



TESCO

Serving shoppers
a little better every day.

Annual Report and Financial Statements 2021

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Visit www.tescopl.com/ar2021
for more information.





Serving
shoppers
a little better
every day.

Tesco was built to be a champion for customers. As a team of more than 360,000 colleagues, we aim to serve our customers every day with affordable, healthy and sustainable food – to help them enjoy a better quality of life and an easier way of living.

Customers are at the heart of everything we do and guide every decision we make. We push ourselves to improve for our customers – and that is embedded in our core purpose of serving shoppers a little better every day, doing what is right for our customers, communities and the planet.

This has been a year unlike any other. The COVID-19 pandemic has impacted every part of our business and our wider communities. Our strong purpose and values guided our response, ensuring we could always support our customers, colleagues and communities throughout this extremely challenging period.

2021 highlights.

Headline measures (52-week comparable basis)

Group sales^Δ

▲ 7.1%
£53.4bn
(2020: £49.9bn)

Retail free cash flow^{Δ(c)}

▼ (29.8)%
£1,187m
(2020: £1,690m)

Diluted EPS before exceptional and other items (adjusted for share consolidation)^{Δ(b)}

▼ (35.8)%
11.94p
(2020: 18.60p)

Group operating profit before exceptional items and amortisation of acquired intangibles^{Δ(a)}

▼ (28.1)%
£1,815m
(2020: £2,525m)

Dividend per share

Unchanged
9.15p
(2020: 9.15p)

Net debt^{Δ(c)}

▼ (2.8)%
£(12.0)bn
(2020: £(12.3)bn)

Statutory measures (53-week prior year basis)

Statutory revenue

▼ (0.4)%
£57.9bn
(2020: £58.1bn)

Operating profit

▼ (21.3)%
£1,736m
(2020: £2,206m)

Statutory profit before tax

▼ (19.7)%
£825m
(2020: £1,028m)

Statutory diluted EPS

Unchanged
7.54p
(2020: 7.54p)

Δ Alternative performance measures (APMs)

Measures with this symbol Δ are defined in the Glossary section on pages 205 to 212. All measures reported on a continuing operations and 52-week comparable basis. Change shown at actual exchange rates.

(a) Excludes amortisation of acquired intangibles and also excludes exceptional items, by virtue of their size and nature, in order to reflect management's view of underlying Group performance.

(b) Diluted EPS before exceptional and other items (adjusted for share consolidation) is provided to aid comparability, as the sale of our businesses in Thailand and Malaysia and the share consolidation and special dividend which followed distort our financial result in the year. As such, this metric is presented on a basis other than in accordance with IAS 33 and captures the full impact of the share consolidation as if it had taken place at the start of the 2019/20 financial year. Please see Note 9 on pages 139 and 140 for a reconciliation to diluted adjusted EPS.

(c) Net debt and Retail free cash flow exclude the impact of Tesco Bank.

Tesco at a glance

A business built for customers.

Tesco is a leading British multinational retailer with its headquarters in England, United Kingdom.

The business was started in 1919 by Jack Cohen, selling surplus groceries from a stall in the East End of London. In 1929, the first Tesco store opened in Edgware, North London. Today, we have stores in five countries across Europe: the UK, Ireland, the Czech Republic, Slovakia and Hungary. As a leading retailer, with more than 360,000 colleagues, Tesco serves many millions of customers every week, in stores and online.

Tesco completed a merger with Booker Group, the UK's leading food wholesaler, helping to create substantial synergies and access to the 'out-of-home' food market. The Tesco Group also includes Tesco Bank, which provides banking, insurance and money services; Tesco Mobile, the UK's largest mobile virtual network operator; and dunnhumby, a wholly-owned data science subsidiary.

Our business is guided by the shared purpose of serving shoppers a little better every day, underpinned by three values: no one tries harder for customers; we treat people how they want to be treated; every little help makes a big difference.

At Tesco, serving shoppers means more than selling food. It means acting as a responsible and sustainable business for all our stakeholders – customers, colleagues, suppliers and shareholders – and providing affordable, healthy and sustainable food for all.



Chairman's statement

Building a stronger business through a difficult year.



Reflecting on this year, I believe it has been among the most challenging that Tesco has faced in its 101-year history. The COVID-19 pandemic brought disruption and uncertainty to our business and to all our customers, colleagues, suppliers and shareholders.

In responding to these challenges, we were guided by our values as a business and stayed true to our purpose of serving shoppers a little better every day.

COVID-19

Our response to COVID-19 has consistently focused on ensuring our customers and colleagues could shop and work safely at Tesco.

This year, we reflect on the serious challenges and uncertainty our business and our colleagues have faced. We pay tribute to every colleague affected and our thoughts are with those who have lost friends and loved ones. It has been hugely difficult, but every person at Tesco rose to the challenge and went above and beyond to help each other and those in their communities. The Board continuously provided guidance and support to help our teams do the right thing, and I am very proud of the role everybody at Tesco has played during the pandemic.

In March 2020, the Government granted all UK retail and hospitality businesses 12 months of business rates relief. At the time, this relief was essential to navigate the uncertainty and significant costs associated with responding to COVID-19. Towards the end of 2020, we had greater clarity on the situation and we took the decision as a Board to repay business rates relief to the Government, so that it could support businesses that needed it more. We firmly believe it was the right thing to do and is consistent with our purpose and values as a business.

Business performance

The business has shown incredible resilience and agility in the year, with Group sales increasing 7.1% at actual rates. While the costs of responding to the pandemic have been significant, we have strengthened our relationship with customers and built a stronger business for our shareholders. Customer perception of the brand has improved and we had a record year for online, an area where we see great potential for the future.

In preparation for Brexit, we worked very hard alongside all suppliers to ensure there would be minimal disruption to our customers. There have been many challenges and we will continue to navigate the changes into the next year but overall, we have maintained strong availability for all our customers in Great Britain, Northern Ireland, the Republic of Ireland and across Central Europe.

We also completed the sale of our businesses in Thailand and Malaysia. This has unlocked significant value and allowed us to further simplify and focus the Group. We returned £5bn of the proceeds to shareholders through a special dividend in February 2021 and made a one-off contribution of £2.5bn to our pension scheme. This contribution has greatly reduced the prospect of having to make further pension deficit contributions in the future. After the year end, we also completed the sale of our business in Poland to Salling Group.

Board changes

In October 2020, our former Group Chief Executive, Sir Dave Lewis left the business and handed over to Ken Murphy. Sir Dave guided the business through the challenging turnaround and was unwavering in his commitment to Tesco for over six years. We thank him for his outstanding service. I'm delighted that Ken Murphy has joined the Board as Group Chief Executive. Ken has hit the ground running, leading the business in its response to the ongoing pandemic and delivering a resilient full-year performance.

At the end of April, Alan Stewart will retire and we will welcome Imran Nawaz to the Board as Chief Financial Officer. Alan has made an impressive and sustained contribution to Tesco's turnaround, both as CFO and as a Board member. We wish him all the best in his retirement.

We recently announced that Deanna Oppenheimer, Mark Armour and Mikael Olsson will retire at this year's AGM. We thank each of them for their invaluable contribution and counsel over many years. Deanna will also step down from her role as Senior Independent Director, to be replaced by Byron Grote. Looking forward, we will welcome Karen Whitworth, Bertrand Bodson and Thierry Garnier to the Board as Non-executive Directors. Thierry will join the Remuneration Committee, Karen will join the Audit Committee and both Bertrand and Karen will join the Corporate Responsibility Committee. They bring with them a broad range of skills and experience and we look forward to benefiting from their valuable perspectives.

Looking ahead

In the coming months, we will continue to manage the impact of COVID-19 and Brexit, thanks in no small part to the hard work of our colleagues and our great relationships with suppliers.

On behalf of the Board, I would like to thank everyone at Tesco for going the extra mile this year to build a stronger business and serve shoppers a little better every day.

John Allan CBE
Non-executive Chairman
13 April 2021



A year of challenges, leadership and teamwork.

I am so pleased to be writing my first Annual Report statement as Tesco CEO. Throughout my career across retail and wholesale, I have always admired Tesco. It is a business that truly puts customers first and pushes the boundaries of retail, by following a simple purpose of serving shoppers a little better every day.

Since joining the business, I have focused on our response to the immediate challenges of COVID-19 and serving customers through the end of the UK-EU transition period. I have also had the opportunity to meet some of our fantastic colleagues, customers, suppliers, shareholders and other stakeholders, coming to understand the business from the inside and building relationships. I have three initial impressions from my first six months:

1. Throughout the pandemic, colleagues have shown incredible resilience, responding with urgency and compassion to ensure our customers and colleagues stayed safe.
2. Tesco is a business full of people who truly care about what they do. The warmth and passion from people across the business has been inspiring.
3. Tesco is more than a supermarket to our customers. The role we play in our communities and in wider society is essential to maintaining trust and loyalty among those who shop with us.

COVID-19

The pandemic has brought challenges to every part of our business, but on a personal level, it has also tested the resilience of our people. We asked our colleagues to step up and be key workers and, putting personal concerns to one side, everyone worked harder than ever in order to serve customers safely. I am incredibly proud of the way colleagues across Tesco have responded, showing a combination of skilful retailing with a sense of purpose and compassion and always putting our customers and communities first.

As a business, our approach has been based on four priorities: to provide food for all; safety for everyone; support for colleagues; and support for communities.

Food for all

Recognising that many of our vulnerable customers were unable to shop in stores, we focused on growing our online business. We increased online capacity in every market, and in the UK we now offer 1.5 million weekly online slots and priority access to more than 850,000 vulnerable customers. Booker's role was invaluable, supporting care homes and providing 100,000 new Click & Collect slots for Tesco customers. In addition, we worked in partnership with our suppliers to maintain availability for our customers across

the UK, Ireland and Central Europe and ensured our smallest suppliers were paid immediately. Our teamwork was recognised by suppliers, who named Tesco as the number one retailer for collaboration during a crisis in the 2020 independent Supplier Advantage survey.

Safety for everyone

It is essential to us that Tesco is a safe place to shop and work and I'm pleased that 90% of UK customers felt safe shopping in our stores, with ratings even higher in Central Europe. We have made significant investments in safety and social distancing measures across every one of our stores in the UK, Ireland and Central Europe, so that people can continue to shop with confidence. In the UK, we created one of the first safety adverts from a food retailer to clearly communicate our new measures with customers. These include limits on the number of customers in store, social distancing signage, sanitising stations, protective screening at checkouts, and face coverings and other protective equipment for colleagues.

Support for colleagues

We have more than 360,000 colleagues across the Group and they have consistently shown dedication, despite any personal challenges they have faced due to the pandemic. Everyone's circumstances are different but we ensured our most vulnerable colleagues remained at home on full pay when government guidance advised that they should shield. To cover absences and to help meet increased demand, we recruited around 50,000 additional temporary colleagues to ensure there was enough support. Throughout the year, we recognised the contribution of our frontline colleagues, with three separate bonuses. It has also been important to recognise the mental health challenges of this year too, and we made the apps Headspace and SilverCloud available as free support tools to UK colleagues, with similar support tools in all markets.

Support for communities

We have always done what we can to help our local communities but this year was exceptional. In 2020, we donated more than £60m worth of meals to UK foodbanks and charities helping those in need in our communities and supporting our partners, FareShare and the Trussell Trust. In Ireland, Tesco donated nearly €1m in COVID-19 support to local causes nationwide, and in Central Europe, we made our largest ever food donation to food banks in the Czech Republic, Slovakia and Hungary. Tesco Bank increased contactless payment limits, reduced overdraft fees, introduced e-gift cards and offered loan and credit card payment breaks to customers that needed it. Tesco Mobile helped disadvantaged children with their home schooling by offering an extra 20GB of data a month through schools.

Our business and team

As the Chairman reflected in his statement, we have navigated new regulations as a result of Brexit and successfully minimised any disruption for our customers. This is thanks to extensive preparations and contingency planning by our team and a strong partnership with our suppliers. We will continue to prioritise our customers as the situation develops but our business remains agile and resilient to the challenges.

In December 2020, we completed the sale of our businesses in Thailand and Malaysia to CP Group and in March 2021, we completed the sale of our business in Poland to Salling Group. These have been longstanding businesses within the Tesco Group and I am grateful to all the teams for their dedication in serving Tesco customers. Looking forward, I am confident that we have strong positions and opportunities to create value in our markets in the UK, Republic of Ireland, Czech Republic, Slovakia and Hungary.

Following the sale of our Asia business, we shared with colleagues the news that Alison Horner has decided to leave Tesco after 22 years with the business. Alison has had a long and successful career at Tesco and we wish her all the best in the future.

This year, we also said goodbye to Charles Wilson. Charles joined Tesco in 2018, following the merger with Booker. He is an exceptionally skilled retailer and has managed the 'Joining Forces' of Tesco and Booker seamlessly. We thank him for all he has done, helping to create the UK's leading food business.

At the end of April, Alan Stewart will retire as CFO after nearly seven years with Tesco and we will welcome Imran Nawaz to the team. Alan was integral to the turnaround strategy and rebuilding the balance sheet. In his last year, he did not slow down. He launched the first sustainability-linked bond by a retailer globally, reaffirming the Group's commitment to be a net-zero carbon business in the UK by 2035, as well as playing a key role in the United Nations Sustainable Development Goals CFO network. I very much look forward to working alongside Imran to build on this fantastic work.

As well as Imran, we welcomed Ashwin Prasad to the Executive Committee as Chief Product Officer. Ashwin replaced Andrew Yaxley who has taken on the role of Booker CEO since Charles' retirement. After nearly three years as Group Chief Operating Officer, we are delighted that Tony Hoggett has taken up the new role of Chief Strategy and Innovation Officer for Tesco Group and will develop, mobilise and lead our strategic ambitions aligned to Group-wide goals.

Looking forward

Tesco is more than a supermarket to our customers. As a business, we have both the scale and the passion to make sure we benefit all those around us. Alongside our Annual Report, we are publishing our Little Helps Plan, which captures our approach to being a responsible and therefore sustainable business.

This year, we have made further progress and commitments on tackling carbon emissions, reducing food waste, driving down plastic consumption and supporting a healthier lifestyle for our customers. These topics are important to our customers and colleagues but they are also essential for the long-term sustainability of our business.

Despite the challenges we have faced this year, I am confident that the business is in a strong place. Our colleagues remain focused on serving shoppers a little better every day and we continue to make the right decisions for customers, communities and the planet to set us up for success in the future. By looking after our customers, and building on the strong foundations we have created through the pandemic, we will in turn continue to create value for shareholders.

Ken Murphy
Group Chief Executive
13 April 2021



Colleague hero – Seema Ishmail

Seema Ishmail from our Bury Superstore was nominated for a Retail Week Frontline Hero award for her fantastic community support. At the start of lockdown, Seema shopped for some of our most vulnerable customers who were unable to visit the store themselves. She then started working with charities and care homes to ensure everyone got the food they needed. Seema organised everything herself, contacting charities, segregating stock and organising collections. She has worked tirelessly and become a true hero to her local community.

Stakeholders.

Tesco is a business of people. Each day, more than 360,000 colleagues work to serve millions of customers in each of our five markets, and we work with thousands of suppliers across the world. By creating value for our customers, we in turn create value for shareholders.

This was a year like no other for Tesco, and the challenges and levels of disruption have affected us all. But it has also been a year when every colleague came together to ensure we always put our best foot forward.

Customers

NPS +3bps

Throughout the past year, our focus has been on continuing to provide our customers with great value, great service and great availability, despite the challenges of COVID-19 and Brexit.

- The safety measures we put in place have ensured colleagues and customers could shop safely. 90% of UK customers rated safety highly.
- We also worked to ensure our communications were clear and helpful, and adapted existing campaigns such as Food Love Stories to help customers prepare healthy meals as they spent more time cooking from scratch.
- We set a new commitment to increase sales of healthy products to 65% by 2025.
- We strengthened our price position with the introduction of Aldi Price Match, and rewarded loyal customers through exclusive deals with our Clubcard Prices.
- We grew our capacity for online shopping to 1.5 million slots a week in the UK, and supported more than 850,000 vulnerable customers with priority access.
- In Slovakia and the Czech Republic, we provided 'Tesco in a Box' (a delivery of essential food items) to customers in areas where online delivery was not available.
- At Tesco Bank, we offered loan and credit card payment breaks.





Suppliers

Supplier Viewpoint survey reached highest ever score of 85%

Our efforts to ensure good availability over the past year would not have been possible without the hard work of our suppliers.

- We worked closely with suppliers to manage disruption through COVID-19 and the Brexit transition.
- We introduced improved payment terms for our smallest suppliers.
- In the UK, our suppliers have also played a key role in helping us hit our ambitious target of removing 1 billion pieces of plastic from our business.
- We launched a pilot partnership with Loop for online delivery of products using only reusable packaging.

Incubator programme

Since its launch in 2017, our incubator programme has given advice and support to dozens of innovative, young UK brands that have the potential to offer something different and exciting to our customers. Our alumni include brands such as BrewDog, Fever-Tree, Bol and Deliciously Ella.



Colleagues

Colleague Every Voice Matters survey – 82% recommend Tesco as a Great place to work

Our colleagues have gone above and beyond during the pandemic and we have worked hard to support them.

- We supported our most vulnerable colleagues to stay at home on full pay during key moments in the pandemic.
- We awarded three recognition bonuses through the year to frontline colleagues.
- We recruited around 50,000 temporary colleagues, and created 20,000 permanent roles.
- We offered 1,000 work placements for young people as a leading supporter of the Kickstart programme.
- We provided Headspace and SilverCloud as free mental wellbeing tools to all our 300,000 UK colleagues, with similar tools for colleagues in Ireland and Central Europe.
- We launched our first Business Diversity Internship in September aimed at giving Black, Asian and minority ethnic, disabled, LGBTQ+ or socio-economically disadvantaged individuals a route into the business.



Shareholders

Retail free cash flow*^Δ £1.2bn

We continue to focus on creating long-term, sustainable value for shareholders.

- We completed the sale of our businesses in Thailand and Malaysia, with proceeds used to return £5bn to shareholders via a special dividend and make a one-off £2.5bn contribution to the pension scheme.
- We completed the sale of our Polish business in March 2021.
- We were the first retailer to issue a sustainability-linked bond.
- We brought forward our UK target to achieve net zero emissions by 15 years to 2035.
- We brought into full ownership 12 stores and two distribution centres in September; our freehold property ownership is now 58% in the UK.
- We are proposing a final dividend of 5.95 pence, taking the full-year dividend to 9.15 pence.

* Retail free cash flow excludes Tesco Bank.

Δ Alternative performance measures (APMs). Measures with this symbol Δ are defined in the Glossary section on pages 205 to 212.



More information on how the Board engages with stakeholders can be found on page 52.

Our business model

Serving shoppers better.

Our differentiating capabilities

Understanding customers

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

Our colleagues

Our more than 360,000 colleagues share a single purpose: to serve shoppers a little better every day.

Scale and reach

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

Own Brand and product

We source the best quality products, with expert technical teams and close partnerships with growers and suppliers.

Services

Services such as Mobile and Banking focus on the needs of Tesco shoppers and allow 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.

Touch every part of our business

Customers

Tesco exists to serve customers – listening to them and acting on what is most important, however they choose to shop with us.

Reinvest

Our focus is always on making Tesco the best it can be for our customers. The better a job we do for customers, the more we will improve sales; the more our sales improve, the more we can reinvest in further improving the shopping trip.

Channels

To bring the best products to customers, we work through a range of channels – from small shops to large shops, and online. Booker gives us access to further channels, including Business Centres and delivered wholesale.

Products

We build close and mutually beneficial relationships with our supplier partners, to source the best possible products that meet and anticipate customers' needs.

To create value for our stakeholders

Value for 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. As our business continues to strengthen, we can reinvest in our competitiveness and further improve the experience for customers.

Value for colleagues

The expertise of our colleagues drives every part of our business model – from our store teams serving shoppers, to our Product teams developing new ranges. We want every colleague in our business to understand the part they play in serving shoppers a little better every day.

Value for suppliers

Our conversations with suppliers focus on delivering great value and great quality products for our customers. When we get it right, our business grows, and our suppliers grow with us. In this exceptional year, our strong partnerships with suppliers have helped to ensure customers could get the products they needed.

Value for shareholders

For shareholders, our business model allows us to deliver sustainable, profitable growth. We believe we can continue to create significant further value by continuing to focus on value, loyalty and convenience for customers, underpinned by strong capital discipline.

Voted Britain's Favourite Supermarket by customers in The Grocer Gold Awards for

Six years

Colleagues think Tesco is a Great place to work (Every Voice Matters survey 2021)

82%

Supplier satisfaction is at an all-time high

85%

Full-year dividend

9.15p
per share

Key performance indicators

Our Big 6 KPIs.

Grow sales**Why it's important**

Sustainable growth in sales is important to our business model. A strong, growing business also creates opportunities for our suppliers to grow with us too.

What we measure

Group sales is a measure of revenue excluding sales made at petrol filling stations. It demonstrates the Group's underlying performance by removing the volatilities associated with the movement in fuel prices.

How we performed

Group sales increased by 7.0% at constant exchange rates and 7.1% at actual exchange rates, to £53.4bn. In the UK & ROI, total sales increased by 8.8% at actual exchange rates, as we saw a shift towards 'in-home' consumption.

Group sales^Δ**£53.4bn****▲ 7.0%^(a)**

(2020: £49.9bn)

Deliver profit**Why it's important**

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

What we measure

Group operating profit, before exceptional items and amortisation of acquired intangibles. It is the headline measure of the Group's performance.

How we performed

Group operating profit before exceptional items and amortisation of acquired intangibles of £1,815m fell by (28.1)% at actual exchange rates and (28.3)% at constant exchange rates.

Group operating profit before exceptional items and amortisation of acquired intangibles^Δ**£1,815m****▼ (28.3)%^(a)**

(2020: £2,525m)

Improve operating cash flow**Why it's 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 by the Retail business, recognising that Tesco Bank is run and regulated independently from the Retail operations.

How we performed

We generated Retail operating cash of £3,636m, down (3.2)%, driven by lower cash profits due to the significant costs incurred in our response to the COVID-19 pandemic.

Retail operating cash flow^Δ**£3,636m****▼ (3.2)%^(b)**

(2020: £3,757m)

Customers recommend us and come back time and again**Why it's important**

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

What we measure

Reflects % 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 15 points. Customers have recognised the way that colleagues went above and beyond to serve them during the pandemic.

Group net promoter score**15 pts****▲ 3 pts^(c)**

(2020: 12 pts)

Colleagues recommend us as a great place to work and shop**Why it's important**

When we get things right for our more than 360,000 colleagues, we make it even easier for them to do what they do best – serving shoppers a little better every day.

What we measure

Our 'Great place to work' 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

Colleagues continue to recommend Tesco as a great place to work, with 82% of our colleagues across the Group agreeing. We have also seen a strong improvement in the number of colleagues recommending Tesco as a place to shop.

Recommend as a place to shop**44 pts****▲ 7 pts^(d)**

(2020: 37 pts)

Great place to work**82%****▲ 3%^(d)**

(2020: 79%)

Build trusted partnerships**Why it's 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 its highest score to date of 85%. Over 93% of suppliers are satisfied with prompt payments and there has been significant improvement in suppliers agreeing with the statement, 'Tesco gives me the confidence to invest in innovation and efficiency'.

Group supplier satisfaction**85%****▲ 5 pts^(d)**

(2020: 80%)

Δ Alternative performance measures (APMs).

Measures with this symbol Δ are defined in the Glossary section on pages 205 to 212.

(a) Reported on a continuing operations basis. Growth is at constant exchange rates on a comparable days, 52-week basis.

(b) Reported on a continuing operations basis. Growth is at actual exchange rates on a 52-week basis.

(c) Basis Tesco Global Brand tracker. Reported on a continuing operations basis.

(d) Reported on a continuing operations basis.

Little Helps Plan

Making a big difference.

Serving shoppers a little better every day drives what we do. Our sustainability strategy, the Little Helps Plan, ensures we do this in a way that's good for our colleagues, our customers, communities and the planet too.

We want to make a big difference. Our presence in thousands of communities, employing hundreds of thousands of people directly and indirectly through our supply chain, and interaction with millions of shoppers every day, gives us unique opportunities to bring about change for the better. This has never been more important as we recover from the global COVID-19 pandemic.

At the start of this year, in the face of the pandemic, we prioritised safety, ensuring customers had access to the food they needed, supporting our colleagues and helping the wider community. The Little Helps Plan, through its focus on People, Product, Planet and Places, gave us a clear framework to respond to COVID-19. Our existing partnerships with organisations such as FareShare, the Trussell Trust and the British Red Cross meant we had good foundations in place to support local communities. Our commitments to giving our colleagues the support they need to be at their physical and mental best also ensured we had programmes in place to make a difference.

We believe the decisions and actions we have taken this year demonstrate our commitment to a more sustainable future – one in which everyone is made to feel safe and welcome and has access to healthy, sustainable food at an affordable price.

2020 was a milestone year for us, during which we were due to deliver many of our goals, including those on climate action, healthy diets and packaging. Despite the unprecedented challenge posed by the pandemic, we successfully achieved all these goals.

We reduced our absolute carbon emissions by over 50%, removed over 50 billion calories through reformulation and permanently eliminated 1 billion pieces of plastic. We were also recognised by numerous external benchmarks. These included the highest ranking of any food retailer in the Corporate Human Rights Benchmark and Oxfam Behind the Barcodes, marking how we continue to lead the way on important human rights issues such as gender equality and sustainable livelihoods.



Our values

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



Code of Business Conduct

Our Code of Business Conduct is at the heart of how we run our business and helps protect our reputation. It ensures we operate in a responsible manner, doing the right thing for our customers, our colleagues and everybody we interact with.



You can find a full review of our activity, performance and future ambitions in our Little Helps Plan report and at www.tescopl.com/sustainability.

