group continued

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom.

[illegible]

The following subsidiary undertakings were incorporated outside of the United Kingdom.

[illegible]

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom.

[illegible]

The following associated undertakings were incorporated outside of the United Kingdom.

[illegible]

Consolidated structured entities

[illegible]

[illegible]

Supplementary information (unaudited)

One-year like-for-like sales performance (exc. VAT, exc. fuel)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK & ROI	1.3%	3.6%	2.3%	1.9%	2.4%	2.1%	2.2%
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROI	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Central Europe	(1.6)%	4.3%	3.1%	5.8%	1.4%	4.5%	2.9%
Total Retail	1.0%	3.6%	2.4%	2.2%	2.3%	2.3%	2.3%
Tesco Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Total Group	1.0%	3.6%	2.4%	2.2%	2.3%	2.3%	2.3%

Total sales performance (exc. VAT, exc. fuel)

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK & ROI	2.7%	2.0%	2.3%	2.9%	2.3%	2.6%
UK	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
ROI	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Central Europe	(0.8)%	0.7%	(0.0)%	2.6%	4.9%	3.7%
Total Retail	2.4%	1.9%	2.2%	2.9%	2.5%	2.7%
Tesco Bank	12.2%	39.9%	25.4%	12.2%	39.9%	25.4%
Total Group	2.6%	2.4%	2.5%	3.0%	3.0%	3.0%

Country detail – Retail

	[illegible]	[illegible]	[illegible]	[illegible]
UK	[illegible]	[illegible]	[illegible]	[illegible]
ROI	[illegible]	[illegible]	[illegible]	[illegible]
Booker	[illegible]	[illegible]	[illegible]	[illegible]
Czech Republic	[illegible]	[illegible]	[illegible]	[illegible]
Hungary	[illegible]	[illegible]	420.4	[illegible]
Slovakia	1,441	[illegible]	[illegible]	[illegible]

UK sales area by size of store

	[illegible]			[illegible]		
Store size (sq ft)	No. of stores	Million sq ft	% of sq ft	No. of stores	Million sq ft	% of sq ft
0-3,000	2,556	5.5	14.2%	2,534	5.5	14.2%
3,001-20,000	281	3.0	7.8%	282	3.0	7.8%
20,001-40,000	286	8.3	21.4%	285	8.2	21.2%
40,001-60,000	182	8.8	22.7%	182	8.8	22.8%
60,001-80,000	120	8.4	21.7%	120	8.4	21.8%
80,001-100,000	45	3.7	9.6%	45	3.7	9.6%
Over 100,000	8	1.0	2.6%	8	1.0	2.6%
Total*	**3,478**	**38.7**	**100.0%**	**3,456**	**38.6**	**100.0%**

* [illegible]

Group space summary

Actual Group space – store numbers[a]

Large	[illegible]		[illegible]		796	
Convenience[b]	1,936	[illegible]	[illegible]	[illegible]	1,966	
Dotcom only	6				[illegible]	
Total Tesco	**2,739**	**42**	**(11)**	**31**	**2,770**	**-**
One Stop	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	
Booker	194		[illegible]	[illegible]	[illegible]	
Jack's	12			1	[illegible]	
UK	3,650	53	[illegible]	[illegible]	[illegible]	
ROI	151	[illegible]		1	152	
UK & ROI[e]	**3,801**	**54**	**(33)**	**21**	**3,822**	**-**
Czech Republic	183	[illegible]		[illegible]	[illegible]	-
Hungary	201		[illegible]	[illegible]	198	4
Slovakia	153	[illegible]		[illegible]	154	-
Central Europe[e]	**537**	**3**	**(3)**		**537**	**12**
Group[e]	**4,338**	**57**	**(36)**	**21**	**4,359**	**12**
UK (One Stop)	[illegible]	55	[illegible]	45	[illegible]	
Czech Republic	123	[illegible]	(4)	3	[illegible]	
Slovakia	[illegible]	[illegible]		[illegible]	15	
Franchise stores	**335**	**72**	**(14)**	**58**	**393**	**-**
Total Group	**4,673**	**129**	**(50)**	**79**	**4,752**	**12**

Actual Group space – '000 sq. ft.[a]