People

People are at the heart of our business and this has been an incredibly tough year for everyone. Our colleagues went above and beyond, rising to every challenge in the most exceptional circumstances.

We are proud of our more than 360,000 colleagues who have worked relentlessly throughout the pandemic in service of feeding the nation. Their health, safety and wellbeing have been and continue to be a top priority for us.

Alongside the physical safety measures we have taken, we have also stepped up our mental wellbeing support that is helping our colleagues and their families manage COVID-19's impact on everybody's daily lives. In April 2020, we launched two new free digital mental health resources, Headspace and SilverCloud, to colleagues, with almost 30,000 of them making use of Headspace since launch. During Mental Health Awareness Week in May 2020, we launched our first mental health colleague campaign #imhereforyou. This encourages colleagues to reach out to each other and remind everyone that no one is ever alone at Tesco. We followed this campaign with more specific guidance for colleagues working at home.

Our colleague-listening programme, Every Voice Matters, helps us gather feedback and implement improvements throughout the year. More than two-thirds of colleagues across the Group took part in our annual survey, and 82% of them told us they think Tesco is a great place to work.

Supporting job creation and skills development

During the first UK lockdown, we hired nearly 50,000 temporary colleagues to help serve customers when demand was at its highest. Many of these colleagues continue to work with us in newly created roles, including the 20,000 permanent jobs we created to meet increased demand for online deliveries.

By investing in young people, we hope to provide many with the opportunity to enter the world of work and build skills at a time when labour markets are tough. For example, we pledged support to the UK Government's Kickstart scheme, offering 1,000 placements. In November we welcomed 900 Kickstart colleagues to our large stores in areas of high youth unemployment across the UK, with the aim of helping them be 'work-ready' at the end of their placement. We also continued to offer work placements to young people not in education, employment or training (NEETs) through the Movement to Work programme. In the UK, 618 placements took place during the year, with 344 becoming colleagues.

Diversity and inclusion

We value individuality and uniqueness, and treat everyone fairly and with respect. You can find more information on our approach to diversity and inclusion on page 17.

Protecting human rights

We are committed to ensuring there is decent, fair, safe work for all, both directly and indirectly throughout our supply chain. Our human rights strategy focuses on four priority areas: sustainable livelihoods; forced labour; worker representation; and gender equality. We have identified risk areas within our own operations and across our supply chain. We work with suppliers, NGOs and other retailers to develop targets and action plans that address the risks.

COVID-19 has impacted our ability to undertake physical site visits and audits, however we have continued to support our suppliers



COVID-19 support

We are committed to supporting our clinically extremely vulnerable and high-risk clinically vulnerable colleagues and have ensured they remained at home on full pay during peak lockdown moments following government guidance. For colleagues who became ill with COVID-19 or needed to self-isolate, we ensured they received full pay from the first day of absence. We have also paid recognition bonuses totalling around £130m, to colleagues across the Group for their hard work throughout the pandemic.



and safeguard workers' rights in our supply chain with webinars and virtual due diligence assessments to ensure continued supply chain visibility.

Clothing suppliers have been particularly hard hit by the pandemic. From the start of the crisis, we committed to paying for every clothing order that had been completed or was in production. We focused on ensuring garment workers were paid correctly and that health and safety measures and personal protective equipment were in place for workers.

As part of our sustainable livelihoods strategy, we started working with our banana suppliers in August, using the IDH Salary Matrix tool to identify gaps between prevailing wages and living wages in key sourcing countries of one of our best selling products. We will be working with producers and the wider industry from 2021 to develop strategies and actions to move towards a living wage in the banana industry.

Product

We believe that healthy, sustainable products should be affordable to all. In our Product pillar, we take action to ensure that products are grown, sourced and produced in a sustainable way, embracing new technologies and innovation.

Healthy, sustainable food

We want to help our customers enjoy a better-balanced diet, and we aim to make the healthy option easy, enjoyable and affordable. That's why we updated our health strategy this year to be better aligned to the UK Eatwell Guide. We aim to improve the healthiness of the average shopping basket by increasing the proportion of healthy products to 65% of volume sold by 2025.

Ambitious health commitments

In March 2021, we announced new targets to make Tesco the easiest place for customers to shop for affordable, healthy, sustainable food:

- increase the proportion of sales of healthy food to 65% by 2025;
- make products healthier through reformulation; and
- increase the sales of plant-based meat alternatives by 300% by 2025.

Further information is available in our Little Helps Plan report.



We became the first UK supermarket to commit to increasing the sales of plant-based meat alternatives by 300% by 2025. We already have over 350 plant-based meat alternatives on our shelves and we continue to invest in innovation with new plant-based brands joining our incubator programme this year. Alongside our growth in plant-based foods, we have also continued to help our customers eat more fruit and vegetables, with 50% of our ready meals now containing at least one of the recommended 5-a-day, up from 26% in 2018.

Through reformulation, we have made thousands of the products our customers enjoy a little healthier by reducing calories, fat, sugar and salt and increasing fruit, vegetable and fibre content. Since 2018, we have removed over 50 billion calories. We are working hard to remove a further 50 billion by 2024.

Packaging

Packaging plays an important role in protecting products and reducing food waste. Our 4Rs strategy (Remove, Reduce, Reuse, Recycle) aims to ensure that plastic never finds its way to landfill or into the environment.

In December 2020, we announced the permanent removal of 1 billion pieces of plastic from the UK business. Working with our suppliers, we successfully removed plastic from a range of products, including 67 million pieces on tinned multipacks and 24 million pieces on our sausage rolls and slices packaging.

By volume, 84%^(a) of our Own Brand packaging is widely recyclable. We are working with partners to address the more challenging soft plastic, installing in-store recycling points to collect plastic from products including bread, crisp and salad bags.

Working with reusable packaging specialists Loop, in July we launched an online shopping service that delivers products in reusable packaging. Since the launch we have delivered thousands of orders to customers across the UK, and we are aiming to trial in-store in 2021.

Tackling food waste

Our fight against food waste calls for action on farms and manufacturing sites, in-store and at home. This year we prevented a higher percentage of good food going to waste than ever before, with 82%^o of unsold food being given to charities, colleagues or as animal feed in the UK. We were able to do this through our partnership with FareShare, via more than 6,500 local community groups and through the Olio app, which is now redistributing 3% of our unsold food suitable for human consumption.

Across the Group, we have reduced food waste by 42% since 2016/17 and are making good progress towards our ambition of halving food waste by 2030. Our suppliers have also stepped up to the food waste challenge, cutting 155,000 tonnes of food waste: 71 suppliers are now publishing their food waste data, including those responsible for over half of fresh food sales in the UK and a third of fresh food sales in Ireland.

(a) In accordance with the producer responsibility obligations we report our recycling performance a year in arrears.

◊ KPMG LLP was engaged to provide independent limited assurance over the selected food waste data highlighted in this report with a ◊ using the assurance standard ISAE (UK) 3000. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescopic.com/reportinghub

Planet

The health and stability of the natural world goes hand-in-hand with the health and stability of our business – they are two sides of the same coin. As we strive to provide our customers with affordable, healthy, sustainable food, we are also taking action on important issues including climate change and restoring nature.

Climate change

Climate change is the biggest environmental threat the world faces, and one that poses a challenge to our business and our supply chains. Recognising this, climate change has now been included as a separate principal risk, as set out on pages 33 to 37.

We impact the climate in our own operations and through our supply chains, and we have a longstanding commitment to reduce carbon emissions in line with the Paris Agreement. We are also implementing the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), details of which are set out on pages 26 to 28.

In 2020 we committed to fast-track our net zero ambitions for the UK business to 2035, announcing new actions to help tackle our biggest sources of emissions: refrigeration, transport and heating. Actions include switching to CO₂ in refrigeration and trialling alternative heating solutions like heat reclaim. 100% of our electricity is renewable and we are creating additional renewable energy generation for the UK National Grid. One of our projects includes partnering with renewable energy investor, Low Carbon, to create three new solar farms in the UK. In September we became signatories to EV100, the global initiative focused on accelerating the transition to electric vehicles and aim to have a fully electric home delivery fleet by 2028.

Despite the unprecedented challenge presented by COVID-19 and the subsequent changes to our operations, most notably the growth in online shopping, our Scope 1 and 2 greenhouse gas (GHG) emissions across the Group reduced by 10% compared to 2019/20, and by 54% when compared to our 2015 baseline.

Halving the environmental impact of the average UK shopping basket

In 2018, we launched a four-year partnership with WWF, aimed at making it easier for customers to eat more sustainably, restore nature in food production and eliminate waste. In 2019, we jointly launched the Sustainable Basket Metric, a pioneering industry

measurement for monitoring progress against the ambition of halving the environmental impact of the average basket.

This year, we established our baseline (2018) performance using the 20 sub-metrics contained within the Sustainable Basket Metric, calculating that we are 11% of the way towards our target. We have made progress in many of the areas covered by the Basket Metric, including improvements in tackling food and packaging waste, and encouraging plant-based diets with our commitment to increasing the sales of plant-based meat alternatives by 300% by 2025.



Tackling deforestation

Preventing deforestation and degradation is critical to a sustainable future. In 2010, we committed to achieving zero net deforestation of our raw materials by 2020. We achieved this goal through certification and have since introduced further targets within our zero deforestation soy transition plan. These include our aim of sourcing 100% of our soy from verified zero-deforestation areas by 2025.

Greenhouse gas emissions

	Global tonnes of CO ₂ e			
	2020/21	2019/20	2018/19	Base year 2015/16
Scope 1	1,053,151 ^a	1,105,183	1,117,480	1,240,871
Scope 2 ^(a)				
Market-based method	13,631 ^a	81,531	256,446	1,095,671
Location-based method	718,222 ^a	859,583	995,543	1,657,316
Total Scope 1 and 2 (market-based)	1,066,762 ^a	1,186,714	1,373,926	2,336,542
Scope 1 and 2 carbon intensity (kg CO ₂ e/sq. ft. of stores and DCs)	11.63 ^b	15.58	18.24	30.16
Scope 3 ^(c)	471,195 ^a	557,111	624,752	684,079
Total gross emissions	1,537,957 ^a	1,743,825	1,998,678	3,020,621
CO ₂ e from renewable energy exported to the National Grid	350 ^a	635	593	1,513
Total net emissions	1,537,607 ^a	1,743,190	1,998,085	3,019,108
Overall net carbon intensity (total net emissions kg CO ₂ e/sq. ft. of stores and DCs)	16.76 ^a	22.88	26.53	38.96

(a) We engaged KPMG LLP to provide independent limited assurance over the greenhouse gas emissions data highlighted in the above table with a \diamond using the assurance standards ISAE (UK) 3000 and 3410. KPMG has issued an unqualified opinion over the selected data. KPMG's full assurance statement is available at: www.tescopl.com/reportinghub. All figures have been restated to reflect the disposal of Thailand, Malaysia and Poland and include the acquisition of Best Food Logistics in the UK as well as minor data improvements.

(b) Our method statement can be accessed at www.tescopl.com/climatefactsheet. We use the market-based method for calculating Scope 2 emissions for our total emissions to account for our efforts in generating and purchasing low-carbon energy. The location-based method is provided for disclosure only and all intensity, net and gross emissions shown are calculated using Scope 2 market-based method.

(c) Under Scope 3 emissions we report business travel and emissions from distribution arranged by Tesco but provided by third parties (including secondary distribution globally and emissions from primary distribution in the UK). Scope 3 emissions also include transmission and distribution impacts of electricity and heat supply and well-to-tank embodied impacts of fuel. Further information on our carbon calculations is available at www.tescopl.com/climatefactsheet.

Places

Supporting our communities has never been more vital than during the past year, when the ongoing pandemic has affected the lives of so many people. By working with our partners, we are helping thousands of communities. Through our charity partnerships, community grant programmes and colleague and customer fundraising we have donated £129m this year.



Supporting our health charity partners

The Health Charity Partnership between Tesco, Cancer Research UK, the British Heart Foundation and Diabetes UK helps people in the UK make sustainable lifestyle changes and adopt healthy habits. Since 2017, we have raised over £17m for our health charity partners.

During the pandemic, our partners faced record levels of demand for their services at the moment their funding was significantly impacted by the cancellation of fundraising events and temporary closure of shops.

To support our partners, we held a fundraising appeal across all our UK stores in September 2020. Customers were able to support the appeal by rounding up their shop to the nearest £1. Over the 13-day in-store appeal, customer donations totalled nearly £1.5m. Tesco matched contributions to bring the total charity donation to £3m.

Many families are facing hardship due to the pandemic. In April we announced a £30m package of support for communities in the UK dealing with COVID-19. Building on our five-year partnership with FareShare and the Trussell Trust, we donated an additional £15m worth of food to community groups and food banks, additional to the estimated £3m worth of food we donate each month by redistributing surplus food.

In total during the year, we provided nearly 29 million meals from stores and distribution centres to charity groups in the UK and 17 million meals in Central Europe. We were also proud to partner with SalutetheNHS.org, donating all the food in a million food parcels for frontline NHS workers.

Our customers have also made a massive contribution to communities through our Food Collection events and in-store collection points. In the UK, a total of more than 1.3 million meals were donated this year and in Central Europe 1,000 tonnes of food was donated or collected for food banks in the Czech Republic, Hungary and Slovakia.

We are a member of the Marcus Rashford Child Poverty Task Force, which is campaigning for solutions to end child food poverty in the UK. From November 2020 to March 2021, families who used the weekly Healthy Start Vouchers received a £1 coupon to spend on fresh and frozen fruit and vegetables at Tesco.

We also awarded nearly £8m of Bags of Help grants during 2020, benefiting more than 10,000 community groups across the UK. In Ireland we supported more than 1,700 good causes through the Community Fund. In Central Europe, we helped 683 local groups with You Choose, We Help grants.



Diversity and inclusion

Diversity and inclusion at Tesco.

Everyone's welcome at Tesco

Diversity and inclusion have always been at the heart of Tesco. It is embedded in our values; we treat people how they want to be treated.

We always want our colleagues to feel they can be themselves at work. We are committed to helping everyone be at their best by creating a sense of belonging and valuing the individuality and uniqueness of our colleagues.

Tesco's diversity and inclusion strategy

Across the business we will continue to work to create a more diverse and inclusive culture. This will in turn improve performance, better reflect the communities we serve, and enhance engagement among our colleagues, customers and suppliers. Our strategy is underpinned by five colleague networks, who support in the creation of a diverse and inclusive culture where everyone is welcome. The networks being: LGBTQ+; Women at Tesco; Black, Asian, Minority Ethnic Network; Armed Forces Network; and Disability Network.

Our strategy is formed of three key pillars and related priorities:



We are proud that 81%* (2020: 79%) of colleagues feel they can be themselves at Tesco without fear of judgement. This insight acknowledges the positive progress we have made.

2020 has been a challenging year, but we have had the opportunity to truly listen and consider how we can better ensure everyone feels welcome.

* Annual colleague engagement survey 2021.

Lead and role model inclusion

Becoming data rich

Our 'This is Me' campaign asks all colleagues to voluntarily share their diversity data. This will help us better understand the diversity of our workforce, make more informed and inclusive decisions and put plans in place where they are needed most. This data insight will allow us to hold ourselves accountable for progress and track the success of interventions, as well as enabling us to participate in future legislative and voluntary reporting.

Inclusive leadership

We have defined what inclusive leadership means at Tesco and measure as part of our leaders' performance. We have also developed a series of masterclasses for all Tesco senior leaders. Focusing on bias, race equality and privilege, these are supported by self-led resources to help further build inclusive behaviours across our business.

Mentoring

In partnership with Arrival Education, our Executive Committee participated in a mentoring programme to support young, diverse talent outside our business. This gave them the inspiration, insight and skills to drive meaningful change in developing socially and ethnically diverse talent within Tesco. We will extend this programme to our business leaders in 2021.

Diverse talent development

As part of our talent planning processes, we ensure equal opportunities for all colleagues.

To help us support young talent more effectively, we have introduced Diverse Talent Communities which are sponsored by our Executive team. Initially, these communities will focus on helping colleagues from minority ethnic backgrounds accelerate their career at Tesco through bespoke career planning, increased visibility and senior sponsorship. We are currently exploring opportunities for supporting colleagues in other underrepresented groups.

We are also committed to improving the gender balance across our business and have made a number of external commitments. These include achieving the Hampton-Alexander Review target of having more than 33% female representation at Board and Executive level by 2023.

Gender diversity 2020/21 (actual year-end headcount)

	Male		Female	
Board of Directors	9	69%	4	31%
Senior managers – Directors	330	74%	114	26%
Senior managers – Directors and managers	2,371	67%	1,166	33%
All employees	169,852	47%	191,919	53%

Executive external resourcing and strong internal succession plans play a critical role in enabling and accelerating our ability to meet our diversity and inclusion ambitions. As of March 2021, the overall percentage of female members of the Board, Executive Committee and direct reports to the Executive Committee stood at 31%.

Diversity and inclusion continued

Embed inclusion in everything we do

We are continually reviewing key colleague touch points to ensure all colleagues always feel welcome. Over the past year, we focused on:

- **Resourcing:** attracting diverse external talent is essential and our refreshed Careers website now incorporates an augmented writing tool to help ensure that unbiased language is used. We are focused on hiring diversity at a senior level, by working with our partners to demand diverse shortlists.
- **Onboarding:** we aim to ensure that all new starters have an understanding of what inclusion means at Tesco and to make induction content fully inclusive, digital and easy to access.
- **Policies:** we are reviewing all our policies against external best practice. Our family policies for maternity, paternity and adoption now have a minimum standard across the Group, ensuring a consistent experience for colleagues.
- **Workplace adjustments:** we are partnering with a new workplace adjustments provider. We have redesigned and relaunched our approach to workplace adjustments for the UK.

Listen, Learn, Act

Our Listen, Learn, Act strategy pillar helps us to recognise, celebrate and value our differences.

Listen

We create opportunities for colleagues to share their views on diversity and inclusion topics. By holding executive-led listening sessions and asking colleagues to share their own experiences, we have been able to better elevate diverse voices.

Learn

We are focused on using action-orientated colleague learning activities to raise awareness of the importance of inclusion and developing a greater understanding of individual and collective responsibility.

Supporting our commitment to change, we have created targeted learning for all colleagues, as well as specific modules for line managers, our People, Resourcing and leadership teams.

All managers will go through this learning over the next 12 months, helping them feel empowered and comfortable when talking about difference, and ensuring everyone has an equal opportunity to get on.

Act

We are committed to taking action within our communities by helping those young people in most need into employment and increasing the diversity of young talent joining our new intern, apprenticeship and graduate programmes. We have offered 1,000 six-month work placements through the Kickstart government scheme, to long-term unemployed 16-24 year-olds, helping to build the skills they need to become work-ready.

More than 45% of the young people joining one of our programmes in 2021 will be from an ethnic minority background. More than 51% are female and more than 17% will be joining us with a disability.

External commitments

Race equality is a priority for our business. In 2019, we signed the Business in the Community Race at Work Charter and have action plans against its five calls to action. In response to Black Lives Matter in 2020, we were a signatory to The Sunday Times Open Letter. Such external commitments help hold us to account in continuing to create a culture of inclusion.



Elevating diverse voices

Insight from our 2020 annual colleague satisfaction survey showed that we needed to create more opportunities to better understand our diverse colleagues.

As part of our priority to elevate diverse voices within the business, we held several executive-led listening sessions with colleagues from diverse communities, using our established colleague networks as a platform to do so. The sessions focused on understanding the experiences of these groups and what we can do to support them further during their careers at Tesco.

We have committed to continuing to hold these listening sessions. The feedback we have captured so far has informed action plans for our colleague networks and future diversity and inclusion initiatives.

These include:

- Refreshed mentoring resources and activities.
- The launch of our Diverse Talent Communities.
- New line manager training and on-demand resources.

Financial review

Well placed to build on momentum.



“Our focus on looking after customers in these challenging times has enabled us to build a strong business for all stakeholders. We are in good shape to keep building on this momentum in the current year.”

Alan Stewart
Chief Financial Officer

Headline Group results

52 weeks ended 27 February 2021 on a continuing operations basis	2020/21	2019/20 ^(a) 52-week basis	2019/20 ^(a) 53-week basis	YoY 52-week change (Actual exchange rates)	YoY 52-week change (Constant exchange rates)	YoY 53-week change (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)^(b)	£53,445m	£49,945m	£50,788m	7.1%	7.0%	5.2%
UK & ROI	£48,848m	£44,909m	£45,752m	8.8%	8.6%	6.8%
Central Europe	£3,862m	£3,968m	£3,968m	(2.1)%	(0.6)%	(2.7)%
Tesco Bank	£735m	£1,068m	£1,068m	(31.2)%	(31.2)%	(31.2)%
Fuel	£4,442m	£7,163m	£7,303m	(38.0)%	(38.0)%	(39.2)%
Revenue (exc. VAT, inc. fuel)	£57,887m	£57,108m	£58,091m	1.4%	1.3%	(0.4)%
Group operating profit before exceptional items and amortisation of acquired intangibles^(c)	£1,815m	£2,525m	£2,571m	(28.1)%	(28.3)%	(29.4)%
UK & ROI	£1,866m	£2,156m	£2,202m	(13.5)%	(13.7)%	(15.3)%
Central Europe	£124m	£176m	£176m	(29.5)%	(29.0)%	(29.5)%
Tesco Bank	£(175)m	£193m	£193m	n/m	n/m	n/m
Include exceptional items and amortisation of acquired intangibles	£(79)m	£(331)m	£(365)m			
Group statutory operating profit	£1,736m	–	£2,206m			(21.3)%
Adjusted Group profit before tax ^(d)	£1,161m	£1,832m	£1,869m	(36.6)%		(37.9)%
Group statutory profit before tax	£825m	–	£1,028m			(19.7)%
Diluted EPS before exceptional and other items (adjusted for share consolidation) ^(e)	11.94p	18.60p	18.98p	(35.8)%		(37.1)%
Statutory diluted EPS	7.54p	–	7.54p			(0.1)%
Statutory basic EPS	7.56p	–	7.60p			(0.5)%
Dividend per share	9.15p	–	9.15p			0.0%
Capex^(f)	£1.0bn	£0.9bn	£0.9bn			
Net debt^(g)	£(12.0)bn	£(12.1)bn	£(12.3)bn			down 2.8%
Retail free cash flow^(g)	£1.2bn	£1.7bn	£1.5bn	(29.8)%		(20.5)%

Detailed below is a summary of our performance for the last financial year. For UK & ROI, the prior year was the 53 weeks ending 29 February 2020. To aid comparability, the headline results and associated commentary is presented on a 52-week comparable basis.

The COVID-19 crisis has had a significant effect on these results including substantial incremental costs, a severe decline in the hospitality sector impacting Booker's catering business, a material reduction in Bank profitability and a benefit from additional UK & ROI retail sales. In December, we made a decision to repay business rates relief and the full cost of business rates is therefore included as usual in the relevant profit measures.

(a) All measures apart from net debt are shown on a continuing operations basis. Prior-year comparatives are also shown on a continuing operations basis. Net debt includes discontinued operations until the point of sale. Further details on discontinued operations can be found in Note 7, starting on page 137.

(b) Group sales exclude VAT and fuel. Sales change shown on a comparable days basis for Central Europe.

(c) Excludes amortisation of acquired intangibles and excludes exceptional items by virtue of their size and nature in order to reflect management's view of underlying performance.

(d) Adjusted Group PBT measures exclude exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments.

(e) Diluted EPS before exceptional and other items (adjusted for share consolidation) is provided to aid comparability, as the sale of our businesses in Thailand and Malaysia, and the share consolidation and special dividend which followed, distort our financial result in the year. As such, this metric is presented on a basis other than in accordance with IAS 33 and captures the full impact of the share consolidation as if it had taken place at the start of the 2019/20 financial year. Please see Note 9 on page 139 for a reconciliation to diluted adjusted EPS.

(f) Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 52 weeks ended 27 February 2021 was £1.3bn (LY £1.2bn).

(g) Net debt, total indebtedness and retail free cash flow exclude Tesco Bank. Net debt also includes lease liabilities following the adoption of IFRS 16.

Financial review continued

Including these impacts, Group operating profit before exceptional items and amortisation of acquired intangibles was £1,815m, down (28.1)% at actual rates. Statutory operating profit of £1,736m includes the impact of £(79)m exceptional items and amortisation of acquired intangibles.

We propose to pay a final dividend of 5.95 pence per Ordinary share, taking the full-year dividend to 9.15 pence per Ordinary share, including the payment of an interim dividend of 3.20 pence per Ordinary share in November 2020. The total dividend for the year is in-line with the prior year and an exception to our policy, reflecting the importance the Board places on dividends paid to shareholders, the strength, resilience and momentum of the business in a truly exceptional year and our confidence in future cash flows.

In December 2020, we completed the sale of our businesses in Thailand and Malaysia for an enterprise value of £8.2bn and net cash proceeds before tax and other costs of £8.0bn. The proceeds were used to return £5.0bn to shareholders via a special dividend and make a £2.5bn one-off contribution to the pension scheme. In March 2021, we completed the sale of our business in Poland. The performance of our businesses in Thailand, Malaysia and Poland is classified as discontinued operations and has been excluded from our headline performance measures.

Segmental results

UK & ROI

In the UK and the Republic of Ireland (ROI), total sales grew by 8.8% as we saw a shift towards 'in-home' consumption. Sales in the first quarter grew by 9.4% due to an initial period of stockpiling at the start of the first national lockdown, before stabilising in the second and third quarters as the 'out of home' market partially reopened. As the UK entered a second and third national lockdown, sales reaccelerated into the fourth quarter and we saw sustained elevated sales throughout this period. Demand was particularly strong in fresh food, grocery and beers, wines and spirits categories across the year.

In response to the significant demand peak early in the year, we worked with our supplier partners to simplify our offer, prioritising availability in essential products and categories. We reduced promotional participation from 36% to 21% through the year as we focused on every day great value for customers.

We gained market share in the year and gained customers from all key competitors. Our relative performance was particularly strong in the second half, including a market leading performance every week over the Christmas period.

We further strengthened and simplified our value proposition, including launching the 'Aldi Price Match' campaign in March 2020 before extending it to over 500 products, including brands. Our value perception accelerated in the second half, reaching its highest level in a decade, up 480 basis points by the end of the year.

We extended Clubcard Prices from September, initially offering c.2,000 exclusive deals to our Clubcard customers. In March 2021, we increased the number of deals available to customers to more than 3,000, now including general merchandise promotions. Since September, the number of customers using their Clubcard via an app has doubled to more than five million and Clubcard sales penetration has increased by more than 10 percentage points to around 80%. Although we have not focused on expanding our Clubcard Plus subscription offer during the COVID-19 pandemic, we continue to see an increase in uptake and basket uplifts are significantly ahead of our expectations.

Sales grew in every format and channel. Like-for-like sales in large stores grew by 1.5%, with bigger baskets but fewer visits as customers sought to do all of their shopping in one trip. Like-for-like sales in our Express and One Stop stores grew by 3.9% with particularly strong growth in our neighbourhood stores as customers favoured shopping closer to home.

In response to the unprecedented increase in customer demand for online groceries, we rapidly expanded our online business, more than doubling capacity to 1.5 million slots per week over a five-week period. Sales grew by 77% in the year – an additional £2.8bn – taking annual sales to £6.3bn (inc VAT). Online sales participation doubled to 15% for the full year, reaching a peak of 18% during the fourth quarter. Home deliveries accounted for 79% of online orders, with click & collect participation increasing from 11% at the start of the year to 25% by the end of the year. Our first UFC (urban fulfilment centre) opened in the year in West Bromwich Extra. Our second UFC in Lakeside Extra is now due to open May 2021, having been delayed several months by the pandemic, and a further four sites are due to open within the next twelve months. These UFCs will enable us to provide access to more delivery slots for customers with an increased rate of picking – a scalable, efficient option to fulfil ongoing online demand.

Booker sales grew by 10.5%, due to the inclusion of sales from Best Food Logistics which was acquired at the beginning of the financial year. Sales to retail customers were strong, increasing by 18.5%, as we expanded their grocery ranges in response to demand from customers aiming to shop closer to home. In catering, sales declined by (40.8)% due to the closure of the hospitality and leisure sector for much of the year, with monthly performance strongly correlated to the severity of the UK COVID-19 restrictions. We supported our catering customers throughout this period of change, offering a full range of food and consumables, leading to a significantly increased market share at the end of the year.

In ROI, sales grew by 13.7% at constant rates driven by particularly strong growth in our large stores. Our online business remains the clear market leader and we increased capacity by over 60% since the start of the year in response to customer demand, with online sales participation increasing from 6% to 9%. By the end of the year, our customer NPS score was at its highest level in over five years as we saw significant improvements in both value and quality perception.

UK & ROI operating profit before exceptional items and amortisation of acquired intangibles was £1,866m, down (13.5)% year-on-year.

The COVID-19 pandemic had far-reaching impacts on our operations, and we incurred significant costs in safeguarding our customers and colleagues, primarily through higher payroll costs. All colleagues who were off-work due to COVID-19 and those who were required to shield or self-isolate received full-pay from their first day of absence. In recognition of the efforts of our store and distribution colleagues, we awarded three bonuses throughout the year to thank them for their exceptional contribution. We also incurred costs for safety consumables, protective equipment and additional distribution, and the temporary closure of hospitality outlets impacted our retail partners who operate from our stores, leading to a reduction in rental income. In total, UK COVID-19 costs led to a £(892)m reduction in operating profit, which was partially offset by the contribution from higher sales. In the current year, while we anticipate that the majority of these costs will fall away, a certain proportion are likely to be required due to any ongoing absence and while we operate within national lockdown restrictions. Our current estimate – based on the latest UK Government roadmap for easing restrictions – is for around a quarter of the 2020/21 costs to be repeated. We will continue to forgo any business rates relief available.

Booker profitability was significantly impacted by the decline in catering sales, partially offset by a stronger contribution from our retail business and robust cost control. The recovery of catering performance remains uncertain and is likely to be strongly correlated to the reopening of the hospitality and leisure sector. As catering demand fell away immediately following the completion of the Best Food Logistics acquisition, colleagues there were redeployed to support Booker's retail customer-focused business and the Tesco grocery online business.

Central Europe

In Central Europe customer behaviour was different to that seen in the UK & ROI markets and trading restrictions were highly variable. The smaller 'out of home' market in Central Europe meant we did not see as significant a shift to 'in-home' consumption. Sales declined by (0.6)% at constant rates as customers were encouraged to shop locally and trading restrictions in general merchandise led to a reduction in footfall in our larger, destination stores. Our online business and core food ranges within supermarkets performed strongly throughout the year. Trading regulations are expected to remain challenging into the current year.

Central European operating profit before exceptional items reduced by (29.5)% year-on-year, to £124m, reflecting a challenging trading environment while operating under COVID-19 restrictions, which particularly impacted our most significant large stores channel. We incurred a £(25)m charge in the year relating to a retail sales tax in Hungary which was introduced in May. As in the UK & ROI, our response to the COVID-19 pandemic in the region resulted in higher costs due primarily to colleague absence, while mall income was also impacted due to temporary closures. These impacts were partially offset by cost savings from our ongoing simplification efforts in the region.

Tesco Bank

	This year	Last year	YoY
Revenue	£735m	£1,068m	(31.2)%
Operating profit/ (loss) before exceptional items	£(175)m	£193m	n/m
Statutory operating profit/ (loss)	£(470)m	£74m	(735.1)%
Lending to customers	£6,402m	£8,451m	(24.2)%
Customer deposits	£(5,738)m	£(7,707)m	(25.5)%
Net interest margin	5.2%	4.1%	1.1%pts
Total capital ratio	28.2%	23.1%	5.1%pts

The COVID-19 pandemic had a significant impact on performance across the Bank as a material decline in customer spending led to lower levels of new business activity in loans and credit cards, lower credit card balances, and a reduction in ATM and travel money transactions.

Higher levels of unemployment and lower GDP forecasts resulted in an increase in the provision for potential bad debts. This, in combination with the reduction in income, resulted in an operating loss of £(175)m for the full year, compared to a profit in the prior year of £193m. We also recognised an impairment charge of £(295)m in relation to goodwill due mainly to an increase in the discount rate as well as a reduction to anticipated future cash flows. The macroeconomic environment remains uncertain and will continue to impact banking activity levels.

Lending to customers declined by (24.2)% and customer deposit balances declined by (25.5)%, driven by lower levels of customer spending and a prudent approach to new credit risk. Lower levels of lending strengthened the Bank's capital position with the total capital ratio increasing to 28.2%, an improvement of 5.1 percentage points year-on-year. The balance sheet remains strong and the Bank continues to have sufficient capital and liquidity to absorb changes in both regulatory and funding requirements.

As previously announced, we expect to complete the acquisition of our partner's stake in the Tesco Underwriting joint venture in May. This will create an end-to-end insurance business that is uniquely positioned to help Tesco customers.

We supported our customers throughout the year by offering loan and credit card payment breaks to the end of March 2021, increasing contactless payment limits to allow more customers to shop safely, removing administration fees to allow insurance customers to change or cancel policies, reducing overdraft fees and fees related to early access to savings accounts. Our Pay+ app allows contactless payments of up to £250 and we now have over one million users.

Financial review continued

Exceptional items and amortisation of acquired intangibles in statutory operating profit

On a continuing operations basis	This year	Last year 52-week basis	Last year 53-week basis
Impairment charge on Tesco Bank goodwill	£(295)m	–	–
Net impairment reversal of non-current assets	£156m	£64m	£64m
Acquisition of property joint venture	£134m	£(136)m	£(136)m
UK – ATM business rates	£105m	–	–
Litigation costs	£(93)m	–	–
Property transactions	£26m	£22m	£33m
Booker integration costs	£(25)m	£(23)m	£(23)m
GMP Equalisation	£(7)m	–	–
Employee share scheme	£(4)m	–	–
Net restructuring and redundancy costs	–	£(64)m	£(108)m
Closure of Tesco Bank current accounts to new customers	–	£(56)m	£(56)m
Impairment of investment in India joint venture	–	£(47)m	£(47)m
Provision for customer redress	–	£(45)m	£(45)m
Disposal of Gain Land associate	–	£37m	£37m
Tesco Bank mortgage book disposal	–	£(5)m	£(5)m
Total exceptional items in statutory operating profit	£(3)m	£(253)m	£(286)m
Amortisation of acquired intangible assets	£(76)m	£(78)m	£(79)m
Total exceptional items and amortisation of acquired intangibles in statutory operating profit	£(79)m	£(331)m	£(365)m

Exceptional items are excluded from our headline performance measures, by virtue of their size and nature, in order to reflect management's view of the underlying performance of the Group. On a continuing operations basis, total exceptional items resulted in a charge of £(3)m, compared to £(253)m last year.

We recognised an exceptional charge of £(295)m relating to Tesco Bank goodwill due mainly to an increased discount rate as well as an anticipated reduction in future cash flows as a result of the COVID-19 pandemic.

The exceptional credit of £156m relating to net impairment reversal of non-current assets was driven by a reduction in discount rates across our retail businesses.

The acquisition of our partner's 50% stake in The Tesco Property (No. 2) Limited Partnership in September 2020 brought into full ownership 12 stores and two distribution centres. The exceptional credit of £134m represents the net effect of the derecognition of the previously held lease liabilities and right of use assets, and the remeasurement of the acquired assets.

A credit of £105m relates to the refund of historical ATM business rates payments after a Supreme Court ruling in May determined that retailers should not be assessed for rates on ATMs installed in or outside stores. We collected £90m of these cash refunds in the year, with the balance remaining to be collected in the 2021/22 financial year.

A charge of £(93)m relates to the settlement of two shareholder litigation claims during the period, with associated costs.

We have incurred a further £(25)m exceptional charge related to Booker integration costs, bringing costs to date to £(61)m, which is in line with our estimate of total integration costs over a three-year period of between £(50)m to £(75)m. We do not expect to incur any further exceptional integration costs.

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 goodwill of £3,093m and £755m intangible assets.

Joint ventures and associates

Our share of post-tax profits from joint ventures and associates before exceptional items was £26m. This includes profits from UK property joint ventures, in addition to an increased contribution from Tesco Underwriting Ltd. The year-on-year improvement also reflects the benefit of the removal of our loss-making associate in China, which we disposed of at the end of last year.

Finance income and finance costs

On a continuing operations basis	This year	Last year 52-week basis	Last year 53-week basis
Net interest on medium term notes, loans and bonds	£(218)m	£(209)m	£(212)m
Other interest receivable and similar income	£15m	£20m	£20m
Other finance charges and interest payable	£(31)m	£(24)m	£(24)m
Finance charges payable on lease liabilities	£(446)m	£(480)m	£(486)m
Net finance cost before exceptional charges, net pension finance costs and fair value remeasurements of financial instruments	£(680)m	£(693)m	£(702)m
Fair value remeasurements of financial instruments	£(214)m	£(228)m	£(246)m
Net pension finance costs	£(43)m	£(71)m	£(71)m
Net finance costs before exceptional items	£(937)m	£(992)m	£(1,019)m
Exceptional items:			
– Fair value remeasurement on restructuring derivative financial instruments	–	£(180)m	£(180)m
– Gain on Tesco Bank mortgage disposal	–	£29m	£29m
Net finance costs	£(937)m	£(1,143)m	£(1,170)m

Net finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments were £(680)m, slightly down on last year.

Finance charges payable on lease liabilities reduced year-on-year, primarily due to ongoing lease utilisation and the buyback of property, comprising a further seven UK stores and The Tesco Property (No. 2) Limited Partnership in the year.

Net interest on medium-term notes, loans and bonds was £(218)m, £(9)m higher year-on-year due to the inclusion of interest payments on the debt we acquired with The Tesco Atrato Limited Partnership in September 2019 and The Tesco Property (No. 2) Limited Partnership in September 2020. This more than offset a reduction in interest payable following debt maturities, bond tenders and new issues at a significantly lower rate of interest.

A fair value remeasurement charge of £(214)m primarily related to premiums paid on the buyback of bonds and the mark-to-market movement on inflation-linked swaps, driven by falling future inflation rates. These swaps reduce the impact of future inflation on the Group's cash flow in relation to historical sale and leaseback property transactions.

Net pension finance costs of £(43)m decreased by £28m year-on-year, including a benefit from the reduction in the pension deficit following the £2.5bn one-off pension contribution. Net pension finance costs for the current year are expected to be in the region of £(23)m.

Group tax

Tax on Group profit before exceptional items and amortisation of acquired intangibles was £(200)m, £139m lower than last year primarily due to lower retail operating profits and a tax credit related to Tesco Bank operating losses.

The effective tax rate on profit before exceptional items and amortisation of acquired intangibles was 22.1%, higher than the UK statutory rate, primarily due to depreciation of assets that do not qualify for tax relief. We expect an effective tax rate for the 2021/22 financial year of c.23%. Following the UK Government's budget announcement in March, we now expect the effective tax rate to increase to around 26% in the medium term due to an increase in the UK corporation tax rate.

Total Group cash tax paid in the year was £(170)m on a continuing operations basis, which included £(105)m of tax paid in the UK. Tax paid in the year was £118m lower than in the prior year, primarily due to a tax deduction in relation to the £2.5bn one-off pension contribution and a decline in Tesco Bank operating profit.

Earnings per share

On a continuing operations basis	This year	Last year 52-week basis	Last year 53-week basis
Diluted EPS pre-exceptional items, amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (adjusted for share consolidation)	11.94p	18.60p	18.98p
Statutory diluted EPS	7.54p	n/a	7.54p
Statutory basic EPS	7.56p	n/a	7.60p

Our adjusted diluted EPS metric reflects the post-consolidation share base as if it had been in place from the start of the 2019/20 financial year. On this basis, adjusted diluted EPS was 11.94p (LY: 18.60p), (35.8)% lower year-on-year, due to Tesco Bank operating losses and lower retail operating profits due to COVID-19 impacts.

Statutory basic earnings per share from continuing operations was 7.56p, (0.5)% lower year-on-year, due to a decline in operating profits which was offset by lower exceptional charges and a lower tax charge.

Summary of total indebtedness

	Feb-21	Feb-20	YoY Change
Underlying net debt (excl. Tesco Bank)	£(3,449)m	£(2,765)m	£(684)m
Lease liabilities	£(8,506)m	£(9,533)m	£1,027m
Pension deficit, IAS 19 basis (post-tax)	£(1,004)m	£(2,573)m	£1,569m
Total indebtedness	£(12,959)m	£(14,871)m	£1,912m

<i>memo: additional YoY change information</i>	<i>of which: relating to Asia disposal</i>	<i>of which: underlying movement</i>
<i>Underlying net debt (excl. Tesco Bank)</i>	<i>£(240)m</i>	<i>£(444)m</i>
<i>Lease liabilities</i>	<i>£765m</i>	<i>£262m</i>
<i>Pension deficit, IAS 19 basis (post-tax)</i>	<i>£2,052m</i>	<i>£(483)m</i>
<i>Total indebtedness</i>	<i>£2,577m</i>	<i>£(665)m</i>

Total indebtedness was £(12,959)m, down £1.9bn year-on-year primarily driven by the reduction in our pension deficit following the £2.5bn one-off contribution made following the sale of our businesses in Asia. This reduction was partly offset by an increase in the underlying IAS 19 pension deficit.

Including the one-off pension contribution, the sale of our businesses in Thailand and Malaysia reduced total indebtedness by £2,577m, including a net benefit of £525m from the derecognition of cash and lease liability balances. In the memo table above we have shown this impact separately, to provide greater clarity into the other movements in total indebtedness in the year.

Other indebtedness movements totalled £(665)m year-on-year, reflecting an increase in the IAS 19 pension deficit of £(483)m principally due to underlying market movements in gilts and corporate bonds that have negatively impacted scheme assets but caused smaller offsetting reduction in IAS 19 pension liabilities. The IAS 19 pension deficit does not drive contributions made to the pension scheme. The acquisition of our partner's stake in The Tesco Property (No. 2) Limited Partnership also increased indebtedness, with net debt increasing by £(453)m partly offset by lease liabilities reducing by £254m.

Our reported total indebtedness this year includes £134m of lease liabilities and £7m of underlying net debt relating to our business in Poland.

We have retained a strong cash position with a total of £2.1bn of cash liquidity available at the end of the year. In January 2021, we issued a €750m, 8.5-year bond at an interest rate of 0.375%, linked to greenhouse gas emissions. This was the first bond issued by a retailer to be linked to sustainability targets. We refinanced our committed facilities in October at £2.5bn for a further three years, securing access to additional liquidity. The rate of interest payable on utilisation of these facilities will be linked to the achievement of three ESG targets.

Financial review continued

Our total indebtedness ratio was 3.6 times, compared to 3.1 times at the prior year end, primarily due to a reduction in retail EBITDA driven by COVID-19 related costs. We expect this to improve strongly in the current year as profits recover. The sale of our businesses in Thailand and Malaysia had a net neutral impact on the total indebtedness ratio, as the benefit of the one-off pension contribution and derecognition of lease liabilities and net debt in those businesses was offset by reduced earnings. Fixed charge cover decreased to 2.9 times compared to 3.1 times last year.

Summary retail cash flow

Retail free cash flow decreased by £(503)m year-on-year to £1,187m, driven by lower cash profits due to the significant costs incurred in our response to the COVID-19 pandemic. In addition, last year's retail free cash flow included £277m of proceeds from the sale of our 20% stake in the Gain Land associate.

We benefited from a working capital inflow of £450m in the year, which was £186m higher than last year, primarily driven by the effect of higher food volumes. We saw a significant reduction in fuel volume in the year, leading to a c.£(180)m impact in working capital, however this was offset by a planned change to our fuel supplier payment terms.

Interest paid related to net debt (exc. lease liabilities) of £(226)m was up £(13)m year-on-year as the benefit of bond buybacks and refinancing at lower rates of interest was offset by the impact from borrowings acquired as part of The Tesco Property (No. 2) Limited Partnership.

Retail cash tax paid was £(161)m, £58m lower than last year, primarily as a result of lower retail operating profits.

Property proceeds of £181m includes £90m from properties in Poland which were sold separately to the sale of the business to Salling Group A/S, as well as other smaller disposals including the sale of the Booker Makro site in Croydon. We announced the completion of the sale of our business in Poland to Salling Group A/S in March 2021, following the end of the 2020/21 financial year.

We utilised £(291)m of cash to buy back stores in the UK, including £(238)m to buyback seven standalone stores which will result in an annual cash rental saving of £14m. We also acquired our partner's share in The Tesco Property (No. 2) Limited Partnership at a cost of £(54)m, bringing back into 100% ownership 12 stores and two distribution centres, which had been subject to fixed rental uplifts each year. This acquisition results in initial annual cash rental savings of £28m. We continue to evaluate store buyback opportunities on an individual lease basis and will use capital for this purpose where it is economically attractive.

We purchased £(66)m of shares in the market to offset dilution from the issuance of new shares to satisfy the requirements of share schemes. This was £83m lower than the prior year due to a reduced volume of share scheme maturities in the year.

On a continuing operations basis	This year	Last year 52-week basis	Last year 53-week basis
Operating profit before exceptional items and amortisation of acquired intangibles	£1,815m	£2,525m	£2,571m
Less: Tesco Bank operating profit/ (loss) before exceptional items	£175m	£(193)m	£(193)m
Retail operating profit from continuing operations before exceptional items and amortisation of acquired intangibles	£1,990m	£2,332m	£2,378m
Add back: Depreciation and amortisation	£1,614m	£1,560m	£1,589m
Other reconciling items	£(26)m	£63m	£51m
Pension deficit contribution	£(351)m	£(267)m	£(267)m
Underlying decrease in working capital	£450m	£264m	£24m
Retail cash generated from operations before exceptional items	£3,677m	£3,952m	£3,775m
Exceptional cash items:	£(41)m	£(195)m	£(195)m
<i>Relating to prior years:</i>			
– <i>Restructuring payments</i>	£(36)m	£(124)m	£(124)m
<i>Relating to current year:</i>			
– <i>Litigation costs</i>	£(93)m	–	–
– <i>ATM income</i>	£90m	–	–
– <i>Other</i>	£(2)m	£(71)m	£(71)m
Retail operating cash flow	£3,636m	£3,757m	£3,580m
Cash capex	£(902)m	£(842)m	£(846)m
Net interest	£(670)m	£(696)m	£(723)m
– <i>Interest related to net debt (exc. lease liabilities)</i>	£(226)m	£(213)m	£(240)m
– <i>Interest related to lease liabilities</i>	£(444)m	£(483)m	£(483)m
Tax paid	£(161)m	£(219)m	£(219)m
Property proceeds	£181m	£255m	£266m
Property purchases – store buybacks	£(291)m	£(172)m	£(172)m
Market purchases of shares (net of proceeds)	£(66)m	£(149)m	£(149)m
Acquisitions & disposals and dividends received	£21m	£321m	£321m
Repayments of obligations under leases	£(561)m	£(565)m	£(565)m
Retail free cash flow	£1,187m	£1,690m	£1,493m

Capital expenditure

Capital expenditure shown in the table opposite reflects expenditure on ongoing business activities across the Group. Our capital expenditure for the year was £1,015m, £88m higher year-on-year, primarily due to higher maintenance spend in our UK stores and technology, including our investment in online capacity.

In the UK & ROI, we opened 28 convenience stores, one superstore and one urban fulfilment centre in West Bromwich.

We continue to expect annual Group capital expenditure of between £0.9bn–£1.2bn in future years.

Statutory capital expenditure of £1.8bn includes £0.5bn relating to the buyback of seven UK stores and The Tesco Property (No. 2) Limited Partnership (comprising 12 stores and two distribution centres) referred to above.

	This year	Last year
UK & ROI	£875m	£774m
Central Europe	£85m	£101m
Tesco Bank	£55m	£52m
Group	£1,015m	£927m

Property

The estimated market value of our fully owned property as at the year end increased by £0.9bn to £17.9bn. The market value of £17.9bn represents a surplus of £1.4bn over the net book value.

Our Group freehold property ownership percentage, by value, has increased by 1% year-on-year to 58%. In September we completed the purchase of our partner's 50% stake in The Tesco Property (No. 2) Limited Partnership, bringing back into full ownership 12 stores and two distribution centres. This acquisition contributed to a 2% increase in the percentage of fully owned properties in the UK & ROI and will deliver an annual cash rental saving of £28m. We also repurchased seven further stores in the UK, with an annual cash rental saving of £14m.

In Central Europe, we released £90m of value through the disposal of properties in Poland in the year.

Dividend

In February, we returned £5.0bn to shareholders by means of a special dividend, following the sale of our businesses in Thailand and Malaysia.

We propose to pay a final dividend of 5.95 pence per Ordinary share, taking the full-year dividend to 9.15 pence per Ordinary share, including the payment of an interim dividend of 3.20 pence per Ordinary share in November 2020. The proposed full-year dividend of 9.15p reflects the importance the Board places on dividends paid to shareholders, the strength, resilience and momentum of the business in a particularly challenging year and our confidence in future cash flows. This is an exception to our policy of a pay-out ratio of 50% of earnings which would have implied a full year dividend of 5.97p.

The proposed final dividend was approved by the Board of Directors on 13 April 2021 and is subject to the approval of shareholders at this year's Annual General Meeting. The final dividend will be paid on 2 July 2021 to shareholders who are on the register of members at close of business on 21 May 2021 (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 11 June 2021.

Discontinued operations

The performance of our businesses in Thailand, Malaysia and Poland are classified as discontinued operations and has been excluded from our headline performance measures. Operating profit before exceptional items for discontinued operations was £432m.

In December, we completed the sale of our businesses in Thailand and Malaysia to a combination of CP Group entities for an enterprise value of £8.2bn and net cash proceeds before tax and other costs of £8.0bn. In March 2021, we announced the completion of the sale of our business in Poland to Salling Group A/S.

Total exceptional items related to discontinued operations were £(147)m in the period, comprising a provision for a legal claim of £(88)m relating to the sale of our Homeplus business in Korea in 2015 and a £(43)m charge relating to net impairment losses on non-current assets in our business in Poland.

Looking ahead

We will continue to be guided by our four key priorities in response to the COVID-19 crisis: providing food for all, safety for everyone, supporting our colleagues and supporting our communities. We also remain committed to delivering great value to help customers in challenging times.

While we expect some of the additional sales volumes we have gained this year in our core UK market to fall away as COVID-19 restrictions ease, we expect a strong recovery in profitability and retail free cash flow as the majority of the additional costs incurred as a result of the pandemic in the 2020/21 financial year will not be repeated.

While the greater than usual level of uncertainty around sales volumes, mix and channel shift makes it difficult to be precise, our best estimate at this stage is for retail operating profit to recover to a similar level as in the 2019/20 financial year (on a continuing operations basis) – the year prior to COVID-19 having any impact on performance.

We anticipate a return to profitability in Tesco Bank in the 2021/22 financial year. The pace and scale of recovery in profitability is highly dependent on the economic outlook, which remains uncertain.

Imran Nawaz takes over as Chief Financial Officer on 1 May 2021, following Alan Stewart's retirement on 30 April 2021. We remain committed to maintaining capital discipline and returning excess capital to shareholders.



Task Force on Climate-related Financial Disclosures

We recognise climate change as the biggest environmental threat the world faces, posing particular risks to our business and supply chains. We impact the climate in our own operations and supply chain. We continue to develop our work on climate change and include information on this in several sections of this year's reporting. In addition to this TCFD report, we provide additional information in principal risks and uncertainties and our Little Helps Plan report. We also consider the potential financial impacts from climate change in the viability statement on page 38 and the impairment note on page 147, based on our initial phase of scenario modelling which is described below.