Large	31,356	[illegible]	(9)		46	[illegible]
Convenience[b]	5,727	65	[illegible]		[illegible]	[illegible]
Dotcom only	[illegible]					[illegible]
Total Tesco	**37,299**	**140**	**(34)**	**-**	**106**	**37,405**
One Stop	1,150	[illegible]	(38)		[illegible]	1,134
Booker	8,784		[illegible]		[illegible]	[illegible]
Jack's	119	[illegible]			[illegible]	[illegible]
UK	46,852	[illegible]	(140)		25	[illegible]
ROI	3,335	9			[illegible]	3,344
UK & ROI[e]	**50,187**	**180**	**(146)**	**-**	**34**	**50,221**
Czech Republic	4,266	41		(59)	(18)	4,248
Hungary	[illegible]		(25)	(45)	[illegible]	[illegible]
Slovakia	3,151	13		[illegible]	[illegible]	3,143
Central Europe[e]	**13,414**	**54**	**(25)**	**(125)**	**(96)**	**13,318**
Group[e]	**63,601**	**234**	**(171)**	**(125)**	**(62)**	**63,539**
UK (One Stop)	256	61	(12)	42	[illegible]	[illegible]
Czech Republic	118	5	(8)		[illegible]	115
Slovakia	5	8			[illegible]	13
Franchise stores	**379**	**94**	**(20)**	**42**	**116**	**495**
Total Group	**63,980**	**328**	**(191)**	**(83)**	**54**	**64,034**

(a) Continuing operations.
(b) [illegible]
(c) [illegible]
(d) [illegible]
(e) [illegible]

Supplementary information (unaudited) continued

Group space forecast to 25 February 2023 – '000 sq. ft.[a]

	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Large	[illegible]	94	(65)	9	38	[illegible]
Convenience	[illegible]	150	(16)		134	[illegible]
Dotcom only	16					16
Total Tesco	**37,405**	**244**	**(81)**	**9**	**172**	**37,577**
One Stop[c]	1,134	40			40	1,174
Booker	8,210					8,210
Jack's	128		(128)		(128)	
UK	46,877	284	(209)	9	84	46,961
ROI	3,344	43		7	50	3,394
UK & ROI[b]	**50,221**	**327**	**(209)**	**16**	**134**	**50,355**
Czech Republic[c]	4,248	45		(134)	(89)	4,159
Hungary	5,927			(141)	(141)	5,786
Slovakia	3,143	69		(29)	40	3,183
Central Europe[b]	**13,318**	**114**		**(304)**	**(190)**	**13,128**
Group[b]	**63,539**	**441**	**(209)**	**(288)**	**(56)**	**63,483**
UK (One Stop)	367	126			126	493
Czech Republic	115	6	(1)		5	120
Slovakia	13	18			18	31
Franchise stores	**495**	**150**	**(1)**	**–**	**149**	**644**
Total Group	**64,034**	**591**	**(210)**	**(288)**	**93**	**64,127**

(a) [illegible]
(b) [illegible]

Tesco Bank income statement

	[illegible]	[illegible]
Revenue		
Interest receivable and similar income	473	542
Fees and commissions receivable	210	193
Gross insurance premium income	239	
	922	**735**
Direct costs		
Interest payable	(47)	(83)
Fees and commissions payable	(20)	(17)
Insurance premium income ceded to reinsurers	(105)	
Insurance claims	(150)	
Reinsurers' share of claims incurred	67	
	(255)	**(100)**
Other income	15	
Gross profit	**682**	**635**
Other expenses		
Staff costs	(212)	(176)
Premises and equipment	(66)	(75)
Other administrative expenses	(193)	(142)
Depreciation and amortisation	(65)	(57)
Impairment reversal/(loss) on financial assets	30	(360)
Operating profit/(loss) before adjusting items	**176**	**(175)**
Adjusting items[b]		(295)
Operating profit/(loss)	**176**	**(470)**
Finance income/(costs): movements on derivatives and hedge accounting	2	(2)
Finance income/(costs): interest	(4)	(6)
Finance income/(costs): leases	(2)	(1)
Share of profit/(loss) of joint venture	3	16
Profit/(loss) for the year	**175**	**(463)**

(a) [illegible]
(b) [illegible]

Glossary – Alternative performance measures

Introduction

In the reporting of financial information, the Directors have adopted various APMs.

These measures are not defined by International Financial Reporting Standards (IFRS) and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry. APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measures.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the trends, performance and position of the Group. APMs aid comparability between geographical units or provide measures that are widely used across the industry. They also aid comparability between reporting periods, adjusting for certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, by virtue of their size or nature, are adjusted to provide a helpful alternative perspective on year-on-year trends, performance and position that is more comparable over time.

The alternative view presented by these APMs is consistent with how management views the business and how it is reported internally to the Board and Executive Committee for performance analysis, planning, reporting, decision-making and incentive-setting purposes.

Further information on the Group's adjusting items, which is a critical accounting judgement, can be found in Notes 1 and 4.

Some of the Group's IFRS measures are translated at constant exchange rates. Constant exchange rates are the average actual periodic exchange rates for the previous financial period and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial period.

Changes to APMs

The Directors and management have redefined Retail free cash flow to exclude cash flows from business acquisitions and disposals, investments in joint ventures, associates, unlisted equity investments, cash flows from the sale of property and other fixed assets, buyback of property and other adjusted cash flows. By adjusting for these factors, which can have unpredictable timings or amounts, or can be driven by external events or non-operational business decisions (such as acquisitions and disposals of properties as opportunities arise), the Directors and management believe this provides a view of free cash flow generated by the Group's retail trading operations that is more predictable and comparable over time.

The Retail operating cash flow and Free cash flow APMs are no longer used following the redefinition of the Retail free cash flow APM.

The Directors and management have simplified the naming of the Group's profit and EPS APMs. References to 'exceptional items and amortisation of acquired intangibles', 'net pension finance costs' and/or 'fair value remeasurements of financial instruments', as applicable, have been replaced with 'adjusted' in the names of the measures. The definitions of these APMs have not altered. For consistency, net pension finance costs and fair value remeasurements of financial instruments have been included within adjusting items on the face of the income statement.

Comparative information has been restated for these changes.

The Directors and management have added Net debt/EBITDA ratio as a new indebtedness APM, which is defined as Net debt divided by Retail EBITDA. This metric is used to demonstrate the Group's ability to meet its payment obligations and removes any movements in the IAS 19 pension obligation, largely driven by external market factors outside of the control of management, that are present in the Total indebtedness measure. Since the new APM is intended to provide additional useful information on trends in indebtedness, the Directors and management will continue to present the existing indebtedness APMs.

Group APMs

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Income statement			
Revenue measures			
Sales	Revenue	Fuel sales	Excludes the impact of fuel sales made at petrol filling stations to demonstrate the Group's performance in the retail and financial services businesses. It removes volatilities outside of the control of management associated with the movement in fuel prices. This is a key management incentive metric. This measure is also presented on a Retail and Tesco Bank basis.
Growth in sales	No direct equivalent	Ratio N/A	Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like (LFL)	No direct equivalent	Ratio N/A	Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.