Strategy

In June 2017, Tesco publicly committed to implementing the TCFD recommendations. In 2018, we conducted a materiality assessment in consultation with relevant climate experts across the business. Our assessment prioritised the key business categories (based on contribution to Group sales) with the greatest potential climate-risk exposure, (based on consideration of factors including the complexity and locations of supply chains for different products). Across the financial years 2018/19 and 2019/20, we carried out initial scenario analysis for the produce and animal protein categories as well as our UK property estate, which represents the vast majority of our Group space. In the current year, we included the grocery and prepared foods categories as well as soy, a key commodity in animal feed.

Risks assessed included impacts of severe weather events, chronic weather changes and climate transition (e.g. policy changes, reputational risks, market shifts, etc.). To date, our scenario analysis has focused on the trading impacts of climate change in our largest market, the UK, and we used the results to prioritise our areas of focus. This initial phase of scenario modelling does not quantify the mitigating actions which we would look to implement to address and minimise the adverse impacts from climate change. The modelling is intended to provide illustrative examples of the areas of the business which could be most exposed to the effects of climate change.

Looking ahead, we plan to expand our initial analysis beyond trading impacts to cover further potential risks and opportunities, e.g. those relating to capital investment, technology and people as well as additional product categories.

Our current climate risk assessment methodology assesses the risks and opportunities we may face in 2030 as a meaningful medium-term timeframe for risks and opportunities to emerge, and to reflect our typical business planning cycles. We will look to expand this to include both shorter and longer timescales.

We assessed risks and opportunities in 2030 under a 4-degree scenario and a 2-degree scenario. Our scenarios were developed in 2018, based on those developed by the Intergovernmental Panel on Climate Change (IPCC).

The 4-degree scenario focuses on systemic failure to address climate change. It assumes limited policy or regulatory support for decarbonisation and focuses on several significant physical climate risks: chronic climate change, leading to reduced agricultural productivity in some regions, raising prices of raw materials or reducing supply volumes; and increased frequency and severity of extreme weather events, disrupting our supply chain or causing damage to our assets.

The 2-degree scenario focuses on a world which rises to the challenge of tackling climate change and limits global warming to below 2°C. This scenario focuses on transition risks associated with the rapid changes needed by 2030 to cut emissions in line with the Paris Agreement, including: carbon pricing and low-carbon land management practices, increasing manufacturing and raw-material costs; and changes in consumer behaviour and consumption patterns, leading to potentially significant changes in demand for certain product categories.

Tesco's business strategy provides a degree of resilience to some of these risks, particularly the physical risks. For example, our diversified supply chain approach helps to provide some resilience to the impacts of climate change on particular areas; and our large physical store footprint, national reach and multi-channel business provide some resilience to potential local flooding hotspots.

Scenario analysis results and mitigations

The table opposite describes the potential modelled impacts from the animal protein and UK property business areas, based on our initial phase of scenario modelling. This analysis is provided as an illustrative example of the potential effect of climate change on our business. The financial impacts are highly sensitive to the assumptions used for modelling, and are quantified in the table below as the potential annual profit impact we could face as a business each year by 2030, before we take any mitigating actions. The impacts described are those arising from potential regulatory changes (e.g. a carbon tax on livestock emissions and carbon pricing policies). Given that the initial analysis showed the other impacts to be less material to Tesco, and noting the potential for significant variation depending on the assumptions used, we have not separately quantified the smaller impacts.

Our scenario modelling is underpinned by several key assumptions, principally that the assessed risks are based on a scenario before we take actions to mitigate the modelled impacts. The modelled risks under the 2-degree and 4-degree scenarios are mutually exclusive; we have not assessed a situation where physical and transition risks occur in parallel. The first iteration of our scenario modelling assumes the business remains static, including our operating model, current sourcing practices and sourcing volumes. Finally, we assume that the potential costs from climate-related risks are fully absorbed by the business, with no pass-through to our customers.

Animal protein

Our animal protein assessment focused on beef, chicken, lamb, pork and milk in key sourcing countries; the UK, Ireland and New Zealand. Our assessment (under the 2-degree scenario) included analysis of how regulation and fiscal measures (including taxation) may be employed in future to promote a low carbon transition in livestock production.

Beef accounted for the largest financial impact identified due to its high carbon footprint per unit of production. Milk and chicken also had significant impacts due to the large volumes sourced. The UK and Ireland were particular risk hotspots due to the high volume of beef and milk sourced there.

Transitioning to a low-carbon economy will probably require changes in consumer diets. Meat and dairy production uses 70% of agricultural land and emits 14.5% of greenhouse gases globally. Growing public concern for the environment is expected to drive

a shift in demand from animal-based to plant-based proteins. Research conducted in 2020 found that 70% of Tesco customers are actively trying to reduce their intake of meat, while 80% want supermarkets to do more to help, including offering healthier and more sustainable options.

We are adapting our product portfolio accordingly. In September 2020, we became the first UK retailer to set a sales target for plant-based meat alternatives, committing to a 300% increase in sales by 2025. In parallel, we are shaping our sustainable diets strategy to reflect the role of plant-based protein alongside 'less and better' meat, including early-stage trials on alternative sources of feed. This falls under our ambition of delivering healthy, sustainable and affordable food for all.

Property

Our property assessment focused on our UK estate. Results identified changing regulation and fiscal measures and extreme weather events as having potential impacts on our business.

Under the 2-degree scenario, robust carbon taxes could lead to higher compliance costs. To mitigate this risk, Tesco continues to invest in renewable energy, energy efficiency and new technologies to monitor energy use. We already use 100% renewable electricity across the Group. We continue to increase sourcing via power purchase agreements (PPAs), including a new partnership with Low Carbon, which generates new renewable electricity and helps to green the National Grid. We are replacing retired assets, including fridges, with more efficient models, installing doors and aerofoil in all stores, and exploring heat-retention systems for recycling refrigerant energy.

Category	2-degree scenario 'transition risks'
Animal protein	The potential cost of any carbon tax on livestock emissions is calculated based on an externally sourced estimated carbon price and historical sourcing volumes, with the largest impacts from beef, milk and chicken – potential operating profit impact of c.£(150)-£(200)m annually by 2030 (before mitigating actions).
Property	Higher compliance costs due to more stringent carbon pricing policies, calculated based on an externally sourced estimated carbon price applied to our Scope 1 emissions – potential operating profit impact of c.£(50)-£(100)m annually by 2030 (before mitigating actions).

Extreme weather can impact stores by disrupting operations by damaging assets or increasing running costs, and through loss of sales due to closure or transport disruption. While the results showed elevated flood risk to stores by 2030, the financial impacts were not considered significant.

Produce

Our produce assessment focused on 20 types of fruits and vegetables sourced from six countries. Results indicate physical climate risks in our produce supply chain, and some potential opportunities for further investigation. Long-term changes in temperature and rainfall patterns will adversely impact production by 2030. The most impacted countries assessed will be South Africa, Egypt, Spain and Peru. Higher UK temperatures and rainfall by 2030 could support a longer growing season, potentially increasing yield for certain crops if other growing conditions are also favourable. However, there would need to be significantly higher demand for this to translate into increased revenue.

Changing agricultural farming practices and land use were identified as key risks under the 2-degree scenario, potentially impacting production costs by 2030.

While the potential direct financial impact on our produce supply chain may not be major, impact on product quality and availability could be, and mitigating these risks requires cross-industry and public policy action. As part of our sustainable agriculture strategy, we are strengthening supplier requirements across areas including biodiversity, soil health, emissions reduction and water management.

Soy

The main use of soy is as animal feed (75% of global production) due to its nutritional benefits. As the world population increases, so too will the global demand for meat and other animal proteins. The associated increasing demand for animal feed is driving an expansion of soy cultivation, leading to the loss of native vegetation in South America's Amazon and Cerrado regions.

Tesco primarily sources soy feed from South America. The assessment findings identified that local political uncertainties may give rise to continuous deforestation and infringement of indigenous rights in the region. Alternative sources of soy have less protein content, potentially impacting livestock production, poultry in particular. More soy may therefore be required to meet production volumes.

Tesco is committed to zero-net deforestation in our sourcing of soy. Our UK soy strategy goes beyond certification to a commitment to source from verified zero-deforestation areas by 2025. We are also supporting the development of alternative animal feed proteins, such as insects.

Beyond our supply chain, we work collectively at an industry level and with other stakeholders (such as NGOs and governments), recognising that developing a sustainable soy market requires effective collaboration. Tesco is actively engaged in all relevant industry initiatives, including the Consumer Goods Forum (CGF), Forest Positive Coalition of Action, Soy Transparency Coalition and the UK Roundtable on Sustainable Soya. We are also co-chair of the SoS for the Cerrado Manifesto.

Task Force on Climate-related Financial Disclosures continued

Grocery and prepared foods

We selected 15 key ingredients of our biggest-selling grocery or prepared foods products for our grocery and prepared foods category assessments. Results identified extreme weather events and changing regulation and fiscal measures as the drivers of potential impacts, all of which were financially relatively small.

Changing temperatures and precipitation in certain countries can improve or damage growing conditions for raw ingredients, having a knock-on effect on their availability. However, we found the associated financial impacts not to be significant, given the diversity of sourcing origins for most ingredients.

Our sustainable agriculture strategy not only helps to build supply chain resilience and embed sustainable production practices within changing landscapes, it also helps secure the sustainable supply of ingredients for the future.

Risk management

The identification and management of climate change risks follow our established risk-management process, of which the key elements are set out on page 31. During the year, we assessed and evaluated risks relating to climate change as part of the review cycle, and they were discussed by the Executive and Audit Committee. As shown on page 32 this assessment concluded climate change was a standalone principal risk (previously managed within the responsible sourcing and supply chain risk and the brand, reputation and trust risk). As a principal risk, climate change has been assigned an Executive Risk Owner, the Chief Product Officer. It will be monitored by the Executive and Audit Committee to ensure it is embedded in strategic decision-making. The Executive Committee will also oversee its effective management and mitigation through our policies, processes, practices and performance, a summary of which is set out on page 34.

You can also find consideration of the key financial risks associated with climate risk in our viability scenario analysis on page 38 and on our annual impairment testing process on page 147.

Governance

The Corporate Responsibility (CR) Committee is our Board-level body responsible for overseeing the Group's social and environmental obligations as outlined within the Little Helps Plan (LHP), our sustainability framework, including those relating to climate change. The Committee currently meets three times each year and receives regular updates on our LHP commitments and performance. This year, the CR Committee received an update on TCFD, broader business updates on the LHP, and standing updates on emerging external trends and developments. From 2021/22 onwards, the CR Committee will consider climate-related risks as a standing agenda item and will be attended by colleagues from our product function, recognising the area's strategic importance.

As discussed above, the Chief Product Officer will be the Executive Risk Officer for climate change. He will lead the policy development of the climate change agenda and bring additional executive oversight to this important strategic issue. Updates will be tabled for discussion at the Executive and Audit Committees in line with our risk review cycle.

The Chief Financial Officer will maintain oversight of our climate-related financial activities and reporting, sponsoring the TCFD working group that includes colleagues across our climate, risk management and finance teams to maintain day-to-day oversight of these areas.

Metrics and targets

In May 2017, Tesco announced science-based climate targets for our own operations and supply chain. Our operational targets are aligned with the Paris Agreement's aspiration to limit global warming to 1.5°C. We surpassed our 2020 Group target to reduce absolute emissions from our operations by 35% vs 2015/16 levels, achieving -37% in FY 2019/20, or -50% rebaselined for continuing operations. We are on target to meet our further reduction targets of 60% by 2025 and 100% by 2050 (2035 for our UK operations). We have met our 2030 target of sourcing 100% of our Group electricity from renewable sources 10 years early.

Our science-based climate change targets for our supply chain include explicit targets for manufacturing and agricultural suppliers – recognising the different approaches required to reduce emissions in both areas. We are currently reviewing opportunities to expand our work on scope 3.

Our carbon reporting follows the Greenhouse Gas Protocol and is third-party verified by KPMG. Our climate change metrics and other environmental targets are disclosed in our full LHP report available on our website.

In December 2020, we completed an updated carbon footprint analysis across our UK business using the latest available emissions factors and requirements. This data enables us to determine more granular emissions profiles across our product categories to inform our strategy and risk-management process. We are currently undertaking a review of our science-based targets to further strengthen our decarbonisation roadmap and the metrics we use to assess climate-related risks and opportunities. We are also considering any further metrics to help monitor our progress in managing climate-related risks and opportunities.

Next steps

As described above, our priorities for the year ahead include expanding our scenario analysis to impacts beyond trading and to shorter and longer timescales, and further embedding our considerations of climate-related risks and opportunities into our business activities, including measuring our progress.

Non-financial reporting statement

The Little Helps Plan section of the Annual Report and Little Helps Plan report contain a wide range of non-financial information about employees, environmental and social matters. Our full Little Helps Plan report is available on our website www.tescopl.com/littlehelpsplan. As required under the non-financial reporting requirements, the table below sets out where more information on non-financial matters can be found within the rest of the Annual Report and also on our website. The due diligence carried out for each policy is contained within each respective policy's documentation.

Non-financial matter	Policies and standards which govern our approach	Page
Business model	Business model and KPIs	10 and 11
	Principal risks and uncertainties	31 to 37
Environmental matters	Task Force on Climate-related Financial Disclosures	26 to 28
	Principal risks and uncertainties: political, regulatory and compliance	35
	Principal risks and uncertainties: climate change	34
	Details of our approach to protecting the environment in supply chains can be found on our website	
Employees	Engaging with our stakeholders: colleagues	9
	Diversity and Inclusion	17 and 18
	Principal risks and uncertainties: health and safety; people	34 and 35
	Board Leadership and Company Purpose	51 to 53
	Directors' report: employment policies	98
Social matters	Task Force on Climate-related Financial Disclosures	26 to 28
	Section 172 statement	30
	Principal risks and uncertainties: COVID-19	33
	Information about how we do business, including our approach to tax, can be found on our website Directors' report: Groceries Supply Code of Practice	99
Respect for human rights	Task Force on Climate-related Financial Disclosures	26 to 28
	Principal risks and uncertainties: responsible sourcing and supply chain	34
	Details of our policy, as well as our approach to protecting human rights, can be found on our website	
Anti-corruption and anti-bribery matters, health and safety	Principal risks and uncertainties: health and safety	34
	Directors' report: Modern Slavery Act, anti-bribery matters	100
	Our Code of Business Conduct and other related policies can be found on our website	



Community Cooks

Working with Jamie Oliver and FareShare, we launched the second phase of our Community Cookery School programme. The programme gives cooks advice on how to prepare nutritionally balanced meals using surplus food donations they receive, as well as ensuring no good food goes to waste. We trained 1,000 community cooks in 2019, and a further 300 joined a virtual launch of this year's programme, which will run throughout June with different lessons and recipes to learn.



Photograph taken before COVID-19 restrictions were put in place.

Section 172 statement

Guided by our purpose.

Section 172 of the Companies Act 2006 requires a director of a company to act in the way he or she considers, in good faith, would most likely promote the success of the company for the benefit of its members as a whole while having regard, among other matters, to a range of factors set out in section 172(1)(a)-(f) in the Companies Act 2006.

In discharging our section 172 duty, we have regard to these factors by taking them into consideration when decisions are made. Details of our key stakeholders are set out on pages 8, 9 and 52. In addition, the interests and views of Tesco pensioners and our relationship with regulators and NGOs are taken into consideration. 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:

Section 172 duty	Key examples	Page
Consequences of any decisions in the long term	Chairman's statement	5
	Group Chief Executive's review	6-7
	Our stakeholders	8-9
	Our business model	10
	Key performance indicators	11
	Financial review	19-25
	Principal risks and uncertainties	31-37
	Longer-term viability statement	38-39
	Board leadership: Board activity	54-57
	Directors' remuneration report	72-96
Interests of the employees	Chairman's statement	5
	Group Chief Executive's review	6-7
	Our stakeholders	8-9
	Our business model	10
	Little Helps Plan	12-16
	Diversity and inclusion	17-18
	Principal risks and uncertainties	31-37
	Workforce engagement	53
	Board leadership: Board activity	54-57
	Directors' remuneration report	72-96
Foster business relationships with suppliers, customers and others	Chairman's statement	5
	Group Chief Executive's review	6-7
	Our stakeholders	8-9
	Little Helps Plan	12-16
	Stakeholder engagement	52
	Board leadership: Board activity	54-57
Impact of our operations on the community and environment	Corporate Responsibility Committee	64-65
	Group Chief Executive's review	6-7
	Our stakeholders	8-9
	Little Helps Plan	12-16
	Task Force on Climate-related Financial Disclosures	26-28
	Principal risks and uncertainties	31-37
	Board leadership: Board activity	54-57
Corporate Responsibility Committee	64-65	
Maintain a reputation for high standards of business conduct	Our stakeholders	8-9
	Little Helps Plan	12-16
	Diversity and inclusion	17-18
	Board leadership and company purpose	51
	Board leadership: Board activity	54-57
	Division of responsibilities: Governance framework	58-59
	Corporate Responsibility Committee	64-65
Acting fairly between members	Directors' remuneration report	72-96
	Our stakeholders	8-9
	Board leadership: Board activity	54-57

Tesco's response to COVID-19

When the pandemic started, while the financial and risk impact to the business was tracked, the Board made a conscious decision to prioritise:

- **Food for all:** we increased stock levels, limited purchases, secured availability in the supply chain and changed our shopping hours;
- **Safety for everyone:** we introduced social distancing measures, expanded home delivery and Click & Collect capacity and introduced priority slots for the vulnerable;
- **Support for colleagues:** introduced full pay for our vulnerable colleagues and those who were unwell or required to self-isolate, recruited around 50,000 temporary colleagues which saw over 1 million visitors to our careers website, supported our office colleagues with the ability to work at home and provided additional support for colleagues' mental health and wellbeing; and
- **Support for communities:** we donated 29 million meals from stores and distribution centres, donated £129m to good causes through our charity partnerships, community grant programmes and colleague and customer fundraising, and £8m awarded through our Bags of Help grants, benefiting more than 10,000 community groups in the UK.

Senior management have liaised with the relevant authorities, monitored safety advice and communicated widely within the Group to ensure the safety of our colleagues, customers and other stakeholders. Through updates from all business areas, the Board had visibility of the challenges faced in all markets, changes required in the way we operated to ensure safety and deliver on our four priorities, support our suppliers and understand the financial impact the pandemic was having on all areas of the business including Tesco Bank and Booker.

Stakeholder reaction to our response has very been positive, with around 90% of UK customers rating safety highly.

Repayment of business rates relief

The Government's business rates relief, announced in March 2020 at the beginning of the pandemic, allowed the Group immediately to continue to operate in the face of significant uncertainty, to invest in colleagues and support our customers and suppliers. For food retailers, the impact was immediate and potentially disastrous; panic buying, severe pressure on supply lines, major safety concerns and the risk of mass absences from work culminated in a real and immediate risk to the ability of supermarkets to feed the nation. Every penny of the business rates relief received was spent in our response to the pandemic and the Group incurred more than £892m in UK retail COVID-19 costs to support colleagues and customers to put safety first.

In December, the Board made the decision to repay the business rates relief to the Government and the devolved administrations. In making its decision, the Board considered the short-term financial consequences, together with the long-term benefits to the Group across all aspects of the business to benefit all stakeholders. The Board considered the negative financial impact this would have on the Group including the material amount of business rates to be repaid, the impact this would have on the liquidity of the Group and the potential dividend impact on shareholders. The Board recognised that it was its responsibility to act with integrity, in the manner of a good corporate citizen doing the right thing as would be expected by our customers, colleagues, suppliers and shareholders, particularly in light of the financial difficulties many industries were facing.



Further detail on the Board's activities during the year are set out on pages 54 to 57.

Principal risks and uncertainties

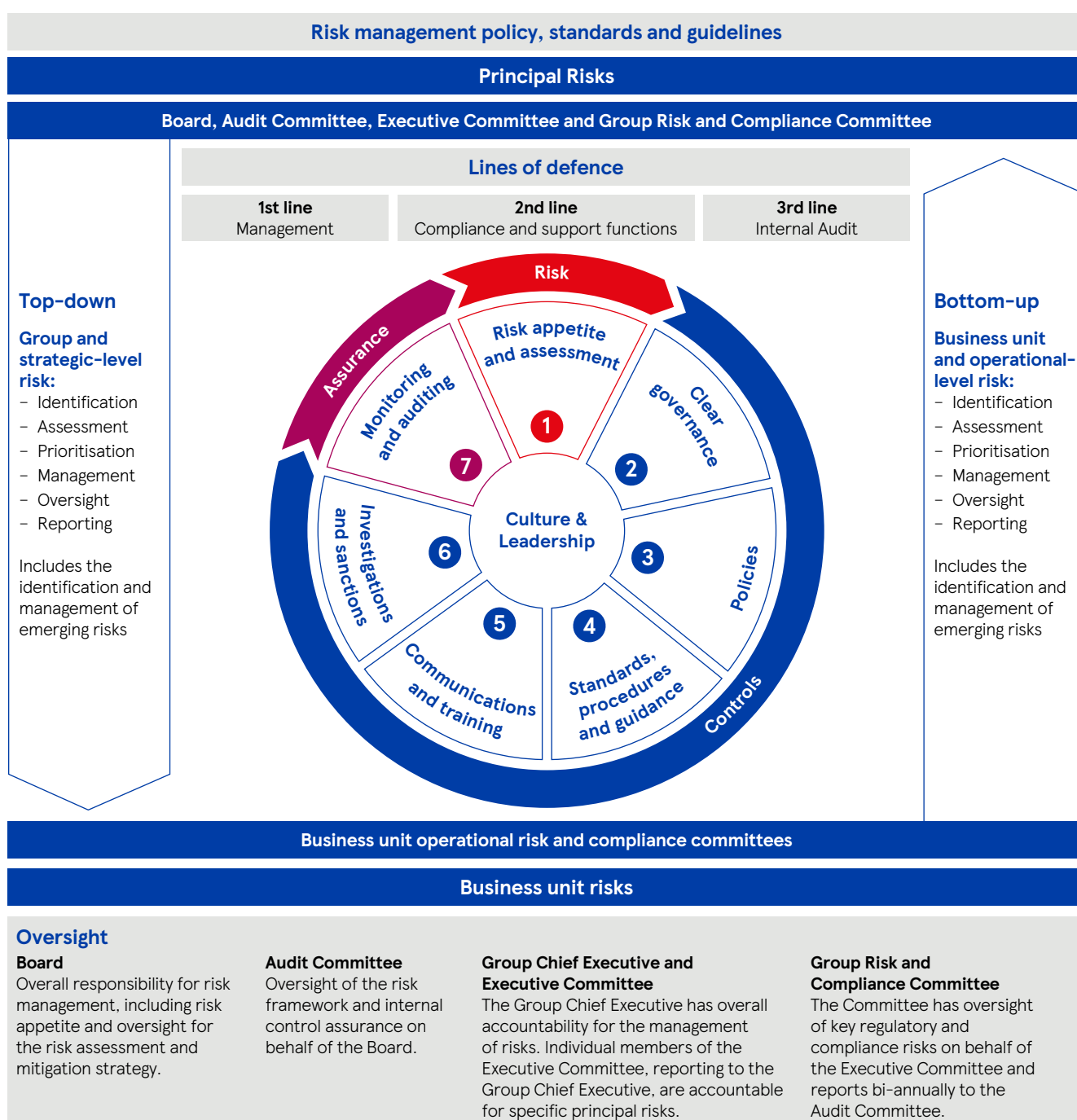
Our approach to risk management.

Key elements of our risk management framework

Our established risk management framework enables us to manage and report the risks that we face as a business (see diagram below). A risk that can seriously affect our performance, future prospects or reputation is termed a principal risk.

To manage our risks effectively we have identified a risk appetite which is driven by the following factors:

- our performance should be competitive, responsible and focused on creating value for all our stakeholders including customers, colleagues, suppliers and shareholders;
- our behaviours must be in line with our Code of Business Conduct to protect and enhance our reputation;
- we aim to operate our business within the capital allocation framework we have set out; and
- we seek to ensure that our principal risks are effectively managed.



Principal risks and uncertainties continued

Principal risks are discussed and agreed by Executive management and the Audit Committee. These risks are cascaded to the business units (top-down), who manage and report on the principal risks and any additional significant business unit risks. Business units also escalate risks as appropriate (bottom-up) to the Executive Committee. Our regular risk discussions consider emerging risks and include horizon scanning, which are reported at business unit and Executive Committee levels.

The principal risks are discussed and evaluated through regular meetings with senior management. The Board discusses each principal risk at least annually to provide oversight and ensure they remain well-managed and relevant.

The seven steps of the risk, controls and assurance framework on page 31 are embedded within our business as key elements of how we manage our risks and ensure appropriate controls are in place.

The risk assessment process relies on our evaluation of the likelihood and impact of risks, and on the development and monitoring of appropriate internal controls. Risk registers, detailing the risks we face, are an important component of how we manage our risks.

Risk management

We have carried out a robust review of our principal risks, which includes periodic assessments of the risks we believe could threaten our business model, future performance, solvency or liquidity.

The Brexit risk has reduced since last year when there was no clarity on the long-term trading relationship between the UK and EU once the transition period expired on 31 December 2020. The new UK-EU Trade and Cooperation Agreement (TCA) removed the uncertainty of a no-deal Brexit. While this has reduced the Brexit risk, uncertainty remains around the full effect of Brexit, how the TCA will be implemented and how the trading relationship will develop.

We reported the COVID-19 pandemic as a new principal risk last year, and it remains an elevated risk. The pandemic has had a more profound impact on economies and people than was then expected. Uncertainty remains as to whether the recent lockdowns and vaccination programme are sufficient to bring the pandemic under control and allow normal life to return and, if so, when. The impact of the pandemic is also reflected across many of the principal risks and our mitigation strategies for them.