Glossary – Alternative performance measures continued

APM	Closest equivalent statutory measure	Adjustments to reconcile to statutory measure	Definition and purpose
Profit measures			
Adjusted operating profit	Operating profit from continuing operations	Adjusting items	Adjusted operating profit is the headline measure of the Group's performance, based on operating profit from continuing operations before the impact of adjusting items. Refer to the APM Purpose section of the Glossary and Note for further information on adjusting items. Amortisation of acquired intangibles is included within adjusting items because it relates to historical inorganic business combinations and does not reflect the Group's ongoing trading performance. Related revenue and other costs from acquisitions are not adjusted. This is a key management incentive metric. This measure is also presented on a Retail and Tesco Bank basis.
Adjusted total finance costs	Finance costs	Adjusting items	Adjusting items within finance costs include net pension finance costs and fair value remeasurements. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on external market factors that are outside management's control. Fair value remeasurements are impacted by changes to credit risk and various market indices applying to financial instruments resulting from liability management exercises, which can fluctuate significantly outside of management's control. This measure helps to provide an alternative view of year-on-year trends in the Group's finance costs.
Adjusted profit before tax	Profit before tax	Adjusting items	This measure is the summation of the impact of all Adjusting items on profit before tax. Refer to the APM Purpose section of the Glossary and Note for further information on adjusting items.
Adjusted operating margin	No direct equivalent	Ratio N/A	Operating margin is calculated as adjusted operating profit divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Adjusted diluted earnings per share	Diluted earnings per share from continuing operations	Adjusting items	This metric shows the adjusted profit after tax from continuing operations attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive share options.
Adjusted diluted earnings per share (adjusted for share consolidation)	Diluted earnings per share from continuing operations	Adjusting items Weighted average number of diluted shares	To aid comparability, this measure is adjusted to reflect the full impact of the 2020/21 financial year share consolidation as if it had taken place at the start of the previous financial year, providing an alternative view of the year-on-year progression of adjusted diluted earnings per share. By presenting the weighted average number of diluted shares in this way, it removes the impact of the sale of our businesses in Thailand and Malaysia to provide a consistent view between numerator and denominator. Earnings from discontinued operations are excluded from the numerator, but the weighted average share base used in the statutory IAS 33 denominator reflects the full impact of the share consolidation and special dividend in the 2020/21 financial year.
Retail EBITDA (earnings before adjusting items, interest, tax, depreciation and amortisation)	Retail operating profit from continuing operations	Adjusting items Depreciation and amortisation	This measure is widely used by analysts, investors and other users of the accounts to evaluate comparable profitability of companies, as it excludes the impact of differing capital structures and tax positions, variations in tangible asset portfolios and differences in identification and recognition of intangible assets. It is used to derive the Net debt/EBITDA and Total indebtedness ratios, and Fixed charge cover APMs.
Tax measures			
Adjusted effective tax rate	Effective tax rate	Adjusting items	Adjusted effective tax rate is calculated as total income tax credit/(charge) excluding the tax impact of adjusting items divided by adjusted profit before tax. This APM provides an indication of the ongoing tax rate across the Group.

APM	Closest equivalent statutory measure	Reconciling items to statutory measure	Definition and purpose
Balance sheet measures			
Net debt	No direct equivalent	N/A	Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, lease liabilities, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/payables, offset by cash and cash equivalents and short-term investments. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.
Net debt/EBITDA ratio	No direct equivalent	Ratio N/A	Net debt/EBITDA ratio is calculated as Net debt divided by the rolling 12-month Retail EBITDA. It is a measure of the Group's ability to meet its payment obligations, showing how long it would take the Group to repay its current net debt if both net debt and EBITDA remained constant. It is widely used by analysts and credit rating agencies.
Total indebtedness	No direct equivalent	N/A	Total indebtedness is Net debt plus the IAS 19 deficit in any pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations, including the long-term commitments to the Group's pension schemes. Pension surpluses are not included. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Total indebtedness ratio	No direct equivalent	Ratio N/A	Total indebtedness ratio is calculated as Total indebtedness divided by the rolling 12-month Retail EBITDA. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Fixed charge cover	No direct equivalent	Ratio N/A	Fixed charge cover is calculated as the rolling 12-month Retail EBITDA divided by the sum of net finance costs (excluding net pension finance costs, finance charges payable on lease liabilities, capitalised interest and fair value remeasurements) and all lease liability payments from continuing operations. It is a measure of the Group's ability to meet its payment obligations and is widely used by analysts and credit rating agencies.
Capex	Property, plant and equipment, intangible asset, and investment property additions excluding those from business combinations	Additions relating to property buybacks Additions relating to decommissioning provisions and similar items	Capex excludes additions arising from business combinations and buybacks of properties (typically stores), as well as additions relating to decommissioning provisions and similar items. Property buybacks are variable in timing, with the number and value of buybacks dependent on opportunities that arise within any given financial year. Excluding property buybacks therefore gives an alternative view of trends in capital expenditure in the Group's ongoing trading operations. Additions relating to decommissioning provisions and similar items are adjusted because they do not result in near-term cash outflows.
Cash flow measures			
Retail free cash flow	No direct equivalent	N/A	Retail free cash flow includes continuing cash flows from operating and investing activities for the Retail business, the market purchase of shares net of proceeds from shares issued in relation to share schemes and repayment of obligations under leases, excluding the effects of Tesco Bank's cash flows. The following items are excluded: investing cash flows that increase/decrease items within Net debt, proceeds from the sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale, cash utilised to buy back property, proceeds from the sale of subsidiaries, cash utilised in business acquisitions, cash used for investment in joint ventures, associates and unlisted equity investments, and adjusting cash items in operating cash activities. By adjusting for these factors, which can have unpredictable timings or amounts, or can be driven by external events or non-operational business decisions (such as acquisitions and disposals of properties as opportunities arise), the Directors and management believe this provides a view of free cash flow generated by the Group's retail trading operations that is more predictable and comparable over time, and reflects the cash available to shareholders. This is a key management incentive metric.

[illegible]

Glossary – Alternative performance measures continued

APMs: Reconciliation of income statement measures

Adjusted diluted earnings/(loss) per share (adjusted for share consolidation)

	Notes	2022 £m	2021* £m
Adjusted profit after tax attributable to owners of the parent (£m)	9	**1,693**	**892**
Diluted weighted average number of shares (millions)		7,746	9,656
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (millions)			(1,956)
Adjusted diluted weighted average number of shares (adjusted for share consolidation) (millions)		**7,746**	**7,700**
Adjusted diluted earnings per share (pence)		**21.86**	**9.24**
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)			2.34
Adjusted diluted earnings per share (adjusted for share consolidation) (pence)		**21.86**	**11.58**

* Comparatives have been restated due to a change in accounting policy. Refer to Note 1 for further details.

Retail EBITDA

	Notes	2022 £m	2021* £m
Operating profit/(loss)	2	**2,560**	**1,547**
Less: Adjusting items	2	265	241
Adjusted operating profit	2	**2,825**	**1,788**
Less: Adjusted Tesco Bank operating (profit)/loss	2	(176)	175
Retail adjusted operating profit	2	**2,649**	**1,963**
Add: Depreciation and amortisation before adjusting items	2	1,642	1,668
Less: Tesco Bank depreciation and amortisation	2	(65)	(57)
Retail EBITDA		**4,226**	**3,574**

* Comparatives have been restated due to a change in accounting policy. Refer to Note 1 for further details.

APMs: Reconciliation of balance sheet measures

Net debt/EBITDA and Total indebtedness ratio

	Notes	2022 £m	2021* £m
Net debt (£m)	33	10,516	11,955
Retail EBITDA (£m)		4,226	3,574
Net debt/EBITDA ratio		**2.5**	**3.3**
Net debt (£m)	33	10,516	11,955
Add: Defined benefit pension deficit, net of deferred tax (£m)	30	242	1,004
Total indebtedness (£m)		**10,758**	**12,959**
Retail EBITDA (£m)		**4,226**	**3,574**
Total indebtedness ratio		**2.5**	**3.6**

* Comparatives have been restated due to a change in accounting policy. Refer to Note 1 for further details.

Fixed charge cover

	Notes	2022 £m	2021* £m
Net finance costs (£m)	5	542	937
Less: Net pension finance costs (£m)	5	(22)	(43)
Add: Fair value remeasurements of financial instruments (£m)	5	123	(214)
Adjusted total finance costs (£m)		**643**	**680**
Less: Finance charges payable on lease liabilities (£m)	5	(405)	(446)
Adjusted total finance cost, excluding capitalised interest and finance charges payable on lease liabilities (£m)		**238**	**234**
Add: Retail total lease liability payments (£m)	12	977	1,104
Less: Retail discontinued operations total lease liability payments (£m)		(2)	(99)
		1,213	1,239
Retail EBITDA (£m)		**4,226**	**3,574**
Fixed charge cover		**3.5**	**2.9**

* Comparatives have been restated due to a change in accounting policy. Refer to Note 1 for further details.