Climate change has become a widely acknowledged global emergency and a key priority for governments, businesses and citizens around the world. While risks relating to climate change and sustainability have previously been integral parts of several of our principal risks, we have now included climate change as a separate principal risk.

Tesco Bank has been through a challenging year due to increased macroeconomic uncertainty driven by, among others, the COVID-19 pandemic, thereby increasing its risk profile.

During the year, we recognised the potential disruption arising from the lengthy regulatory processes involved in the sale of our businesses in Thailand and Malaysia, which was completed in December 2020. The actions we took to monitor and manage these risks proved effective.

The table starting opposite sets out our principal risks, their movement during the year, and a summary of key controls and mitigating factors. They do not include all our risks and they are not set out in priority order. Additional risks not presently known, or that we currently deem to be less material, may also have adverse effects.

As part of our continuous improvement approach to risk management, and aided by the appointment of a new Chief Audit and Risk Officer in September 2020, we will continue to develop our methodology and risk framework. This will enhance risk management in supporting effective decision-making. As part of this, we also continue to develop and enhance our approach to risk appetite.

Key



Risk increasing



Risk decreasing



No risk movement



New risk

Principal risk	Risk movement	Key controls and mitigating factors
<p>Brexit[†] Failure to adapt to the UK's new trading relationship with the EU, and how it may develop as further agreements are reached or political decisions made, results in disruption to our business, cost inflation and impacts on our ability to supply our customers with the products and at the prices they expect. These and any adverse impact of Brexit on the UK economy could affect our business, financial results and operations.</p>	<p>The new UK-EU Trade and Cooperation Agreement (TCA) came into effect from 1 January 2021, setting out the conditions for tariff-free trading with the EU and removing the uncertainty of a no-deal Brexit. The business is impacted by more cumbersome border controls, goods inspection, and customs documentation, with the most trade friction being between Great Britain and Northern Ireland and Ireland. The full effect of Brexit on the business will emerge as new trade patterns are established and the new regulatory framework is better understood.</p>	<ul style="list-style-type: none"> - We continue to assess and monitor the potential risks of Brexit and its impacts on our customers, colleagues and shareholders. We are also taking appropriate mitigation measures to address challenges including logistics, resourcing and supply with clear oversight by senior leaders and our Brexit Governance Group. - Our focus has been on avoiding transportation delays and bottlenecks. We are also working to ensure the accuracy of documentation to avoid waste and to ensure we maximise the shelf life of our fresh produce by working with our logistics partners. - We continue to work closely with Government, regulatory bodies and industry on implementing the TCA, sharing data and analysis to inform policymaking.
<p>COVID-19[†] The continuing global COVID-19 pandemic may have a significant and prolonged impact on global economic conditions, disrupt our supply chain (including our supplier base, specifically regarding business closure and consolidation, labour shortage, raw material supply and cost inflation), increase employee absences and adversely impact our operations (including Tesco Bank). Failure to adapt to changes brought about by this and any future pandemics in our markets and the environment in which we operate may adversely affect our competitiveness and financial results.</p>	<p>During the year, governments around the world introduced emergency public measures, including travel bans, quarantines and public lockdowns. These measures have, to varying degrees, been relaxed then reintroduced as COVID-19 transmission subsided before surging again, with new variants adding to the speed of transmission. Vaccines have been developed and are being rolled out with significant coverage in our core UK market, however uncertainty remains as to whether recent lockdowns and the vaccination programme are sufficient to bring the pandemic under control and allow normal life to return and, if so, when. It is also unclear how the pandemic will have changed the environment in which we operate and the choices customers make.</p>	<ul style="list-style-type: none"> - The safety and wellbeing of our colleagues and customers has been and continues to be our overriding priority. Our Executive Committee is monitoring events closely with regular Board oversight, evaluating the impacts and designing appropriate response strategies. - Our teams continue to work tirelessly to implement specific actions to minimise disruption faced by our customers in these challenging times. This includes increasing our retail store colleague headcount (with redeployment of colleagues where possible), securing additional supply chain capacity to meet changes in demand, implementing changes to stores (including hours, additional security, hygiene and social distancing measures), and extending support to colleagues and customers at increased risk. - We have developed practices within our stores and distribution centres, as well as for office colleagues working from home, to help people adapt to the new ways of working. We have aligned our controls accordingly with appropriate assurance measures in place. - The availability of cash resources and committed facilities, together with our strong cash flow, are supporting Tesco's liquidity and longer-term viability.
<p>Data security and data privacy[†] Failure to comply with legal or regulatory requirements relating to data security and data privacy in the course of our business activities results in reputational damage, fines or other adverse consequences. This includes criminal penalties and consequential litigation which may result in an adverse impact on our financial performance or unfavourable effects on our ability to do business.</p>	<p>As a retail organisation, we hold a large amount of personal data on customers and colleagues. The threat landscape has been ever-growing while we continue to invest in our security and privacy programmes. The move to homeworking for most office-based colleagues during the pandemic has presented its own security challenges and response requirements.</p>	<ul style="list-style-type: none"> - We put our customers and colleagues at the heart of all decisions we make in relation to the processing of personal data. Our data privacy and protection policies clearly set out how we can protect and appropriately restrict customer, supplier and colleague data. Our multi-year technology security programme is driving enhanced data security capabilities. - We have an established team in our security operations centre to detect, report and respond to security incidents. - We have a third-party supplier assurance programme focusing on third-party data security and privacy risks. - We have a privacy compliance programme, which includes assessment and monitoring of risk across our global business. - There is regular reporting on progress and results of the security and privacy programmes to governance and oversight committees. - We recognise the importance of training and communication to help prevent data security and privacy-related incidents and have regular induction, awareness and refresher courses for our colleagues. - We have next-generation, behaviour-based anti-virus and malware solutions, data and payment encryption and threat detection tools that help us reduce the likelihood of being compromised.

[†] Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on pages 38 and 39.

Principal risks and uncertainties continued




Principal risk	Risk movement	Key controls and mitigating factors
<p>Health and safety Failure to meet safety standards in relation to our workplace results in death or injury to our customers, colleagues, or third parties, or in damage to our operations and leads to adverse financial and reputational consequences.</p>	<p>The pandemic has presented unique challenges for the safety of our customers and colleagues. It has driven the need for rigorous risk assessment, the rapid rollout of new ways of serving customers and of working for colleagues, clear communication, and close attention to and compliance with Government pronouncements.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - We have a business-wide, risk-based safety framework which defines how we implement and report on safety controls to ensure that colleagues, contractors and customers have a safe place to work and shop. - We require each business to maintain a comprehensive risk register and safety improvement plan to document and track enhancements. - Governance and oversight are established in the form of our Group Risk and Compliance Committee and business unit-specific health and safety committees. These committees review critical metrics and monitor the effectiveness of related controls. - Our safety audits, whistleblowing 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 enable us continuously to seek and identify areas for potential improvement.
<p>Climate change[†] Climate change has the potential to change dramatically the world in which we live and operate, and tackling climate change, by taking measures to limit its impact to manageable levels, has become a key priority for governments, businesses and citizens around the world. Even if manageable, the effect of climate change will be quite profound, and these measures will themselves have a significant impact on economies and the choices people make. Climate change has, therefore, moved from an emerging risk to a principal risk for the business.</p>	<p>Climate change has become a widely acknowledged global emergency, moving from an emerging risk to a principal risk for the business.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - Our Little Helps Plan on pages 12 to 16 sets out our ambitions and action plans for addressing climate change. The Board's Corporate Responsibility Committee provides governance and oversight. - We have established a number of metrics with appropriate management oversight and governance mechanisms to enable us to monitor progress. We are working with third-party organisations to continue developing this suite of metrics. There is a level of external assurance over the metrics, and we are working to further enhance and extend this. - We seek to align our climate-related ambitions with our financial policies and have launched our first sustainability-linked bond. We have also extended our climate-related financial disclosures.
<p>Responsible sourcing and supply chain[†] Failure to meet product safety standards results in death, injury or illness to customers. Failure to ensure that products are sourced responsibly across our supply chain (including fair pay for workers, adhering to human rights, clean and safe working environments, meeting climate change and sustainability commitments) and that all social and environmental standards are met, results in supply chain disruption, regulatory breaches, and reputational impacts of not meeting societal expectations.</p>	<p>The pandemic (and to an extent contingency planning for Brexit) put significant stress on our supply chain during the year. Surges in demand placed pressures on supply, and some suppliers were unable to maintain operating capacity. We have also had to adopt new approaches to our technical and supplier audits to ensure our standards have been met. We have continued to drive our environmental agenda, including actions relating to deforestation and animal welfare.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - 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 have policies and guidance to help ensure human rights are respected and environmental impacts are responsibly managed. These include a focus on appropriately monitoring conditions and progress, tackling endemic sector risks and addressing wider community needs. - We run colleague training programmes on food and product safety, responsible sourcing, hygiene controls, and also provide support for stores. We also provide targeted training for colleagues and suppliers dealing with specific challenges such as modern slavery. - Our crisis management procedures are embedded within operations to quickly resolve issues if non-compliant products are produced or sold with clear escalation protocols. - We operate supplier audit and product analysis programmes to monitor product safety, traceability and integrity, human rights and environmental standards. They include unannounced audits of suppliers' sites and facilities.
<p>Competition and markets[†] Failure to deliver an effective, coherent and consistent strategy in response to our competitors and changes in market conditions result in a loss of market share and profitability.</p>	<p>We continue to face the challenges of a changing competitive landscape and price pressures across our markets. Our strategies are well-developed and we review them regularly to remain competitive and informed by competitor and market activity.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - Our Board develops and regularly challenges the strategic direction of our business to enhance our ability to remain competitive on price, range and service. This includes developing our online channels and multiple formats to allow us to compete in different markets. - Our Executive Committee and operational management regularly review markets, trading opportunities, competitor strategy and activity. - We carry out market scanning and competitor analysis to refine our customer proposition.

[†] Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on pages 38 and 39.


Principal risk	Risk movement	Key controls and mitigating factors
<p>Transformation Failure to achieve our transformation objectives due to poor prioritisation, ineffective change management and a failure to understand and deliver the technology required, results in an inability to progress sufficiently quickly to maintain a competitive cost structure and generate sufficient cash to meet business objectives.</p>	<p>There has been ongoing delivery of key programmes to meet our transformation objectives while we continue to push forward with new initiatives.</p> 	<ul style="list-style-type: none"> - We have clear market strategies and business plans to address changes to business priorities, strategic objectives and external market factors. - We have executive-level governance and oversight for all transformation activities to ensure programmes are adequately resourced, milestones achieved, and key rollout decisions approved. - Real-time independent assurance activities are conducted during the transformation programme.
<p>Political, regulatory and compliance^f Failure to comply with legal and other requirements in an increasingly restrictive regulatory environment due to changes in the global political landscape, results in fines, criminal penalties for Tesco or colleagues, consequential litigation and an adverse impact on our reputation, financial results, and/or our ability to do business.</p>	<p>Long-term changes in the global political environment and societal expectations are leading to greater regulation of business and potential penalties. In some markets, regulations can result in favouring local companies.</p> 	<ul style="list-style-type: none"> - Wherever we operate, we aim to ensure that we incorporate the impacts of political and regulatory changes in our strategic planning and policies. - We have compliance programmes and committees to manage our most important risks (e.g. anti-bribery and competition law) and we conduct assurance activities for each key risk area. - Our Code of Business Conduct and various policies (e.g. gifts and entertainment, conflicts of interest) are supported by new starter and annual compliance training and other tools such as our whistleblowing hotline. - The engagement of leadership and senior management is critical to the successful management of this risk area. We have established structured communication plans to provide a clear tone from the top.
<p>Technology Failure of our IT infrastructure or key IT systems results in a loss of information, inability to operate effectively, financial or regulatory penalties, and negative impacts on our reputation. Further, failure to build resilience at the time of investing in and implementing new technology results in potential loss of operating capability.</p>	<p>Dependence on technology continues to grow throughout the Group. We continue to improve our technology environment and invest in disaster recovery and business continuity, which are helping manage our exposure to external threats.</p> 	<ul style="list-style-type: none"> - Our multi-year programme continues to enhance our technology infrastructure and resilience capabilities. This involves significant investment in our hosting strategy, partnering with cloud providers and re-engineering some of our legacy retail systems, while building redundancy for key business systems. - Our investment in data centre facilities is providing greater resiliency and oversight for our key systems. - Our technology security programme continues to enhance our information security capabilities, thereby strengthening our infrastructure and information technology general controls. - We have combined governance processes to ensure alignment between our technology disaster recovery and business continuity activities.
<p>People Failure to attract, retain and develop the required capability and to embed our values in our culture results in an impact on the delivery of our purpose and business performance.</p>	<p>Market competition for key leadership and specialist talent remains strong. The year has also presented significant people challenges in supporting vulnerable colleagues, recruiting and training huge numbers of new permanent and temporary colleagues, supporting the shift to homeworking for most office-based colleagues, reinforcing our culture and driving our diversity and inclusion programmes harder.</p> 	<ul style="list-style-type: none"> - Our talent planning and people development processes are established across the Group. - Talent and succession planning are regularly discussed by line management and the Executive Committee, with regular oversight by the Nominations and Governance Committee and the Board. - We have clear potential and performance criteria and talent principles, underpinned by our employer value proposition and strategy. - An independent assessment of all leadership-level promotions and external hires is conducted to ensure capability, potential, leadership and values. - The Remuneration Committee agrees the objectives and remuneration arrangements for senior management. - Our 'how to' and 'when to' speak up programmes across all areas include our protector line and complaints process. These allow colleagues to raise in confidence any workplace concerns such as dishonest activity, bias or something that endangers colleagues, the public or the environment. - Our established Group Diversity and Inclusion strategy ensures that everyone is welcome and that we provide all our colleagues with equal opportunities for growth and development. This is embedded in our values, and we are committed to building an inclusive workplace.

^f Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on pages 38 and 39.

Principal risks and uncertainties continued

Principal risk	Risk movement	Key controls and mitigating factors
<p>Customer[†] Uncertainties (including the pandemic and the effects of Brexit) and macroeconomic conditions 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.</p>	<p>There remains considerable uncertainty as to the further impact on the economy and employment from the pandemic and on households. Also, the full effects of Brexit on the economy in the short and longer term are unclear. However, we feel we have the right strategies and processes in place to monitor this risk and manage it as far as circumstances will allow. The pandemic has seen a significant shift in consumer demand for online shopping which led us to significantly increase our capacity.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - We have a value, price, promotions and Clubcard strategy that drives our business priorities with governance and oversight mechanisms. - We have a consistent approach to building impactful customer propositions, offering high-quality and competitive value while improving the customer experience. - We undertake Group-wide customer insight analysis to improve our propositions by understanding and leveraging trends around customer behaviour, expectations and experience across the different parts of the business. - We have well-established product development and quality management processes, which keep the needs of our customer central to our decision-making. - We monitor the effectiveness of our processes by regularly tracking our business and competitors against measures that customers tell us are important to their shopping experience.
<p>Brand, reputation and trust[†] Failure to create brand reappraisal opportunities to improve quality, value and service perceptions, as well as meet societal expectations in relation to climate and sustainability, results in a negative impact on the trust which our communities and stakeholders place in our brand.</p>	<p>There has been widespread recognition of the steps we took to feed the nation while keeping customers and colleagues safe during the year, prioritising vulnerable customers and providing support for local communities around the country. We are, however, very aware that hard-won reputations can be quickly lost, and we continue to implement initiatives and activities aligned to our strategic priorities to continue to build and maintain trust.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - Our Group policies, procedures and our Code of Business Conduct set out the detailed expectations and behaviours that enable us to make the right decisions for our customers, colleagues, suppliers, communities and investors. - We listen to our customers and stakeholders as part of our communication and engagement programmes. We reflect their needs in our plans, which include health, community, sourcing, climate and sustainability initiatives. - The Board's Corporate Responsibility Committee oversees all corporate responsibility activities and initiatives, including climate and sustainability programmes, to ensure alignment with customer priorities and our brand strategy. - We continue to use the advice of specialist external agencies and our in-house marketing expertise to maximise the value and impact of our brand.
<p>Tesco Bank Tesco Bank is exposed to a number of risks, the most significant of which are operational, regulatory, credit, funding and capital adequacy, liquidity, market and business risk.</p>	<p>The pandemic has resulted in lower trading activity, lending balances and income in the Bank and increased provisions for expected credit losses, reflecting forecast unemployment, resulting in a loss for the year. The Bank continues to actively manage the risks to which it is exposed and maintains significant regulatory capital. While the overall risks facing the Bank are similar to that of a year ago, the risk profile is judged to have increased, reflecting the uncertainty as to the timing and strength of a recovery in the economy on which the financial performance of the Bank relies.</p> <p style="text-align: center;"></p>	<ul style="list-style-type: none"> - The Bank has a formal structure for reporting, monitoring and managing risks. This comprises, at its highest level, the Bank's risk appetite, approved by the Bank Board and supported by the risk management framework. - The Tesco PLC Board also reviews and approves the Bank's financial risk appetite. Risk appetite defines the type and amount of risk that the Bank is prepared to accept to meet its strategic objectives. It forms a link between the day-to-day risk management of the business and its strategic priorities, long-term plan, capital planning and stress-testing. Adherence to risk appetite is monitored monthly. - 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. - There is Bank Board risk reporting throughout the year, with 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 Board or Executive Committee is normally a member of the Bank's Board to enhance visibility and knowledge sharing.

[†] Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on pages 38 and 39.

Principal risk	Risk movement	Key controls and mitigating factors
<p>Liquidity[†] Failure of our business performance to deliver cash as expected; access to funding markets or facilities being restricted; failures in operational liquidity and currency risk management; Tesco Bank cash call; or adverse changes to the pension deficit funding requirement create calls on cash higher than anticipated, leading to impacts on financial performance, cash liquidity or the ability to continue to fund operations.</p>	<p>Tesco Group has traded robustly overall through the pandemic and the injection of £2.5bn from the proceeds of the sale of our Asia business has greatly reduced the prospect of having to make further pension deficit contributions in the future. The Group has maintained an Investment Grade rating from the credit rating agencies, and maturing bonds and the revolving credit facilities were refinanced.</p> 	<ul style="list-style-type: none"> - We maintain an infrastructure of systems, policies and reports to ensure discipline and oversight on liquidity matters, including specific treasury and debt-related issues. - Our treasury policies are regularly reviewed by management, the Executive Committee and the Board. - The Group's funding strategy is approved annually by the Board and includes maintaining appropriate levels of working capital, undrawn committed facilities and access to the capital markets. - We regularly review liquidity levels and sources of cash, and we maintain access to committed credit facilities and debt capital markets. - We have a long-term funding framework in place for the pension deficit and there is ongoing communication and engagement with the Pension Trustees. - While recognising that Tesco Bank is financially separate from Tesco PLC, we continue to monitor the activities of Tesco Bank that could give rise to risks to Tesco PLC. - The Audit Committee reviews and annually approves our viability and going concern statements and reports into the Board.

[†] Indicates that the principal risk has been included as part of the longer-term viability scenarios as detailed on pages 38 and 39.

Internal control

The key elements of the Group's internal control framework are monitored throughout the year and the Audit Committee has conducted a review of the effectiveness of the Group's risk management and internal control systems on behalf of the Board. To support the Board's annual assessment, Group Risk and Audit prepared a report on the Group's principal risks and internal controls. This describes the risk management systems and key internal controls, as well as the work conducted in the year to improve the risk and control environment, including the level of assurance undertaken. 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.

Longer-term 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 shoppers a little better every day and is underpinned by a clear strategic focus on driving sustainable and profitable growth.

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 process for identifying the principal and emerging risks in each market is an important input to this process.

The Group's strategic planning 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. As part of this, a longer-term assessment of the prospects of the Group is also considered.

Current position

The priority for the Group in the past year has been responding to the COVID-19 pandemic, with a primary focus on safeguarding customers and colleagues by providing food for all, safety for everyone, supporting our colleagues and supporting the communities in which we operate. Following the successful delivery of every part of our turnaround plan in the prior year, the Group entered this period in a strong position, both financially and operationally, enabling the creation of long-term and sustainable value for our key stakeholders.

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 cash profit, free cash flow and earnings per share growth, underpinned by a robust capital allocation framework.
- A diversified business portfolio covering retail, wholesale, banking and data science.

Refer to the Group Chief Executive's review on pages 6 and 7 and the financial review on page 19 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.
- The ongoing challenges posed by the COVID-19 pandemic, including structural changes in how customers shop, costs incurred by the Group in safeguarding customers and colleagues and the potential macroeconomic consequences of rising unemployment.
- The potential short and longer-term economic impact of Brexit
- Opportunities for further cost reduction through operational simplification and leveraging technology.
- 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 33 to 37.

Five 'severe but plausible' scenarios have been modelled that 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.

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. The scenarios opposite 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) short-term cost reduction actions; and (iii) reducing capital expenditure. None of these mitigating actions are assumed in our current scenario modelling.

Scenario	Associated principal risk description	Description
Macroeconomic downturn	<ul style="list-style-type: none"> - Competition and markets - Customer - Brand, reputation and trust 	The macroeconomic impact of the COVID-19 pandemic has been severe, causing business failure, increased unemployment, reduced disposable income and lower levels of consumer confidence. A reduction in disposable income results in a contraction in customer demand, driving like-for-like volume decline across our retail businesses. To maintain our competitive position in such a recessionary environment, further investment in our value proposition will be required, putting pressure on margins.
Brexit	<ul style="list-style-type: none"> - Competition and markets - Political, regulatory and compliance - Brexit 	Considers the trading agreement between the UK and European Union, which largely mitigates our exposure to tariffs levied on imports from the EU. A broad assessment of the remaining potential impact has been modelled, including higher sourcing costs, higher labour costs in our value chain driven by domestic cost of goods inflation and migration of labour out of the UK and potential cost of customs friction from border controls.
COVID-19	<ul style="list-style-type: none"> - Customer - COVID-19 	Allows for a six-month period of lockdown restrictions in the UK, in spring 2021 and winter 2022, should infection rates increase or a new strain of the COVID-19 virus emerge. In the modelling, the Group considers the potential impact on retail and wholesale sales and the operating cost impact of actions taken to safeguard customers and colleagues. The Bank has modelled the ongoing impact of a macroeconomic downturn, and the effect on expected credit losses on its lending book. The Bank has sourced macroeconomic forecasts from a third-party provider and has used this input to assess the adequacy of capital and liquidity in place to support the business through the expected downturn.
Climate change	<ul style="list-style-type: none"> - Climate change - Responsible sourcing and supply chain - Political, regulatory and compliance 	<p>Rising global temperatures results 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 the produce and animal protein categories.</p> <p>A fuller assessment of the climate-related risks the Group faces, and our actions to mitigate these risks is provided in the TCFD section, starting on page 26.</p>
Data security or regulatory breach	<ul style="list-style-type: none"> - Brand, reputation and trust - Data security and data privacy - Political, regulatory and compliance 	A serious data or security breach results in a significant financial penalty and a loss of reputation among customers. The modelling of this scenario is approached via a 'reverse-stress test' given the inherent uncertainty of value. This assesses a risk in the context of the residual headroom after all other downside scenarios have been applied.

Viability statement

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

This Strategic report 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

13 April 2021

Chairman's letter.

“Our purpose and values have guided every decision the Board and senior management have taken throughout the pandemic.”



COVID-19 and the Board's role

During the past six years, we have been through a period of turnaround. We have dealt with some serious challenges. But the most significant of these has been the global outbreak of COVID-19. As a strong, stable and customer-focused business that is led by a high-quality Board, we were well-positioned to meet the unprecedented challenges of the pandemic, delivering food for all in a clean and safe environment and serving our communities. I am delighted that our Board and Committee governance structures operated effectively and efficiently throughout this period to provide the necessary leadership and oversight to support our business.

Like everyone, the Board and its Committees have had to adapt to rapidly changing circumstances, new challenges and demands during the year. The Board's role throughout the pandemic has been to ensure there was a clear focus on our long-term strategic objectives and to support senior management as they made quick decisions to respond to the pandemic on behalf of all stakeholders. At all times, the Board was kept updated on the changes being implemented across Tesco to support customers and colleagues. I'm proud that every decision was guided by our purpose and values as a business. I believe that, in challenging times, it is important the Board should focus on its role of overseeing the delivery of strategy and ensuring effective management. Reporting to the Board is vital to support this. The Board received regular updates, at and between Board meetings, with the majority of the Board and Committee meetings being held virtually. These ensured we were updated on the operational and financial position of the business in all regions and on the impact of our actions on our stakeholders throughout the pandemic.

We were grateful for the support the UK Government provided, including business rates relief. This helped us put in place without delay what was required in the face of significant uncertainty, enabling us to invest in colleagues and support our customers and suppliers. Ten months into the pandemic, having tested our operational resilience in keeping the nation fed, the Board unanimously agreed that repaying the business rates relief was the right thing to do for the long-term benefit of our stakeholders and wider society.

Sale of Asia business

During the year, we completed the sale of our Asia business and returned £5bn to shareholders. The Board recognised that significantly higher value could be generated for the Asia

business through the sale than could be achieved through our ownership. The release of material value enabled us to focus on cash generation and making returns to shareholders. It also meant we could further derisk the business by reducing indebtedness through a significant pension contribution. I would like to thank all our colleagues in Asia for their hard work and dedication to our customers over many years.

Board effectiveness

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 objectives. Our corporate governance framework clearly defines responsibilities and ensures that the Group has the right systems and controls to ensure the Board and its Committees effectively oversee the business, providing challenge where necessary. The framework supports effective decision-making and helps Directors discharge their statutory duties, in particular, their duty to promote the long-term success of the Company. The Board reviews a detailed programme of matters at least on an annual basis, with deep dives into the business operations to understand the challenges our businesses face. Please see pages 54 to 57 for detail on the Board's activities during the year.