Capex

	Notes	2022 £m	2021 £m
Property, plant and equipment additions[a]	11	**1,587**	**1,354**
Goodwill and other intangible asset additions[b]	10	**229**	**201**
Less: Additions from obtaining control of property joint venture	11	(554)	[illegible]
Less: Additions from other property buybacks	11	(15)	(109)
Less: Additions relating to decommissioning provisions and similar items		(94)	(5)
Capex		**1,101**	**1,015**

[illegible]

APMs: Reconciliation of cash flow measures

	Notes	2022 £m	2021 £m
Cash generated from/(used in) operating activities	2	**3,757**	**602**
Cash generated from/(used in) investing activities	2	**(1,735)**	**6,171**
Less: Cash generated from/(used in) operating activities in Tesco Bank	2	(349)	(94)
Less: Cash generated from/(used in) operating activities in discontinued operations	2	6	(183)
Less: Cash generated from/(used in) investing activities in Tesco Bank	2	319	(30)
Less: Cash generated from/(used in) investing activities in discontinued operations	2	(43)	370
	2	**1,955**	**7,211**
Own shares purchased in relation to share schemes	2	(144)	(66)
Retail repayments of capital element of obligations under leases		(5[illegible]1)	(561)
Exclude/add back:			
Retail proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	2	(368)	(181)
Retail purchase of property, plant and equipment and investment property – property buybacks	2	80	29
Retail disposal of subsidiaries, net of cash disposed	2	(117)	(7,806)
Retail acquisition of businesses, net of cash acquired	2		(15)
Retail investments in/(proceeds from sale of) joint ventures and associates	2	(4)	11
Retail adjusting net cash (generated from)/used in operating activities	2	316	2,515
Retail increase/(decrease) in loans to joint ventures and associates	2	4	2
Retail net investments in/(proceeds from sale of) other investments	2	(1)	1
Retail net investments in/(proceeds from sale of) short-term investments	2	1,067	(62)
Retail free cash flow	2	**2,277**	**1,340**

The following table reconciles the Retail free cash flow APM to that previously presented.

	Notes	2022 £m	2021 £m
Retail free cash flow	2	**2,277**	**1,340**
Retail proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	2	368	181
Retail purchase of property, plant and equipment and investment property – property buybacks	2	(80)	(29)
Retail disposal of subsidiaries, net of cash disposed	2	117	7,806
Add: Cash outflow from major disposal*			(5,337)
Retail acquisition of businesses, net of cash acquired	2		15
Retail investments in/(proceeds from sale of) joint ventures and associates	2	4	(11)
Retail investments in/(proceeds from sale of) other investments	2	1	(1)
Retail adjusting net cash (generated from)/used in operating activities	2	(376)	(2,515)
Memo: Retail free cash flow including cash flows from non-major corporate acquisitions and disposals, cash flows from the sale or buyback of properties, and Retail adjusting cash flows from operating activities	2	**2,311**	**1,187**

* [illegible]

Glossary – Alternative performance measures continued

Other

CPI
Consumer price index

Dividend per share
This is calculated as interim dividend per share paid plus final dividend per share declared in respect of that financial year.

Enterprise value
This is calculated as market capitalisation plus net debt.

EURIBOR
Euro Interbank Offered Rate

ESG
Environmental, social and governance.

FTE
Full-time equivalents

LIBOR
London Interbank Offered Rate

LPI
Limited price index

Market capitalisation
The total value of all Tesco shares calculated as total number of shares multiplied by the closing share price at year end.

MTN
Medium term note

MREL
Minimum requirements for own funds and eligible liabilities (European Banking Authority)

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

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

RPI
Retail price index

SONIA
Sterling Overnight Index Average

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

Five-year record

The statistics below reflect the latest published information. For financial years prior to 2022, these statistics represent the comparatives from the following years' financial statements. During 2021, the Group disposed of its operations in Asia and agreed to dispose of its operations in Poland, which were treated as discontinued in 2021. The 2020 statistics have been restated to be consistent with 2021 to present Asia and Poland as discontinued operations, with years prior to 2020 not restated.

Following the presentation of the Group's operations in Asia as discontinued operations, the Group no longer presents Asia as a separate reportable segment in 2021, with 2020 segment statistics restated and years prior to 2020 not restated. The Group redefined profit APMs during 2019 to exclude the amortisation of acquired intangibles. Historical data for the redefined measures have not been restated as the impact is not considered material. Refer to Note 1 and the Glossary for a full list of APMs and their definitions, as well as changes to APMs.