Culture and stakeholder engagement

The Board places significant focus not just on the strategic plans developed by management, but also on our wider culture and the ethical behaviour demonstrated within our business. The Board recognises that culture plays a fundamental role in delivering strategy, and we are committed to promoting a strong and positive culture supported by our core values. These values define how we do business globally, how we treat our colleagues and stakeholders, and how we set the leadership behaviours that are embedded in our culture. Our Code of Business Conduct is instilled throughout the organisation and sets out the high standards of behaviours expected from all colleagues. We are committed to making a positive contribution to society, acting with integrity for the benefit of all our stakeholders. Through our Little Helps Plan, we are committed to integrating responsible and ethical business practices into the delivery of our strategy and our day-to-day operations.

We made progress on our diversity and inclusion programme during the year to ensure that everyone is welcome at Tesco. Through leadership training programmes, we are also focusing on securing a pipeline of talent at all levels to ensure that Tesco is a place for colleagues to develop and get on. The Board and Committees have detailed oversight of the progress in these areas and review senior talent and development on a regular basis.

Engaging with stakeholders and understanding their views is vital to the Board and decision-making. It extends much wider than the delivery of our purpose of serving shoppers a little better every day, to ensure Tesco remains a high-quality employer, a good and supportive business partner and a good corporate citizen. Stakeholder engagement at senior management level helps identify emerging issues, which are then brought to the attention of the Board. This enables the Board to develop strategy, consider our activities, and understand the impact that our decisions may have on all stakeholder groups. We welcome section 172 reporting, so we can talk about the oversight we have and how we make decisions. What we do as an organisation is embedded in our culture and purpose. It fully aligns to the ethos of the statutory duties of a director and is at the centre of how we do business as a Board.

Board changes

In September 2020, Sir Dave Lewis stepped down as Group Chief Executive. He was originally due to step down from the Board in March 2020 but, following discussions with the Board, agreed to stay until Ken Murphy succeeded him in October 2020. This allowed for a smooth transition, ensuring continuity in what was a very difficult period at the beginning of the pandemic. Sir Dave did an outstanding job in turning the business around and reconnecting Tesco to its core purpose.

Alan Stewart will step down as Chief Financial Officer on 30 April 2021 and will be succeeded by Imran Nawaz who will join the Board on 1 May 2021. With a wealth of skills, experience and knowledge in the food sector, Imran will be a tremendous addition to the Tesco Board and Executive team. Alan has played a huge role in the financial transformation of the business over the last six years, leading the corporate restructuring, rebuilding the balance sheet and guiding Tesco back to investment grade.

I would like to thank both Sir Dave and Alan for their contribution to the Group and everything they achieved.

Mark Armour, Mikael Olsson and Deanna Oppenheimer will retire from the Board at the forthcoming Annual General Meeting (AGM). I would like to thank them for their contributions and dedication during their time as Non-executive Directors. Thierry Garnier, Bertrand Bodson and Karen Whitworth will join the Board as independent Non-executive Directors on 30 April, 1 June and 18 June respectively. They bring a variety of skills and experience which will complement those skills already on the Board. We look forward to welcoming them to the Board. For more detail on their appointments, and the work of the Nominations and Governance Committee on succession planning and Board appointments, please refer to pages 60 to 63.

Remuneration

The Board was naturally disappointed with the overall voting outcome of 32.71% in favour of the remuneration report at the 2020 AGM. Following the AGM, the Remuneration Committee Chair engaged with several of the Company's major shareholders who had voted against the resolution, to fully understand their concerns. While most shareholders agreed that the overall outcome of the 2017 Performance Share Plan was proportionate, given the outstanding turnaround delivered by management, they had concerns with the principle of the Committee's adjustment to the total shareholder return (TSR) comparator group. The Board values the feedback and insights these discussions have provided, and we remain committed to engaging proactively with shareholders and advisory bodies on remuneration matters. As this was a one-off event and awards no longer include a TSR performance metric, this situation will not arise in future.

The current remuneration policy was approved by shareholders in 2018 and is required to be put to shareholders at the forthcoming AGM. We are proposing no major changes to the remuneration policy, only some limited corporate governance changes to align with the UK Corporate Governance Code and market practice. The remuneration policy remains aligned to our business and talent strategy. For further details of the revised remuneration policy for consideration by shareholders at the 2021 AGM, please refer to pages 72 to 74.

A big thank you

We are immensely proud of our colleagues for their remarkable efforts during the pandemic, acting in the best interests of our customers and local communities throughout. They are truly the beating heart of Tesco. I would like to thank all our colleagues for their amazing contribution in stepping up and meeting the unprecedented challenges of the COVID-19 pandemic.



John Allan CBE
Non-executive Chairman

Visit to first urban fulfilment centre

During 2020, some members of the Board visited Tesco's first urban fulfilment centre (UFC) in West Bromwich meeting with senior management and colleagues.

Having approved the strategy for the UFC and its innovative technology, the Directors saw first-hand the benefits that the UFC will bring providing access to more online slots, delivering reduced operating costs and further leveraging our existing assets, while all the time providing a better experience for our customers.



Board of Directors.



John Allan CBE
Non-executive Chairman
Appointed March 2015
Tenure 6.1 years

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 and chairman of London First.

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;
- Vice President of the Confederation of British Industry;
- Chair of the Council of Imperial College; and
- Member of the Advisory Group to the Money and Pensions Service Board.



Ken Murphy
Group Chief Executive Officer
Appointed October 2020
Tenure 0.6 years

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

- Non-executive director of Hatch Beauty LLC.



Alan Stewart
Chief Financial Officer
Appointed September 2014
Tenure 6.7 years

Skills and experience

Alan brings to the Board significant corporate finance and accounting experience from a variety of highly competitive industries, including retail, banking and travel, as well as executive leadership experience within a listed company environment. Alan is a non-executive director of Tesco Bank.

Prior to joining Tesco, he was UK CEO and CFO of Thomas Cook Holdings, group finance director of WH Smith PLC and CFO for AWAS and Marks & Spencer plc. He was previously a non-executive director of Games Workshop Group plc.

Contribution

Alan's deep understanding of financial operations and risk management, and his leadership experience and ability to set financial strategy make him a valuable member of the Board.

External appointments

- Non-executive director of Diageo plc;
- Member of the Advisory Board, Chartered Institute of Management Accountants; and
- Member of the main committee and chairman of the pension committee of the 100 Group of Finance Directors.

Alan will retire as a Director on 30 April 2021.



Mark Armour
Independent Non-executive Director
Appointed September 2013
Tenure 7.7 years

Skills and experience

Mark has significant strategic planning and financial expertise, as well as experience of executive leadership. He was CFO of Reed Elsevier Group plc and its two parent companies, Reed Elsevier PLC and Reed Elsevier NV (now RELX PLC), from 1996 to 2012. This role provided him with considerable experience of digital business transition and operating in a multi-channel environment. Prior to joining Reed Elsevier, he was a partner at Price Waterhouse in London. He was previously a non-executive director and chair of the audit committee of SABMiller PLC.

Contribution

Mark's background in finance, risk and strategy makes him a valuable member of the Board and Audit Committee.

External appointments

- Member of the Takeover Panel.

Mark will step down from the Board at the conclusion of the 2021 AGM.



Melissa Bethell
Independent Non-executive Director

Appointed September 2018
Tenure 2.7 years

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 and Chair of the audit committee of Exor N.V.



Stewart Gilliland
Independent Non-executive Director

Appointed March 2018
Tenure 3.1 years

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 Müller 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;
- Non-executive director and chair of the remuneration committee of Nature's Way Foods Ltd; and
- Chairman of Curious Drinks Limited.



Steve Golsby
Independent Non-executive Director

Appointed October 2016
Tenure 4.6 years

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.



Byron Grote
Independent Non-executive Director

Appointed May 2015
Tenure 5.11 years

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,

Board of Directors continued

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; and
- Non-executive director of Standard Chartered PLC.



Mikael Olsson Independent Non-executive Director

Appointed November 2014
Tenure 6.5 years

Skills and experience

Mikael joined the Board after an extensive career at IKEA Group, holding a variety of senior roles including being a member of the executive committee from 1995 until 2013 and holding the position of CEO and president from 2009 until 2013. He brings a wealth of retail and value chain experience as well as knowledge of sustainability, people and strategy in an international environment. He was previously a non-executive director and vice chairman of Volvo Cars AB.

Contribution

Mikael brings an extensive range of skills with his strategic, retail, and property experience through his executive and non-executive directorships, supporting the delivery of the Group's strategy.

External appointments

- Non-executive director of Ikano S.A.;
- Non-executive director of Lindengruppen AB; and
- Non-executive director and chair of the people committee (combined nomination and remuneration committee) of The Royal Schiphol Group.

Mikael will step down from the Board at the conclusion of the 2021 AGM.



Deanna Oppenheimer Senior Independent Director

Appointed March 2012
Tenure 9.1 years

Skills and experience

Deanna has significant marketing, brand management and consumer knowledge and experience, bringing a broad perspective to the Board. She held several senior roles at Barclays plc, including chief executive of UK Retail and Business Banking and vice chair of Global Retail Banking. Deanna was appointed as chair of Hargreaves Lansdown plc in February 2018. She is the founder of advisory firm, CameoWorks LLC, which provides bespoke support to early stage companies. Deanna was previously a non-executive director of Whitbread PLC, NCR Corporation and Worldpay, Inc.

Contribution

Deanna's extensive board, investor and commercial experience makes her a strong Senior Independent Director and fundamental to the effective operation of the Board.

External appointments

- Chair of Hargreaves Lansdown plc;
- Non-executive director of Thomson Reuters Corporation;
- Founder of consumer-focused boutique advisory firm, CameoWorks LLC; and
- Senior advisor to Bain & Company.

Deanna will step down from the Board at the conclusion of the 2021 AGM.



Simon Patterson Independent Non-executive Director

Appointed April 2016
Tenure 5 years

Skills and experience

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

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, ZPG Limited and FlixBus;
- Trustee of the Natural History Museum; and
- Trustee of The Royal Foundation of The Duke and Duchess of Cambridge.



Alison Platt CMG Independent Non-executive Director

Appointed April 2016
Tenure 5 years

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 and 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 membership of the steering group for the Hampton-Alexander Review provides strategic insights on diversity and inclusion.

External appointments

- Member of the steering group of the Hampton-Alexander Review;
- Non-executive director of Dechra Pharmaceuticals PLC;
- Non-executive director of Spectrum Wellness Holdings Limited; and
- Advisor to Hunstwood CTC Limited.



Lindsey Pownall OBE Independent Non-executive Director

Appointed April 2016
Tenure 5 years

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 corporate responsibility objectives and strategy.

External appointments

- Non-executive director of Story Contracting Limited and Story Contracting Holdings Limited;
- Senior Adviser of Paine Schwartz Partners, LLC; and
- Director of The Ho-So Initiative Limited.



Imran Nawaz Chief Financial Officer Designate

To be appointed on 1 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 will bring to the Board a deep experience of the global food industry with a proven track record of financial leadership as well as executive leadership experience within a listed company environment.

External appointments

- None.



Bertrand Bodson Independent Non-executive Director

To be appointed on 1 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 digital officer at Novartis and was previously chief digital and marketing officer at Sainsbury's Argos, executive vice president for global digital at EMI Music and co-founder and CEO of Bragster.com. He has also held senior roles at Amazon and started his career at Boston Consulting Group.

Contribution

Bertrand will bring 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, will further enhance the Board's oversight of these areas and the delivery of the strategy.

External appointments

- Chief digital officer, Novartis;
- Member of the Supervisory Board, Wolter Kluwer NV; and
- Non-executive director, Electrocomponents PLC (until 31 May 2021).

Board of Directors continued



Thierry Garnier
Independent Non-executive Director

To be appointed on 30 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.



Karen Whitworth
Independent Non-executive Director

To be appointed on 18 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 will bring 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 Pets at Home Group plc (until 20 May 2021);
- 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 group company secretary at FirstGroup plc and company secretary at 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, the ICSA's Company Secretaries' Forum and the CBI Companies Committee.

Other directors who have served during the year:

- Sir Dave Lewis served as a Director and Group Chief Executive until 30 September 2020.

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

Tenure as at 13 April 2021.

Executive Committee

Ken Murphy Group Chief Executive Officer

Ken joined the Board and the Executive Committee on 1 October 2020. His full biography appears on page 42.

Alan Stewart Chief Financial Officer

Alan joined the Board and Executive Committee on 23 September 2014. His full biography appears on page 42.

Imran Nawaz Chief Financial Officer Designate

Imran will join the Board and the Executive Committee on 1 May 2021. His full biography appears on page 45.

Natasha Adams Chief People Officer

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

Natasha joined Tesco in 1998 as a Personnel Manager and has served in a range of store-focused roles over the last 20 years, including as Customer Services Director UK, Business Support Director UK and Group Personnel Manager for Scotland. In 2016 Natasha was promoted to People Director for Tesco's UK and Ireland stores and joined the UK Leadership Team before being appointed to her current role of Chief People Officer.

Natasha is a Tesco Pension Trustee.

Natasha joined the Executive Committee in June 2018.

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

Alessandra joined the Executive Committee in March 2017.

Christine Heffernan Group Communications Director

Christine is responsible for building Tesco's reputation, leading Tesco's communications, community and campaigns agenda. Christine joined Tesco in 2014 as Corporate Affairs Director in Ireland and spent six months working for the Group CEO before taking over as Group Communications Director in March 2019. Prior to Tesco, Christine worked in communications in both the energy and telecoms sectors. Christine joined the Executive Committee on 1 March 2019.

Tony Hoggett Chief Strategy and Innovation Officer

Tony is responsible for leading Group strategic planning, balancing the short-, medium- and long-term requirements across all our businesses to ensure we maximise our skills, resources and opportunities to drive competitive advantage and serve our customers. He also leads the development of new business, customer and technology innovations across the Group.

Tony joined Tesco in 1990 and has served in a range of leadership roles in the UK and Asia over the last three decades. Between 2007 and 2010, he held a number of general manager roles across our international businesses before returning to the UK in 2011 to take up roles across UK channels before becoming UK COO in 2014.

In early 2017 Tony was appointed to the Executive Committee to take up the role of CEO Asia and then moved to the role of Group COO in late 2018. Tony was appointed to his current role on 9 April 2021.

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 where he led significant change in the business, including broad investment in technology to modernise the bank. Gerry was a member of the RBS personal and business banking executive committee. Gerry served as chief executive officer of Danske Bank UK (formerly Northern Bank) for eight years, successfully leading the organisation in the aftermath of the financial crisis. Earlier in his career, Gerry held roles at Bank of Ireland, McKinsey & Company and the UK Civil Service. Outside of financial services, Gerry served as pro-chancellor and chair of council at the University of Ulster, president of the Institute of Banking in Ireland, and he is currently chairman of the Irish Football Association.

Gerry joined the Executive Committee in August 2018.

Adrian Morris Group General Counsel

Adrian is responsible for the legal, company secretarial, government relations, regulatory and compliance functions across Tesco.

Adrian joined Tesco in September 2012 as Group General Counsel. Prior to Tesco, Adrian worked at BP PLC as associate general counsel for refining and marketing and prior to that at Centrica PLC, initially as European group general counsel and then as general counsel for British Gas.

Adrian joined the Executive Committee in September 2012.

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 Category Buying Manager in Confectionery, followed by Category Director roles in Household, Bakery, Dairy, Health & Wellness, and then General Merchandise Commercial Director for the UK and for the past two years as the UK Commercial Director for Packaged Products and Petrol Filling Stations.

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 our Group Food capability, managing our regional fresh food and Tesco Brand sourcing, buying and inbound supply chains for the UK, ROI, Central Europe and Asia. In April 2017, Matt was appointed to his current role of 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 1990 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.

Compliance with the UK Corporate Governance Code

The Board is committed to high standards of governance. It has applied the Principles set out in the UK Corporate Governance Code 2018 (Code) throughout the period under review.

The following pages provide a high-level overview of how the Board applies the Principles of the Code. The Board has complied with all the Code's Provisions, with the exception of Provision 38. This is because Alan Stewart's pension contribution rate of 25% of base salary is higher than that of the wider workforce. As previously announced, Alan Stewart will step down from the Board on 30 April 2021. The pension contribution rates of Ken Murphy and Imran Nawaz are aligned with those of the wider workforce, currently at 7.5% of base salary. Details of how the Provisions of the Code have been applied can be found throughout this Corporate governance report, the Strategic report and Committee reports.

Monitoring compliance with the Code is the responsibility of the Nominations and Governance Committee, which receives regular updates and reports the findings to the Board.

Board leadership and company purpose

Principle A: Promoting the long-term sustainable success of the Company

The Group is led by an effective and committed Board, which is responsible for the long-term success of the Group, ensuring due regard is paid at all times to the interests of its stakeholders. The Board has adopted a formal schedule of matters reserved for the Board detailing matters that are considered of significance to the Group owing to their strategic, financial or reputational importance. The Board has a detailed programme that ensures operational and financial performance, risk, governance, strategy, culture and stakeholder engagement matters are discussed frequently. This ensures that any consideration and decision-making is appropriate for the business, our stakeholders and the markets in which we operate around the world. At Board meetings, Directors receive and consider papers and presentations from the Executive Directors, senior management and subject matter experts.

 [A summary of the Schedule of Matters Reserved for the Board can be found on page 59.](#)

Principle B: Purpose, values and strategy

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, while being aligned with our culture. Our values and leadership behaviours are a vital part of our culture, helping us ensure that through our conduct and decision-making we do the right thing for the business and our stakeholders.

Principle C: Resources and controls necessary to meet objectives and measure performance

The Board has ultimate responsibility for ensuring adequate resource is available to meet agreed objectives and strategy. It ensures such resources are responsibly and effectively deployed. Having the right systems and controls across the Group facilitates effective management and sound decision-making. Efficient internal reporting, effective internal controls and oversight of current and emerging risks are embedded into our business processes, which align to our strategy, purpose and values.

Principle D: Effective engagement with stakeholders

The Board spends time listening to and understanding the views of its key stakeholders. When discussing matters at Board meetings, these views form an integral part of decision-making. A key

consideration when making its decisions is to balance the, sometimes conflicting, needs of its stakeholders to ensure they are treated consistently and fairly and in the best interests of the Company's long-term future.

Engaging with stakeholders takes place across the Group at all levels within the organisation and is defined by our Code of Business Conduct, ensuring that the standards and behaviours of our colleagues are consistent. Leadership behaviours set by the Board drive our conduct and decision-making so that we do the right thing for the business, as well as our stakeholders, with reward being linked to delivery and performance.

In addition, our Little Helps Plan identifies the most pressing social and environmental challenges facing the business. This provides a philosophy for how our business should be run in a way that makes a positive contribution to our customers, colleagues, supplier partners and communities.

 [Details of our stakeholders are set out on pages 52 to 53.](#)

Principle E: Workforce policies and practices aligned to values and support long-term success

The Board has a responsibility to set the tone from the top and lead by example to ensure colleagues do the right things in the right way. Our Code of Business Conduct, which defines the standards and behaviours expected of colleagues, is aligned with the Group's purpose and values. The Group Risk and Compliance Committee provides oversight of key regulatory and compliance matters and reports biannually to the Audit Committee. In addition, the Audit Committee has oversight of the whistleblowing policy and Protector Line – our independent and confidential whistleblowing service – which provides colleagues and suppliers with the ability to raise concerns regarding possible misconduct and breaches of the Code of Business Conduct. Any material matters are raised to the Board.

 [You can find more detail on our Code of Business Conduct and our values on page 12.](#)

Division of responsibilities

Principle F: Role of the Chair

The Chairman provides effective leadership and maintains a culture of openness and transparency at Board meetings. He promotes communication between Executive and Non-executive Directors, ensuring all Directors effectively contribute to discussions and feel comfortable in engaging in healthy debate and constructive challenge. The Chairman ensures the Board is provided with accurate, timely and clear information. Separate role statements for the Chairman and Group Chief Executive Officer are set out on page 58.

Principle G: Board composition

The Board comprises 13 Directors: the Chairman, who was independent upon appointment; two Executive Directors and 10 Independent Non-executive Directors, one of whom is the Senior Independent Director. The roles of the Chairman, Group Chief Executive, Senior Independent Director and Independent Non-executive Director are set out in separate role statements. The Nominations and Governance Committee regularly reviews the Board composition, including the balance of skills, experience and knowledge, succession planning and the independence of Non-executive Directors. In addition, an annual review of the effectiveness of each Director is undertaken through the Board evaluation process. Directors are required to regularly update and refresh their skills, knowledge and familiarity with the Company.

Principle H: Role of the 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.

Prior to appointment, the Nominations and Governance 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 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.

Principle I: Role of the Company Secretary

The Group Company Secretary is secretary to the Board. He has responsibility for ensuring that the Board has the information, time and resources it needs to discharge its duties and function effectively and efficiently. The Group Company Secretary advises the Board on all governance matters. He also facilitates induction programmes for new Directors and provides briefings and guidance on governance, legal and regulatory matters. The appointment and removal of the Group Company Secretary is a matter reserved for the Board as a whole. The Group provides access, at its expense, to the services of independent professional advisors.

 You can find more information on the activities of the Nominations and Governance Committee on pages 62 to 63.

Composition, succession and evaluation

Principle J: Appointments to the Board and succession planning

The process for Board appointments is led by the Nominations and Governance Committee, which makes recommendations to the Board. Proper planning for Board and senior management succession and for selecting the right individual from a diverse talent pool are key issues for the Board and the Nominations and Governance Committee. It is essential in ensuring a continuous level of quality in management, in avoiding instability by helping mitigate the risks which may be associated with unforeseen events, such as the departure of a key individual, and in promoting diversity.

The Nominations and Governance Committee's policy for Board composition is to support diversity in its widest sense. It aims to attract Board members with a diverse range of backgrounds who will contribute a wealth of knowledge, understanding and experience of the communities where Tesco operates. The Committee strongly believes that diversity throughout the Group and at Board and senior management level is a driver of business success.

Principle K: Balanced Board

The Board believes that it is essential to have a balanced and diverse Board with a mix of skills and expertise required to deliver long-term value for shareholders. This ensures that leadership and decision-making are focused, allowing debate and challenge when risks and opportunities for the future are being considered.

Our Board possesses a wide range of knowledge and experience from a variety of sectors. Relationships between the Directors are based on trust and mutual respect, enabling open and frank conversations. This ensures that even the most challenging decisions are taken for the benefit of the Company, with due consideration for those stakeholders who may be affected. The Chairman, in conjunction with the Group Company Secretary, ensures that each Director receives on appointment a full, formal and tailored induction. Thereafter, the Chairman agrees with Directors their individual training and development needs.

 See pages 62 to 63 for more information on the work of the Nominations and Governance Committee.

Principle L: Annual evaluation

The Chairman and the Board continually work to strengthen and enhance the effectiveness, skills and experience of the Board to align with the Group's strategy. An internally facilitated Board evaluation was conducted in 2020/21. An externally facilitated evaluation will take place in 2021/22. The Senior Independent Director leads the Directors in evaluating the Chairman.

 You can see more detail on this year's Board effectiveness review on page 61.


Compliance with the UK Corporate Governance Code continued

Audit, risk and internal control

Principle M: Internal and external auditor

The Audit Committee, on behalf of the Board, reviews the Group's interaction with its external auditors. This includes their role, audit scope, their independence and their audit and non-audit fees. The Committee receives regular updates on the external auditors' work in relation to the year-end and interim audit. It also maintains a policy on the provision of non-audit services, which reflects the regulations prohibiting the provision of certain non-audit services. The Audit Committee also monitors the activity, role and effectiveness of our Internal Audit function. At each Audit Committee meeting, it receives an update covering a range of management issues and actions to address their findings. A formal assessment of the effectiveness of both external and internal audits is undertaken annually.


The Audit Committee, supported by the Disclosure Committee, reviews the integrity of our financial and narrative statements, including interim and annual financial statements and announcements relating to the performance of the Group.

 [More information on the work of the Audit Committee detailing the oversight of the Internal and External Auditor can be found on pages 66 to 71.](#)

Principle N: Assessment of the Company's position and prospects

The Audit Committee, on behalf of the Board, ensures that the Group provides accurate, timely financial results and implements

accounting standards and judgements effectively. The Audit Committee also considers reports from the Group's Disclosure Committee on fair, balanced and understandable reviews, the Group's compliance with relevant regulatory frameworks and validation of management's representations to the Auditor to ensure the Group's disclosures provide the information necessary for shareholders to assess the Company's position, performance, business model and strategy.

 [You can see more information on the work of the Audit Committee and the oversight of Group disclosures on pages 66 to 71.](#)

Principle O: Risk management and internal control

The Board has overall responsibility for the oversight of internal control systems and risk management processes. It has established a risk management framework to manage and report the risks we face as a business. The Board reviews these on at least an annual basis and undertakes a robust assessment of the Company's emerging and principal risks. The Audit Committee, on behalf of the Board, oversees the risk management strategy, risk appetite and the effectiveness of internal control processes.

 [More information on our principal risks and the work of the Audit Committee can be found on pages 31 to 37 and 66 to 71.](#)

Remuneration

Principle P: Remuneration policies and practices


When setting the remuneration policy the Remuneration Committee, on behalf of the Board, strives to ensure that the policy is consistent with the Group's purpose, culture and the scale and scope of business operations, and that it supports the business strategy and growth objectives. The Remuneration Committee also ensures that it is aligned to the wider workforce, helps create long-term sustainable shareholder value and drives the success of the Company for the benefit of customers, colleagues, suppliers and other key stakeholders.

Principle Q: Policy on executive remuneration

The Remuneration Committee, on behalf of the Board, sets the remuneration of the Chairman, the Executive Directors and Executive Committee members. It also reviews the remuneration of certain senior management. In setting remuneration, the Remuneration Committee seeks to ensure it is aligned with the Group's remuneration principles which are applicable to all colleagues.