[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Financial statistics (£m)					
Sales					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]		[illegible]
Group sales[d]	**50,993**	**56,883**	**50,788**	**53,445**	**54,768**
Revenue					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]		[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group revenue	**57,493**	**63,911**	**58,091**	**57,887**	**61,344**
Adjusted operating profit/(loss)[a,e]					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group adjusted operating profit/(loss)[a,e]	**1,646**	**2,607**	**2,571**	**1,788**	**2,825**
Adjusted operating profit margin[e]	**2.9%**	**4.1%**	**4.4%**	**3.1%**	**4.6%**
Operating profit/(loss)					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]			
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group operating profit/(loss)	**1,839**	**2,649**	**2,206**	**1,547**	**2,560**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) before tax	**1,300**	**1,617**	**1,028**	**636**	**2,033**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Profit/(loss) for the year from continuing operations	**994**	**1,270**	**738**	**532**	**1,523**
[illegible]	[illegible]		[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Adjusted profit before tax[a,e]	**1,284**	**1,806**	**1,869**	**1,134**	**2,197**
Other financial statistics					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]				
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Total indebtedness (£m)[d]	**12,284**	**15,542**	**14,871**	**12,959**	**10,758**
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Group retail statistics					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK & ROI retail statistics					
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

Shareholder information

Managing your shares and shareholder communication

The Company's share register is maintained by our Registrar, Equiniti.

Shareholders can manage their holdings online or elect to receive shareholder documentation in electronic form by setting up a Shareview portfolio at www.shareview.co.uk. Some benefits of having a Shareview portfolio include:

- receiving the latest shareholder communications electronically;
- voting online for the resolutions at the AGM, and any other shareholder meetings;
- managing all your shareholdings in one place;
- buying and selling shares instantly online with the share dealing service; and
- easily updating your contact details.

For more information and to register for this service, please visit www.shareview.co.uk. Registration can be completed in just four easy steps and you will need your Shareholder Reference Number.

E-comms

We encourage our shareholders to accept all shareholder communications and documents electronically, in place of receiving traditional paper copies by post. This helps us to reduce our environmental impact and to reduce costs which aligns with our strategic principles. If you would like to sign up to receive all future shareholder communications electronically, please register with Shareview by visiting www.shareview.co.uk. Once you have signed up, you will receive an email to let you know when shareholder documents become available on our website, including our annual financial results, notices of shareholder meetings and other shareholder documents.

Tesco Share Account

The Tesco Share Account (TSA) is a free service available to Tesco shareholders which allows you to hold your Tesco shares electronically. Your shares are held in the name of Equiniti Corporate Nominees Limited and held on your behalf on a private register. Holding your shares electronically removes the need to hold paper share certificates, making dealing quicker and more secure. You will also receive preferential dealing rates through the TSA.

The TSA is a sponsored nominee service operated for Tesco by Equiniti Financial Services Limited (Equiniti Financial), authorised and regulated by the Financial Conduct Authority (FCA). When you join the TSA, you remain the beneficial owner of your shares and continue to have the right to receive shareholder communications, vote at general meetings and to receive any dividends paid on your shares.

For further information or to join the TSA, please contact Equiniti.

Annual General Meeting (AGM)

The 2022 AGM is scheduled to be held on Friday 17 June 2022 at 2.00pm at the Company's office in the Heart building, Shire Park, Kestrel Way, Welwyn Garden City, Hertfordshire, AL7 1GA. A copy of the Notice of Meeting can be found on our website at www.tescoplc.com/AGM2022.

Dividend

An interim dividend of 3.20 pence per Ordinary share was paid on 26 November 2021. Shareholders will be asked to approve a final dividend of 7.70 pence per Ordinary share for the year ended 26 February 2022 at this year's AGM. If approved, this will be paid on 24 June 2022 to all shareholders on the Register of Members at the close of business on 20 May 2022.

You can save time and receive your dividends faster and securely by electing to have them paid directly into your bank or building society account. You may also choose to have your dividends reinvested in further Tesco shares through our dividend reinvestment plan (DRIP) (terms and conditions apply).

For more information or to change your dividend payment instructions, contact Equiniti or register online at www.shareview.co.uk.

Share buyback programme

On 6 October 2021, Tesco PLC announced its interim results and an ongoing share buyback programme, with the first tranche of £500m in shares to be repurchased by no later than October 2022, with the first tranche commencing on 18 October 2021.