Principle R: Remuneration outcomes

When determining remuneration outcomes, the Remuneration Committee takes account of wider circumstances relevant to that decision, including Group and individual performance. The Remuneration Committee has the discretion to amend the final vesting level of incentives if it does not believe that it reflects underlying performance. The Remuneration Committee may also apply malus and clawback in certain circumstances. No Director is involved in determining their own remuneration outcome.

 [For more information on the work of our Remuneration Committee and details of our remuneration policy see pages 72 to 96.](#)

Board leadership and company purpose.


Our purpose of ‘Serving shoppers a little better every day’ is at the heart of everything we do.

Strategy aligned with purpose and culture

Our business was built with a simple mission – to be the champion for customers, helping them to enjoy a better quality of life and an easier way of living. Customers want great products at great value which they can buy easily and it is our job to deliver this in the right way for them. Our purpose defines our actions and is embedded in all we do.

The Board sets the strategy for the Group to align with our purpose. In implementing this, the Board ensures the Group is suitably resourced to deliver on its strategic objectives through a culture which drives the right behaviours.

The Board receives regular reports which allows it to assess culture within the Group, to ensure it is aligned with strategy and ultimately our purpose.

 **More detail on the activities of the Board can be found on pages 54 to 57.**

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.

Our values enable our purpose

Our culture comes to life through our three values. These values underpin our purpose and are recognised across the Group to ensure they are integral to the way we behave and the way we do business. They also ensure that every colleague at Tesco understands what is important, how we work together as a team and how customers are at the centre of what we do. Our values therefore support the creation of a culture of inclusivity, where everyone feels welcome, talent is fostered, and colleagues can achieve their full career potential.

Understanding our customers, colleagues and communities and what matters to them is key to our success at Tesco. Whenever a customer chooses to shop at Tesco, we want their experience to be better than expected and better than their last interaction with us. The Board values feedback

from customers and receives regular overviews of our competitive marketplace. This enables the Board to ensure we provide customers with what they want and need in all the different jurisdictions and business areas where we operate.

Every decision we make aims to ensure we offer customers the value, quality and service they expect, delivered in the right way for them. We want to give our customers peace of mind that the products they buy from us are sourced with respect for the environment and the people who produce them, while remaining affordable. We are committed to providing our customers with quality products that meet the highest safety standards.

We know that everyone who works for or with Tesco should be treated with respect and compassion. This is essential to building a culture of trust which is a necessary component to our success.

We ensure that our business is a place where colleagues feel recognised and rewarded and where they have the opportunity to get on.


The small actions we take can add up to make a big difference to the things our stakeholders care about and contribute to the global initiatives in which we are involved. This plays a key part in how the Board thinks about its decisions and actions, always striving to make a positive contribution and take the right actions to ensure trust and

transparency. The Little Helps Plan is the embodiment of this value. It sets out our commitments to helping tackle the most pressing social and environmental challenges our customers, colleagues, suppliers, shareholders, communities and wider society face.

No one tries harder for customers

We treat people how they want to be treated

Every little help makes a big difference

 **You can find our Code of Business Conduct on our website at www.tescoplc.com.**

Board leadership and company purpose continued

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 aims to make sure its decision-making is consistent. It recognises the importance of listening to and understanding the views of its key stakeholders. In support of Directors' section 172 duties, the Board receives insights through customer, colleague, supplier and investor engagement into how we are perceived, what our stakeholders want and how they want to be treated. As well as those set out below, we also take other factors into account that we consider relevant to our decision-making. These include the interests and views of the communities where we operate, Tesco pensioners and our relationship with regulators and non-governmental organisations (NGOs).



Customers

Customer priorities

Our customers want good, 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.

Engagement and Board oversight

The Board uses customer surveys, customer engagement and data analysis to listen to customer views and act on what is most important to deliver the best possible shopping trip. We work hard to make sustainable products accessible and affordable for all.



Colleagues

Colleague priorities

Our colleague priorities include: employment and skills, creating a place where colleagues feel recognised and rewarded for the work they do; diversity and inclusion, where everyone feels welcome; and health, safety and wellbeing.

Engagement and Board oversight

The Board recognises the need to create conditions that foster talent and encourage all colleagues to achieve their full potential. Our commitment to helping our colleagues get on is a key focus of the Little Helps Plan and aligns to our people strategy. As well as building on existing skills, we are creating opportunities for colleagues to reskill. We are looking to expand our talent pools, so we can resource the skills we need for the future. We are committed to providing an inclusive working environment where difference is embraced and valued and to ensure colleagues' physical and mental wellbeing is supported. Safety is central to how we do business, with the aim of protecting our colleagues and customers from injury.



Suppliers

Supplier priorities

Our suppliers want to be treated fairly, with respect and to receive a fair price based on cost of production. They welcome our collaborative approach and wish to develop long-term, trusted partnerships, building capability together and expanding value that can be shared.

Engagement and Board oversight

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. Our suppliers can provide feedback through day-to-day contact with senior management and our product teams and through our Supplier Viewpoint feedback channel.



Shareholders

Shareholder 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.

Engagement and Board oversight

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.

In addition, the Group Company Secretary's team engages with private shareholders. The team also provides services to private shareholders in partnership with our registrars, Equiniti.

Workforce engagement

In addition to our Every Voice Matters programme and our colleague pulse surveys, the Board built on our long-established forums and conferences at store, regional and national level to establish Colleague Contribution Panels (CCPs) in the UK & ROI, Central Europe and Asia. Each of these was hosted by an Independent Non-executive Director. The Asia CCP was disbanded following the disposal of the Asia business.

The CCPs' aim is to enable elected colleague representatives to meet a Board member to ensure that colleagues throughout the Group are represented at Board level. This allows better, more informed decisions to be made in the long-term interests of the Company and its stakeholders. It also helps colleagues to develop a better awareness of Board matters and business priorities. Having a designated Non-executive Director for each region allows a deeper understanding of specific workforce-related matters in each country. The Board receive updates directly from each Non-executive Director. Panel representatives receive progress updates on identified actions for feedback to colleagues within their business units.

The CCPs normally meet twice a year to seek the views of our global workforce on areas of specific interest to the Board and our colleagues. During 2020, they met only once due to the pandemic. Feedback was provided on colleagues' views from the 2019/20 'what's on your mind' session, which focused on: managing through growth and change, opportunities to get on, technology, reward and recognition.

Themes raised by representatives in the latest CCPs focused on our response to COVID-19. Representatives expressed overwhelming appreciation for the Group's quick response to the pandemic, putting in place all the measures possible to keep colleagues safe and supported. The CCPs also featured discussions around self-isolation, future ways of working, environmental, social and governance (ESG) initiatives, communication, innovation and technology. Feedback on the matters raised will be provided at the half-year CCPs in 2021, where representatives will have the opportunity to raise additional matters for discussion or themes they wish to explore further.

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.

Board visits

Due to COVID-19 restrictions, the Board has not had the usual opportunities to undertake overseas visits. Site visits are an important way for Directors to meet with local senior management, engage with colleagues and other stakeholders and gain further insight into business operations and a deeper understanding of market conditions. During the pandemic, the Board reviewed its ways of working and adapted to the changing circumstances, challenges and demands. Presentations by senior management from all regions and all business functions have continued throughout the year despite the restrictions on travel. These have allowed the Board to keep abreast of developments and to continue engaging with local management.

During the year as some of the restrictions were lifted, some members of the Board welcomed the opportunity to visit our new UFC in West Bromwich. This provided an opportunity to meet management and colleagues at the UFC. See page 41 for more details.

Board leadership in action

The Board is committed to maintaining the highest standards of corporate governance in the management of its affairs. It has collective responsibility to promote the long-term success of the Company. It is accountable to stakeholders for ensuring that the Group is appropriately managed, achieving strategic objectives, in a way that is supported by the right culture, values and behaviours throughout the Group. The Board is responsible for ensuring that management actions are aligned to strategy and that stakeholder interests are taken into consideration. During discussion at Board meetings, the views of our stakeholders form an integral part of the Board's decision-making.


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 2020/21. 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 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, 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 Board has in place a detailed governance framework and delegation of authority to ensure it has the right level of oversight for matters that are material to the Group. The Board, with the support of its Committees, places great importance on ensuring we achieve a high level of governance across the Group. This supports the Board when delivering its strategic objectives and meeting its KPIs.

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. Other considerations included improved terms for suppliers and better sustainability impacts.

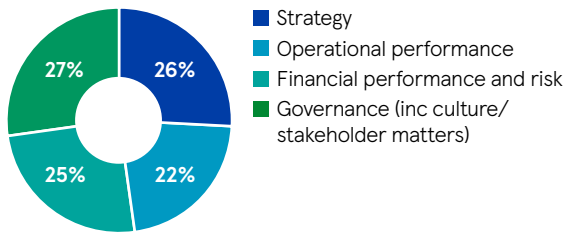
A key consideration when making decisions is for the Board to balance the sometimes conflicting needs of our stakeholders. The Board acknowledges that every decision it makes will not necessarily result in a positive outcome for all stakeholders. However, by considering the Company's purpose, vision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

 [Details of how our Board operates is detailed in the earlier sections of this report and in the Committee reports on pages 62 to 96.](#)

Board leadership and company purpose continued

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 cashflow
- 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 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, and support Directors' oversight and understanding when considering stakeholders while reaching decisions.







Matters considered	Outcome	Benefits and considerations	Stakeholders	Link to KPIs
Strategy				
<ul style="list-style-type: none"> - Sale of Asia business. 	<ul style="list-style-type: none"> - Generated significantly higher value for the Asia business than could be achieved through Tesco's continued ownership and investment. - Decision to sell to a well-established retailer already operating in the region. - Realised material value enabling a stronger focus on driving cash generation and subsequent returns to shareholders. - Further derisked the business by reducing indebtedness through a significant pension contribution. 	<ul style="list-style-type: none"> - In making its decision, the Board considered the impact on colleagues, customers, suppliers and local communities in the region as well as private and institutional shareholders. - The sale released material value and allows the Board to further simplify the business, as well as to return significant value to shareholders. 	<p>Stakeholders</p>	<p>Link to KPIs</p> <p>2 3</p>
<ul style="list-style-type: none"> - Sale of business in Poland. 	<ul style="list-style-type: none"> - Reviewed the market challenges facing the business in Poland. - Agreed the sale to Salling Group A/S., an established retailer in the region. - Enabled the Group to focus on the stronger market positions in the Central Europe region. 	<ul style="list-style-type: none"> - The sale was the best way to secure the future of the business for our colleagues and customers in Poland. - Selling to a well-established business already operating in the region was in the best interests of all stakeholders. 	<p>Stakeholders</p>	<p>Link to KPIs</p> <p>2 3</p>
<ul style="list-style-type: none"> - Product supplier and sourcing strategy. 	<ul style="list-style-type: none"> - Developed a strategy to simplify our operating model, leverage scale and mitigate risk through a structured approach to sourcing and standards. - Improved value and differentiation for customers. - Our responsible sourcing strategy, overseen by the Board and Corporate Responsibility Committee, identified key challenges and mitigation across the supply chain. 	<ul style="list-style-type: none"> - To further build upon open, transparent and trusted partnerships with our suppliers. - Deliver against our Groceries Supply Code of Practice (GSCOP) commitments. 	<p>Stakeholders</p>	<p>Link to KPIs</p> <p>1 2 3 4 5 6</p>
<ul style="list-style-type: none"> - Innovation through: <ul style="list-style-type: none"> - product - online and in-store experiences - the ways we interact with our customers. 	<ul style="list-style-type: none"> - Improved understanding of competitive advantage in the markets in which we operate. - Created value and proactively sought ideas that provide routes for innovation. - Gained understanding of what our stakeholders want. 	<ul style="list-style-type: none"> - Updates to the Board help shape strategy and take the business forward. - It is essential that we keep innovating for the future to meet the changing needs of our customers. 	<p>Stakeholders</p>	<p>Link to KPIs</p> <p>1 2 3 4 5 6</p>
<ul style="list-style-type: none"> - Strategic business reviews. 	<ul style="list-style-type: none"> - Strategy Board days reviewed each of our business areas providing oversight of growth opportunities, customer behaviours, loyalty, engagement, sourcing and market trends. 	<ul style="list-style-type: none"> - Understanding stakeholder expectations helps shape our strategy and deliver on our KPIs. We give consideration to each of our stakeholder groups to ensure the business performs and grows in line with stakeholder expectations. 	<p>Stakeholders</p>	<p>Link to KPIs</p> <p>1 2 3 4 5 6</p>

Matters considered	Outcome	Benefits and considerations	
Operational performance			
<ul style="list-style-type: none"> Business updates from Tesco Bank, Booker, dunnhumby, Tesco Mobile and F&F, included the operational impact of COVID-19 and Brexit. Regional updates on our businesses in the UK & ROI, Central Europe and Asia. 	<ul style="list-style-type: none"> Visibility of customer, colleague, supplier and community requirements globally and the challenges within each of their markets. Ability to set business priorities. 	<ul style="list-style-type: none"> This oversight supports the Board with its strategic decision-making. Enabled the Board to identify opportunities and risks and put in place plans as necessary. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Group Chief Executive and Chief Financial Officer operational and financial updates including: <ul style="list-style-type: none"> impact of COVID-19 supporting vulnerable colleagues safety in-store for colleagues and customers UK customer propositions. 	<ul style="list-style-type: none"> An overview of the operational and financial performance of the business was provided. Periodic updates on sales, profit, cashflow, stakeholders and progress against the six KPIs. 	<ul style="list-style-type: none"> 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. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Tesco's response to COVID-19. Christmas trading through COVID-19. 	<ul style="list-style-type: none"> Established four key priorities: <ul style="list-style-type: none"> Food for all Safety for everyone Support for colleagues Support for communities. Business updates provided specific focus on the pandemic's impact on each of the business areas. Established four priorities for Christmas trading: <ul style="list-style-type: none"> Managing capacity through peak trading Safety in-store for colleagues and customers Stock management Customer communication. <p>More detail can be found in the section 172 statement on page 30.</p>	<ul style="list-style-type: none"> Stakeholder reaction to our response to the pandemic has been positive, with around 90% of UK customers rating safety highly. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Improved technology in-store and in distribution centres. Improved data capability, Clubcard and aligning systems across the business to support our stakeholders. 	<ul style="list-style-type: none"> Onboarded around 50,000 temporary colleagues to support our customers and communities. Promoted cashless payments for stakeholder safety. Technology innovation enabled two new warehouses, opened in under four weeks, to support our customers' needs. 	<ul style="list-style-type: none"> The Board's oversight of the data and technology strategy ensures the business moves forward through improved technology and innovation. Throughout the pandemic, our technology has demonstrated its resilience and flexibility enabling increased online capacity, managing demand, introduction of Clubcard prices and providing food for vulnerable customers. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Health and safety updates focusing on: <ul style="list-style-type: none"> people safety review of safety framework. Annual safety plan to review priorities and improve overall safety culture and behaviour. 	<ul style="list-style-type: none"> Heightened our focus during the pandemic to ensure stakeholder safety. Scrutinised the 2020/21 safety plan to ensure it remains robust. 	<ul style="list-style-type: none"> The Board places great 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. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 

Board leadership and company purpose continued

Board activity continued

Matters considered	Outcome	Benefits and considerations	
Financial performance and risk			
<ul style="list-style-type: none"> - Financial position 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. 	<ul style="list-style-type: none"> - Management of the Group debt capital markets activities including new issuance and liability management programme. - Established a £2.5bn revolving credit facility, with interest linked to three environmental targets. - Issuance of a €750m sustainability-linked bond, which was the first of its kind issued by a retailer. 	<ul style="list-style-type: none"> - Board oversight supports the strategic direction and long-term viability and ensures that future liabilities can be met in line with stakeholder expectations. - In approving the revolving credit facility and €750m bond, consideration was given to the Group's decarbonisation commitment and the alignment to the principles of the Little Helps Plan. 	<p>Stakeholders</p>  <p>Link to KPIs</p> <p>1 2 3 5</p>
<ul style="list-style-type: none"> - Risk management - COVID-19 risk review 	<ul style="list-style-type: none"> - Created and ensured the implementation of appropriate responses. - Reviewed how our business mitigates or reduces the risks. - Monitored events closely and evaluated the impacts. - Financial impact of the pandemic on all business areas was considered, including Tesco Bank and Booker. - Oversight of liaison with the relevant Government and local authorities. 	<ul style="list-style-type: none"> - The Board reviews the most significant or principal risks facing the Group. Strengthening the risk and internal control environment has been a key feature in the transformation of Tesco. The Board and Audit Committee regularly review progress. - From the beginning of the pandemic, the Group assessed the risks and the financial impact of the COVID-19 pandemic. The Board had full oversight and was able to monitor the actions taken in response to the changing environment to ensure stakeholders' needs were met. 	<p>Stakeholders</p>  <p>Link to KPIs</p> <p>2 4 5 6</p>
<ul style="list-style-type: none"> - Risks associated with Brexit. - Senior management engagement with Government, regulatory bodies and the retail sector. 	<ul style="list-style-type: none"> - Key risks identified related to the implementation of the new UK-EU Trade and Cooperation Agreement and its effects on the business. - Visibility of the financial and operating impacts and risks facing all areas of the business: from recruitment to relationships with suppliers and the impact the changes may have on our customers. 	<ul style="list-style-type: none"> - The uncertainty of the requirements relating to the UK's departure from the EU had an impact on all areas of the business. - The Board was kept abreast of developments and had oversight of the risks and mitigations put in place. 	<p>Stakeholders</p>  <p>Link to KPIs</p> <p>2 4 5 6</p>
<ul style="list-style-type: none"> - Proceeds from the sale of the Asia business. 	<ul style="list-style-type: none"> - Payment of £2.5bn to further derisk the pension fund. - Returned £5bn to shareholders by way of a special dividend. - Share consolidation was required to maintain comparability, so far as possible, of the Company's share price before and after the special dividend. 	<ul style="list-style-type: none"> - Following the sale of the Asia business, the Board reviewed the options available to them relating to the proceeds of the sale. - In making its decision, the Board considered the impact these actions would have on institutional and private shareholders, colleagues and pensioners. 	<p>Stakeholders</p>  <p>Link to KPIs</p> <p>3</p>
<ul style="list-style-type: none"> - Repayment of business rates relief received in respect of the COVID-19 pandemic. 	<ul style="list-style-type: none"> - Returned business rates relief to the Government, so it could support those who needed it more. <p>More detail can be found in the section 172 statement on page 30.</p>	<ul style="list-style-type: none"> - The Board recognised it was its responsibility to act in the manner of a good corporate citizen in doing the right thing by its customers, colleagues and other stakeholders. 	<p>Stakeholders</p>  <p>Link to KPIs</p> <p>4 5</p>

Matters considered	Outcome	Benefits and considerations	
Governance (including culture and stakeholder engagement)			
<ul style="list-style-type: none"> Property valuation and portfolio review. Property joint venture arrangements. 	<ul style="list-style-type: none"> Assessed the value of our property assets taking market movements into consideration. Reviewed funding requirements associated with our property joint venture arrangements. 	<ul style="list-style-type: none"> An important part of the Board's role is to ensure our extensive property portfolio is properly managed and accounted for. This is essential in ensuring the long-term viability of the Group and sustainable returns for shareholders. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Customer Insight update. 	<ul style="list-style-type: none"> 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 now and the future. 	<ul style="list-style-type: none"> This insight about our customers is used to inform our decisions. We evaluate our propositions so that we can learn and improve continuously. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Feedback from Colleague Contribution Panels (CCPs). Culture, diversity and inclusion. Talent, succession and development. Review of annual People plan. Response to Black Lives Matter. 	<ul style="list-style-type: none"> CCPs improved our understanding of the views of the workforce to strengthen the colleague voice in the Boardroom. Analysed results and developed action plans from the Every Voice Matters annual colleague engagement survey and weekly pulse surveys. Oversight of diversity and inclusion, management succession plans and talent management to ensure a continuous level of quality in management. Targets set by the Board helped colleagues succeed by providing them with flexibility, skills and a competitive total reward package. Built leadership capability, develop and grow diverse talent and strengthen future pipelines. Ensured tailored development programmes support the transition into senior roles. Committed to promoting diversity within the Group and ensuring any barriers identified are removed. 	<ul style="list-style-type: none"> Understanding what is important to our colleagues allows the Board to ensure the culture within which we operate, provides colleagues with opportunities to get on. Recognise that 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. Oversight ensures that issues identified are considered and dealt with by senior management in an appropriate way. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Update on investor views and key market issues. 	<ul style="list-style-type: none"> Feedback was provided on specific investor meetings. Review of shareholder documentation. Visibility of market conditions, share price performance and the future outlook. 	<ul style="list-style-type: none"> Ensures shareholder sentiment is understood and considered in decision-making. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 
<ul style="list-style-type: none"> Feedback on supplier surveys. 	<ul style="list-style-type: none"> Review of supplier feedback through the Viewpoint supplier survey. Management action plans set out focus areas for further improvements. 	<ul style="list-style-type: none"> Visibility and understanding of suppliers' views on their interaction and experiences with Tesco. The Board has seen an improvement in the supplier Viewpoint score this year to 85%. 	<p>Stakeholders</p>  <p>Link to KPIs</p> 

Division of responsibilities.

The Board

Having an effective corporate governance framework helps the Board to deliver the Group's strategy. It also supports long-term sustainable growth while operating within a framework of effective controls. The Board recognises that having robust governance structures in place is vital to decision-making.

Chairman

The Chairman is responsible for the effective leadership of the Board and maintaining a culture of openness and transparency at Board meetings. He 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. He also 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. He plays a key role in devising and reviewing Group strategies for discussion and approval by the Board. He 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.

Note: Details of the Non-executive Director role statement can be found in Principle H: Role of the Non-executive Director on page 49.

Board Committees

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

Audit Committee

Provides independent assessment and oversight of financial reporting processes including related internal controls, risk management and compliance. It also oversees the effectiveness of the internal and external audit functions.

For more information, see pages 66 to 71.

Corporate Responsibility Committee

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

For more information, see pages 64 and 65.

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, considers independence, diversity, inclusion and Group governance matters.

For more information see pages 62 and 63.

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 72 to 96.

Board and Committee meetings

Regular Board and Committee meetings are scheduled throughout the year, many of which this year were held virtually. This ensures that Directors allocate sufficient time to discharge their duties effectively, including preparation for meetings. 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. The Board also held additional meetings to consider matters of a time-sensitive nature, including approval of Board appointments and decisions required during the sale of the Thailand and Malaysia businesses.

Directors are expected to attend all Board and relevant Committee meetings. The table below shows their 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 Chairman or 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 Senior Independent Director also led the Directors' evaluation of the performance of the Chairman.

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.tescopl.com.

Summary of matters reserved for the Board

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 pension scheme;
- Financial reporting and disclosures;
- Review of remuneration policies and share schemes; and
- Dividend policy and payment.



The latest version can be found at www.tescopl.com.

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.

Board and Committee attendance^(a)

	Board	Audit Committee	Nominations and Governance Committee	Corporate Responsibility Committee	Remuneration Committee
John Allan	6/6	-	● 4/4	3/3	4/4
Mark Armour	6/6	5/5	-	-	-
Melissa Bethell	6/6	5/5	-	-	-
Stewart Gilliland	6/6	5/5	4/4	-	-
Steve Golsby	6/6	-	-	3/3	● 4/4
Byron Grote	6/6	● 5/5	4/4	-	4/4
Ken Murphy ^(b)	3/3	-	-	-	-
Mikael Olsson	6/6	-	-	3/3	4/4
Deanna Oppenheimer	6/6	-	4/4	3/3	4/4
Simon Patterson	6/6	5/5	-	-	-
Alison Platt	6/6	-	4/4	-	4/4
Lindsey Pownall	6/6	-	-	● 3/3	-
Alan Stewart ^(c)	6/6	-	-	-	-

● Chair of Committee

(a) This table shows details of scheduled Board and Committee meetings.

(b) Sir Dave Lewis stepped down as Group Chief Executive on 30 September 2020. Ken Murphy succeeded him with effect from 1 October 2020.

(c) Alan Stewart will retire as a Director on 30 April 2021. He will be succeeded by Imran Nawaz on 1 May 2021.

Composition, succession and evaluation.



Induction of the Group Chief Executive

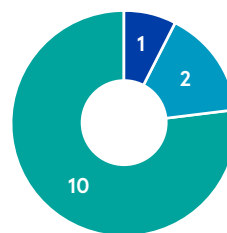
Ken Murphy joined the Board in October 2020. Prior to joining, Ken met each member of the Executive Committee. He has since undertaken a tailored and comprehensive induction plan, gaining a deep understanding of each business area. Ken shared his induction journey with colleagues, producing a weekly video and sharing his learnings as he got to know the business. Over this six-month induction programme, Ken met with all the senior leaders in our business as well as suppliers, external business partners, advisors, investors and other stakeholders. He has had detailed inductions with Tesco Bank, Booker, dunnhumby and Tesco Mobile. He also spent five days in Central Europe, visiting over 40 stores in the Czech Republic, Hungary and Slovakia. Ken is very passionate about our customers and prior to joining the Company spent much of his own time visiting stores and distribution centres around the UK and Ireland. As part of Tesco's Feet on the Floor programme, Ken completed a shift as a DotCom picker on an early Saturday morning to get first-hand experience of our store operations.

Board composition

The Board has sought to balance its composition and that of its Committees and to refresh them progressively over time. This will enable them to benefit from the experience of longer-serving Directors alongside the fresh, external perspectives and insights from more recent appointees.

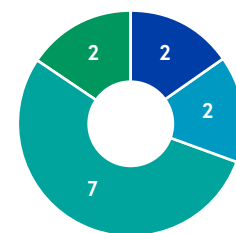
The Board recognises that effective succession planning is vital to delivering the Group's strategy, ensuring the desired mix of skills and experience of Board members now and in the future. The Board is also committed to recognising and developing talent within the Executive Committee and management levels across the Group, enabling the Group to create opportunities for developing current and future leaders.