Tesco PLC has entered into a non-discretionary arrangement with Citigroup Global Markets Limited to repurchase shares on behalf of the Company and to make trading decisions under the Initial Programme independently of Tesco PLC. The share buyback programme will take place in accordance with the Company's current buyback authority granted by shareholders at the Company's 2021 AGM. The maximum number of ordinary shares that may be repurchased under that authority is 773,170,782.

The sole purpose of these share purchases is to reduce the Company's share capital and therefore ordinary shares purchased under the buyback will be cancelled.

Share dealing service

Equiniti offers telephone, postal and internet services for dealing in Tesco PLC shares. Dealing fees vary between brokers and you are recommended to check that you are being charged the most competitive rate. You will need your Shareholder Reference Number, as shown on your share certificate.

For further information please visit www.shareview.co.uk/dealing or call 0345 603 7037, lines open between 8.00am and 4.30pm, Monday to Friday (excluding UK public holidays).

Shareholder security

In recent years, Tesco PLC has become aware that its shareholders (and holders of other Tesco securities) have received unsolicited phone calls or correspondence concerning investment matters. These callers can be very persistent and extremely persuasive and often have professional websites and telephone numbers to support their activities. These callers will sometimes imply connection to Tesco and provide incorrect or misleading information. Shareholders are advised to be very wary of any unsolicited advice, offers to buy shares at a discount or offers of free company reports.

Always check that any firm contacting you about potential investment opportunities is authorised by the FCA. You can find out more about protecting yourself from investment scams by visiting the FCA's website at www.fca.org.uk/consumers, or by calling the FCA's consumer helpline on 0800 111 6768.

Financial calendar 2022/23

- **26 February 2022** – Financial year end 2021/22
- **17 June 2022** – Annual General Meeting and Q1 trading statement
- **24 June 2022** – Proposed payment date for final dividend
- **5 October 2022** – Interim results announcement
- **13 January 2023** – Q3 and Christmas trading statement
- **25 February 2023** – Financial year end 2022/23

February 2022 → June 2022 → October 2022 → January 2023 → February 2023

[illegible]

American Depositary Receipts (ADRs)

The Company has a sponsored Level 1 ADR programme for which J.P. Morgan Chase Bank N.A. acts as depositary. The ADRs are traded in the US, where one ADR represents three Ordinary shares. The ADR programme confers the right to receive dividends in US dollars.

ADR details	
Symbol	TSCDY
CUSIP	881575401
Exchange	OTC
Ratio	1:3
Effective date	1 April [illegible]

All enquiries relating to the ADR programme should be directed to:

Shareowner Services
P.O. Box 64504
St. Paul, MN 55164-0504

Email: StockTransfer@equiniti.com
Telephone: (US) +1 800 990 1135
Telephone (outside US): +1 651 453 2128
Website: www.adr.com

Share register analysis

As at 26 February 2022, the Company had 7,637,986,531 shares in issue (27 February 2021: 7,[illegible]31,707,8[illegible]0) and 227,285 registered holders of Ordinary shares (27 February 2021: 230,018). Shareholdings are analysed below:

Range of shareholdings	Number of holders	% of issued share capital
1 – 500	149,[illegible]09	[illegible]
501 – 1,000	20,[illegible]90	0.20%
1,001 – 5,000	39,948	1.2[illegible]%
Over 5,001	16,839	98.35%
Total	**227,285**	**100%**

Breakdown of holders with over 5,000 shares

Range of shareholdings	Number of holders	% of issued share capital
5,001 – 10,000	8,954	0.82%
10,001 – 50,000	6,313	1.54%
50,001 – 100,000	382	0.36%
100,001 – 500,000	465	1.49%
500,001 – 1,000,000	190	1.75%
1,000,001 – 5,000,000	[illegible]	8.30%
5,000,001+	183	84.11%
Total	**16,839**	**98.36%**

Category of shareholders

	Number of holders	% of total holders	Number of ordinary shares	% of issued share capital
Private	22[illegible],748	98%	398,919,[illegible]96	5.22%
Institutional and corporate	4,53[illegible]	2%	[illegible],239,06[illegible],[illegible]35	94.78%

Shareholder information continued

Useful contacts

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Calls from a mobile device may incur network extras

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