Board composition
(number of Directors)*



- Chairman (independent upon appointment)
- Executive Director
- Independent Non-executive Director

Board tenure
(number of Directors)*



- 0-3 years
- 3-5 years
- 5-7 years
- 7-9 years

* as at 13 April 2021.

All Directors, with the exception of Mark Armour, Mikael Olsson and Deanna Oppenheimer, will submit themselves for election or re-election at the forthcoming AGM in June 2021. You can read detailed information on the contribution that each Director brings to the Board in their biographies on pages 42 to 46 and in the 2021 Notice of Annual General Meeting. Alan Stewart will retire from the Board on 30 April 2021.

Appointment, induction and development

Non-executive Directors 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 the Company's AGM. After three years' service the performance of a Non-executive Director is rigorously assessed by the Nominations and Governance Committee. Directors do not participate in discussions involving their own reappointment. The Chairman discusses any identified development needs with the Non-executive Director.

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 each Director. The Board receives presentations on each business area to understand the market conditions and challenges in the different countries where the Group operates.

Diversity and inclusion

The Board believes that diversity and providing an inclusive culture is a key driver of business success. It is committed to having a diverse and inclusive leadership team which provides a range of perspectives, insights and the challenge needed to support good decision-making. The Board strongly supports diversity in its broadest sense in the boardroom. Board membership reflects a diverse range of skills, backgrounds and business experience drawn from several industries. This enables a broad evaluation of all matters the Board considers and contributes to a culture of collaborative and constructive discussion.

The Board's diversity and inclusion policy sets out its approach to diversity and inclusion on the Board. This policy sits alongside the Company's equal opportunities and diversity policy, which sets out the Group's wider commitment to diversity and inclusion across Tesco. You can find more information on the implementation of the Board diversity and inclusion policy in the Nominations and Governance report on pages 62 and 63.

The Board, Nominations and Governance Committee and the Executive Committee receive regular updates on the progress of diversity and inclusion initiatives across the Group. These have the goal of ensuring all colleagues have an opportunity to get on, developing the skills they need for now and the future. See pages 17 and 18 for further details of the Group's approach to diversity and inclusion. More detail on the Group's employment policies is set out in the Directors' report on page 98.

Board expertise

The Board and Nominations and Governance Committee continuously 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. This supports our approach

to diversity by mapping the broad diversity of the Board in terms of gender, ethnicity, geographical expertise, professional background, tenure and age. We link these factors to our strategy, supporting the refreshment and succession plan for Non-executive Directors to meet the future needs of the Group.

Board effectiveness

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. Every third year, the evaluation is externally facilitated. The next external evaluation will cover the 2021/22 financial year.

The Senior Independent Director led this year's internal evaluation, supported by the Group Company Secretary, using an online questionnaire to capture the views of each Director. The evaluation was carefully structured and designed to bring about a genuine debate on relevant issues and identify any areas for potential improvements in Board processes. The questionnaire focused on a number of key areas: Board composition and expertise; culture and stakeholders; Board dynamics; management and focus of meetings; Board Committees; strategic oversight; risk management and internal control; succession planning and human resource management; and priorities for change. The internal evaluation concluded that the Board, its Committees and each of its Directors continue to be effective.

Key priorities identified include the need to:

- develop the Group's strategy taking into account the appointment of the new Group Chief Executive and Chief Financial Officer;
- take steps to ensure the culture of openness and constructive debate within the Board is maintained following the appointment of new members;
- review succession planning and pipeline for Executive Director and Non-executive Director roles;
- continue to shape the agenda and Board focus on the most significant risks and opportunities; and
- continue to ensure awareness of shareholder and Government views and opinions.

2020/21

Internal effectiveness survey run by Senior Independent Director

2021/22

Externally facilitated effectiveness survey

2022/23

Internal effectiveness survey run by Chairman

Progress against 2019/20 actions

Set out below is the progress made against actions identified through the 2019/20 internal Board effectiveness review:

Action	Progress
Greater focus on the impact of technology and the threats and opportunities of an ever-changing market on the development of a longer-term strategy.	Additional technology and innovation presentations were discussed at Board meetings and strategic planning sessions during the year.
To further increase the oversight of succession planning at the Board, while maintaining the strong oversight at the Nominations and Governance Committee.	During the year, the Board reviewed the succession pipeline and talent management for Executive Directors and Executive Committee levels. The Nominations and Governance Committee continues to ensure a robust senior management pipeline was in place for critical roles.
To further develop the appetite for risk and ensuring this is aligned with the emerging longer-term strategy.	We continued to work on our approach to risk appetite alongside the development and enhancement of our risk methodology and framework to ensure it is aligned with the future needs of the business.

Nominations and Governance Committee Report.



“The Committee strongly believes that diversity, in all aspects, and the promotion of an inclusive culture is a key driver of business success and is committed to making a continuous improvement in this area at both Board and senior management level.”

John Allan CBE
Chairman

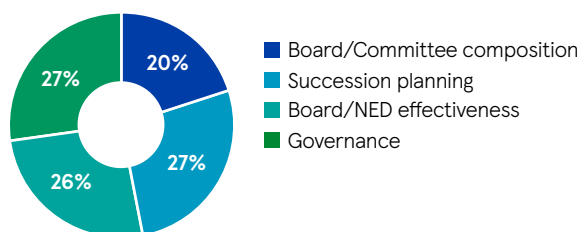
Committee composition

Director	Committee tenure
John Allan (Chair)	6 years, 1 month
Stewart Gilliland	2 years, 0 months
Byron Grote	5 years, 4 months
Deanna Oppenheimer	5 years, 9 months
Alison Platt	2 years, 0 months

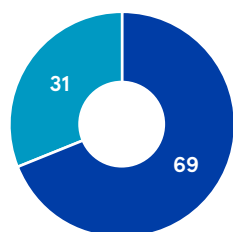
Committee responsibilities and key activities

Details of the Committee’s key areas of responsibility and the time spent during 2020/21 are set out below. Committee membership, together with attendance at meetings is detailed in the table on page 59.

You can see the Committee’s full terms of reference on our corporate website: www.tescopl.com.



Board gender split (%)*



■ Male
■ Female

Board expertise (number of Directors)*



■ Financial ■ Technology
■ Retail ■ Risk
■ Strategy ■ Marketing

* as at 13 April 2021.

Dear Shareholder

The Committee held four scheduled meetings during the year, all of which were held virtually and attended by all members. A further meeting was held to discuss the appointment of Imran Nawaz, our new Chief Financial Officer, as successor to Alan Stewart. Throughout the year, the Committee has concentrated on the composition of the Board and its Committees, succession planning, diversity and inclusion, and corporate governance matters.

Board composition and succession planning

The 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. During 2020/21, the Committee focused on Board succession plans over the short and medium term and the succession pipeline for Executive Committee and senior management roles. This included a review of internal talent and establishing bespoke development plans for high-potential colleagues, ensuring we retain and motivate key talent and can meet the future needs of the business.

There were several changes to the Board and Executive Committee during the year.

Mark Armour, Mikael Olsson and Deanna Oppenheimer will step down from the Board at the 2021 AGM. The Committee and the Board are grateful for the contributions they have made.

When Alan Stewart informed the Board of his intention to retire in April 2021, the Committee worked with Lygon Group, which has no connection to Tesco or any of its Directors, to search for a successor as Chief Financial Officer. The Committee set rigorous criteria for the role, both in terms of technical capabilities and cultural and style attributes. Open advertising was not used. Following an in-depth selection process, the Committee made a unanimous decision to recommend to the Board for approval the appointment of Imran Nawaz as a Director and Chief Financial Officer.

Lygon Group also assisted the Committee in its search for new Non-executive Directors as part of the Committee's succession planning. In conjunction with Lygon Group, a detailed role profile was developed and a global search initiated. The Committee reviewed a shortlist of candidates. It also considered the current Board and Committee composition, the skills and experience required together with a review of the long-term succession plans. Following a rigorous selection process, the Committee recommended the appointment of Karen Whitworth as a new Non-executive Director. It is confident she will make a significant contribution to the effectiveness of the Board. Since the year end, the Board has announced the appointments of Bertrand Bodson and Thierry Garnier as new Non-executive Directors on 30 April and 1 June, respectively. Their skills and experience are set out in their biographies on pages 45 and 46 and they will stand for election at the 2021 AGM.

The Committee also played an important role in the management changes at Executive Committee level that took place in 2020/21. Charles Wilson decided to retire after 10 years of leading the Booker business and has been succeeded by Andrew Yaxley. Ashwin Prasad was promoted to the role of Chief Product Officer in succession to Andrew Yaxley and has joined the Executive Committee. Alison Horner, CEO Asia and an Executive Committee member, has retired following the disposal of our Asia business. The Committee is now focused on ensuring our talent pipeline is further developed, with more frequent updates being discussed at Board and Committee meetings.

Board diversity

Alongside the Board, the Committee continues to champion the benefits of diversity – be it religious, ethnic or gender diversity, or diversity of social backgrounds or cognitive and personal strengths at Board, Committee and senior management level. Appointments are always based on merit and we continue to challenge our external search consultants where necessary, to ensure that diversity is always considered when drawing up candidate shortlists.

The Board supports the recommendations set out in the Hampton-Alexander Review on gender diversity and the Parker Review on ethnic diversity. As at the date of this report, 31% of the Board are female. In line with the Hampton-Alexander Review and the Board diversity policy, the intention was for this to be 33% by the end of 2020. The Committee would like to restate its assurance that it remains committed to this target and to bringing the very best, diverse talent we can attract to the Board. This balances the need for specific skills and experience with that of the need for diversity. Given the importance of this, the Committee took a considered approach when reviewing candidates for Board appointments during the year, enabling it to propose the right candidates for the longer term. During the coming year we will reach the current target of 33% female representation on the Board.

Over the past two years, we have progressed with our ambitions to improve ethnic diversity at Board level. This was firstly through the 2018 appointment of Melissa Bethell, who is Asian, and subsequently the appointment of Imran Nawaz who will join us on 1 May 2021. For additional information on diversity and inclusion and data on the percentage of females in senior management positions, see page 17.



Skills matrix

The Board recognises the importance of having complementary and diverse skills and backgrounds within the Board, enabling rich and effective discussions and decision-making. The Committee continuously reviews the Board composition against a skills matrix to ensure that the Board and its Committees have and maintain the skills needed to deliver the Group's strategic priorities.

Governance and effectiveness

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 Stewart Gilliland and Mikael Olsson. These considered each Director's commitment, contribution and effectiveness and concluded that both continued to make a significant contribution to the Board and its Committees.

Given Deanna Oppenheimer began her nine-year tenure as a Non-executive Director on 1 March 2012, the Committee undertook a thorough and robust review of her independence. It considered her personal qualities and circumstances, including any business or relationships that could materially interfere with her ability to exercise objective or independent judgement or her ability to act in the best interests of the Group. The Committee concluded that she continues to be independent of management and a valuable Director. Given the change of Group Chief Executive and Chief Financial Officer, Deanna does not have longstanding relationships with Executive Directors. She holds several other directorships outside Tesco, further supporting her independence. Deanna has decided to step down at the conclusion of the 2021 AGM.

An internal review of the Committee effectiveness was conducted during the year. Its findings concluded that the Committee remained effective with a good mix of perspectives and backgrounds. They included a recommendation that more time should be allocated to talent development and succession plans. The Committee also oversees the Board effectiveness review, full details of which are provided on page 61.

John Allan CBE

Nominations and Governance Committee Chair

Corporate Responsibility Committee Report.



“I’m proud to report on the significant milestones achieved during a remarkable year, furthering Tesco’s commitments within the Little Helps Plan and continuing our mission to ‘serve shoppers a little better every day’.”

Lindsey Pownall OBE
Non-executive Director

Committee composition

Director	Committee tenure
Lindsey Pownall (Chair)	5 years, 0 months
John Allan	6 years, 1 month
Steve Golsby	4 years, 4 months
Mikael Olsson	6 years, 4 months
Deanna Oppenheimer	9 years, 1 month

Details of the key areas of responsibility of the Committee and the time spent on each of them during 2020/21 are detailed below:

Progress against corporate responsibility strategy

- Progress against KPIs and the impact of COVID-19
- Update on Little Helps Plan activity
- Health strategy
- Sustainable financing strategy

Responsible sourcing strategy

- Deforestation
- Human rights and supply chain
- Audit programmes

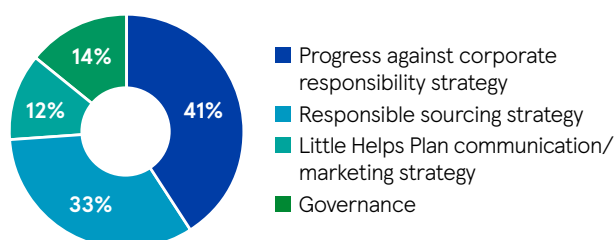
Little Helps Plan communications and marketing strategy

- Engagement with external stakeholders
- Oversight of the health charity partnership initiatives
- Strategic partnership with WWF
- Community programmes
- Shareholders’ approach to ESG

Governance

- Review of Committee effectiveness and terms of reference
- Oversight of ESG engagement
- Oversight of TCFD findings

Focus of Committee activities in 2020/21



Role of the Committee

The Corporate Responsibility Committee oversees the Group’s social and environmental obligations as a responsible corporate citizen. It ensures the Group discharges its responsibilities in such a way as to build trust, respect and confidence. It also identifies and monitors external developments which may affect the Group. It is an important forum in the Board’s oversight and challenge on engagement with many of our stakeholders including: customers, colleagues, suppliers, communities, NGOs and health partnerships.

The Committee held three scheduled meetings during the year, which were attended by all members. I am delighted to welcome Bertrand Bodson and Karen Whitworth as members of the Committee upon their appointments to the Board in June 2021. Stewart Gilliland will also join the Committee at the conclusion of the 2021 AGM. Deanna Oppenheimer and Mikael Olsson will be stepping down from the Board and the Committee at the 2021 AGM and I would like to thank them for their outstanding contributions. We detail Committee membership and attendance at meetings in the table on page 59.

A review was undertaken during the year to ensure the Committee continued to operate effectively and that its terms of reference remained relevant. You can see the Committee’s full terms of reference on our website at www.tescopl.com.

Dear Shareholder

The past 12 months have been a year like no other. I have been incredibly impressed with the way the whole team at Tesco has responded to the ceaseless challenges that have come their way. Their response has encapsulated the true spirit of the business that I see in all my contact with the team.

The pandemic has influenced our focus and posed challenges in some areas of the Little Helps Plan. It has also created opportunities and renewed focus in others. For example, the Committee discussed the impact of COVID-19 on suppliers and Tesco’s ability to complete its ethical audit programme in light of travel restrictions. The Committee has been impressed with the support provided to suppliers throughout the pandemic, including the extension of payment terms for small suppliers and the support and training offered to ensure worker welfare.

At the onset of COVID-19, the business very quickly took the decision to prioritise safety, ensuring customers had access to what they needed, supporting colleagues and helping the wider community. In line with the Little Helps Plan, a huge effort has gone into supporting people in our communities. This included donating more than £60m worth of meals to support foodbanks across the UK. We also worked closely with existing partners such as FareShare, Trussell Trust and the Red Cross, as well as establishing new partnerships with Salute the NHS and Marcus Rashford. It's a similar picture across the Group, with teams in Central Europe donating and collecting a record 1,000 tonnes of food for food banks in the Czech Republic, Hungary and Slovakia.

More than ever, we understand the key role Tesco has in making it easier for people to live more healthily. The ambitious commitments announced earlier this year to increase sales of healthy products, increase sales of plant-based meat alternatives and to make products healthier through reformulation, will help customers achieve this in an affordable and sustainable way.

Despite the pandemic, the business has seen some significant achievements against some longer-term targets, including:

- the removal of over 50 billion calories through reformulation;
- the permanent removal of 1 billion pieces of plastic from product packaging; and
- completing the switch to 100% certified zero net deforestation soy.

Alongside this, we have also announced a number of stretching new commitments, including accelerating our commitment to become net zero in the UK by 2035 and to increase the sale of plant-based foods by 300% by 2025. We have also strengthened our deforestation commitments, so that by 2025 100% of soy in Tesco products will come from entire regions that are verified as deforestation-free.

Tesco has continued to increase disclosure and dialogue with key stakeholders on ESG issues. I was pleased to co-chair Tesco's first virtual Investor ESG Roundtable. The Committee has received updates on a record level of engagement with key shareholders on ESG issues. Tesco has also participated in a number of leading ESG indices and rankings.

Tesco has long recognised the threat posed by climate change. The Committee remains supportive of Tesco's approach to minimising its contribution through its net zero strategy while also managing climate-related risks through its Task Force on Climate-related Financial Disclosures (TCFD) work. Tesco is strengthening internal processes to embed climate risk within the current risk framework and ensuring climate-related risks are considered in strategic business decision-making. For more information on TCFD, please refer to pages 26 to 28.

The Committee was supportive of Tesco's financing strategy linking to the long-term commitments contained within the Little Helps Plan. Strong indicators of how seriously the business is taking its role in tackling the climate crisis include:

- a £2.5bn revolving credit facility, with interest linked to the achievement of environmental targets; and
- the launch of a €750m sustainability-linked bond, based on Tesco's emissions-reduction performance.



Sustainable financing

During the year, Tesco strengthened its commitment to sustainability across all areas of the business through its sustainable financing strategy. Tesco established a £2.5bn revolving credit facility linked to the achievement of three ambitious environmental targets, which were endorsed by the Committee. We also launched an innovative sustainability-linked bond that, for the first time, is linked to our commitment to reduce greenhouse gas emissions.



WWF partnership

Our partnership with WWF continues, aiming to halve the environmental impact of the average UK shopping basket. A 'Sustainable Basket Metric' has now been developed which will allow us to track progress towards this goal. You can find more on this in our Little Helps Plan report online at www.tescopl.com.

The year ahead will no doubt continue to bring challenges and opportunities, but the Little Helps Plan will give us a clear sense of direction and focus. Quite simply, the Little Helps Plan has never mattered more to us. With the change in Chief Executive during the year, the Committee looks forward to working with Ken to ensure we remain fully aligned with the overall strategic direction of the business.

Lindsey Pownall OBE
Corporate Responsibility Committee Chair

Audit Committee.



“We have monitored the impact of the pandemic on all areas of the Committee’s responsibilities, to ensure financial processes and controls have adapted appropriately and remain effective amid unprecedented operational challenges.”

Byron Grote
Non-executive Director

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 over what has been an unprecedented year. Among the key activities we have undertaken or overseen during the year, we have considered a variety of special focus matters. These include the impact of the global spread of COVID-19 on the Group’s financial performance. Areas on which we focused include:

- the incremental costs incurred in our response to safeguard customers and colleagues;
- incorporating the impact of the pandemic into our going concern and viability models, key accounting judgements and disclosures and emerging risk exposures;
- adapting our internal control environments as more colleagues work remotely; and
- amendments to the internal audit programme.

Another major focus area was the sale of the Group’s Asia business, including:

- reviewing and approving the accounting for the disposal, pension contribution, special dividend and share consolidation matters;
- foreign exchange rate hedging;
- ensuring the integrity of Parent Company Interim Accounts; and
- analysis of the distributable reserves position to support the declaration of a special dividend (see page 68).

We also reviewed the quantitative assessment of climate-related risks and ESG metrics and assurance.

Looking ahead to 2021/22, the Committee will continue to monitor the impact of the pandemic on the financial performance of the business. We will also oversee the development of plans for the changes required to meet the Government’s reform proposals on audit and corporate reporting.

I would like to take this opportunity to recognise and thank all colleagues for their valuable contributions during what has been a challenging year for the business.

Byron Grote
Audit Committee Chair

Committee composition and responsibilities

Director	Committee tenure
Byron Grote (Chair)	5 years, 9 months
Mark Amour	7 years, 6 months
Melissa Bethell	2 years, 6 months
Stewart Gilliland	2 years, 5 months
Simon Patterson	5 years, 0 months

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 pages 48 to 50 and 58. The Committee’s key areas of responsibility are detailed below and you can find further discussion of key activities on page 67:

Financial statements and reporting


- The Committee monitors the Group’s financial reporting processes. It reviews, 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 considers the appointment and assesses the effectiveness of the external auditor, approves the external auditors’ remuneration for audit services and monitors non-audit services and 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.

 **Committee membership and attendance at meetings as detailed in the table on page 59.**

 **The Committee’s full terms of reference are available at www.tescopl.com.**

Key activities

In addition to its areas of key discussion during the year, the Committee received regular updates from management in relation to: key financial controls; the Group's transformation programmes; ESG metrics assurance and reporting; technology risks; general controls; treasury; tax; pensions; insurance; 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, Parent Company Interim Accounts (relating to the special dividend), the preliminary results and this Annual Report. It also reviewed COVID-19 related disclosures, provided assurance of the Group's distributable reserves position in advance of the declaration of dividends, reviewed corporate governance disclosures and monitored the statutory audit.

The Committee considered the viability and going concern statements, their underlying assumptions and the longer-term prospects. We also considered the appropriateness of a three-year assessment period reflecting the effects of the pandemic and the dynamic and changing retail environment in which the Group operates (see page 38). 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. We set out details regarding the significant financial reporting matters and how they were addressed by the Committee on page 69.

The Committee received assurance of the appropriateness of the two prior year adjustments (detailed in Note 1) and that controls in these technical areas had been enhanced. The Committee also noted that further improvements would be made to internal control in the coming year to enhance the precision and granularity of review controls over the models used in relation to the Group's process for both store and Bank goodwill impairment.

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, risk movements and new risks. For further information on the Group's risk management process, see page 31.

In response to increased remote working and other socio-economic factors, the Committee monitored the potential technology risk exposures faced by the Group during the pandemic and beyond. It also reviewed the mitigations in place to protect the business and continued to oversee the effective governance of our cyber-risk management plans.

The Committee continued to oversee the Group's transformation programmes across People, Finance and Technology. This included overseeing the deployment of a new employment system to simplify colleague processes and the continued monitoring of ongoing People programme phases. The Committee received regular updates from management on the development of a new finance vision and transformation strategy in collaboration with Technology. This establishes a new governance framework with which to measure the effectiveness of key internal financial controls and UK Compliance Regime (Strengthening Finance Control Environment). It will continue to be a key area of focus for the Committee during 2021/22 under the leadership of the new Chief Financial Officer.

The Committee continued to monitor progress in relation to IT General Controls and technology security and control initiatives to mitigate the Group's risk exposure and responsiveness to changing environments, with regular updates from the Chief Technology Officer and on the related assurance programmes.

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 also monitored compliance with Group anti-fraud and gifts and entertainment policies.

External audit

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

Internal audit

The Committee monitors the activity, role and effectiveness of the Group Risk and Audit (GRA) function, detailed on page 70. At each meeting, we receive a GRA update covering a range of management issues, including periodic reviews of the employment of former auditor employees and non-audit services policies, the internal audit charter and the 2021/22 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

The Committee maintained its focus on key audit activities amid uncertain economic environments and unprecedented operational challenges. As well as the key activities discussed later in this report, we closely monitored and reviewed the impact of the COVID-19 pandemic on all areas of the Committee's responsibilities, particularly to ensure financial processes and controls have adapted appropriately and remain effective.

Asia disposal

During the year, we considered various aspects of the sale of our Asia business and received regular updates on the progress of the transaction. We held two extra meetings dedicated to these discussions. In considering proposals, the Committee considered its obligations under section 172 of the Companies Act 2006. Further insight follows below into the work involved:

Financial reporting and use of proceeds

The Committee discussed the accounting adopted for the transaction at each meeting during the year. We considered proposals to use proceeds from the sale to make a one-off £2.5bn contribution to the UK pension scheme and to return £5bn to shareholders by way of special dividend, followed by a share consolidation. The Committee considered the effect on the Group's total indebtedness ratio after taking into account the residual proceeds and the proposal to refine the longer-term target total indebtedness ratio. We discussed the presentation of discontinued operations and the introduction of additional EPS alternative performance measures to provide a comparable measure of EPS after the Asia sale and the effect of the share consolidation.

The Committee considered the key accounting judgements used in the preparation of the Parent Company Interim Accounts 2020/21 drawn up to support the declaration of the special dividend. This included a review of carrying values of relevant holding investments and the outcomes of impairment testing. Further information can be found in Note 15. We also requested that Deloitte undertake extra assurance work in connection with the flow of realised profits through our subsidiary holding companies up to the Company following completion of the sale. After rigorous review, we were satisfied that the internal distribution steps met the definition of qualifying consideration and provided assurance of the distributable reserves position to the Board to support its decision to propose a special dividend.

Hedge strategy

When the Group announced its sale of Asia business in March 2020, the transaction remained subject to regulatory clearances and a completion date was uncertain. We considered the proposed strategy to create certainty of completion values, by mitigating exposure to foreign exchange rate fluctuations on the proceeds of the US dollar sale, that would also protect the Group against the risk of an unlikely failure of the transaction. We monitored market conditions throughout the period up to completion and provided suggestions for the appropriate presentation of hedge accounting and approving the Group's reporting. Further details can be found in Note 25.

Risks

The Committee considered the key separation risks relating to the disposal, receiving particular assurance in connection with the transfer of technology and brand. We were satisfied that appropriate measures were in place and that there were no material year-end reporting risks.

COVID-19 pandemic

The challenging COVID-19 environment and the pandemic's rapidly changing impact on the business has been a key area of discussion. We maintained an open dialogue with management and the internal and external audit functions to ensure that: suitable controls were maintained and adapted as necessary; the financial impact and financial reporting implications were understood; emerging risks were identified; and internal and external audit activities appropriately reflected the change in environment. We were satisfied that robust processes were adopted and that adequate resourcing was in place.

At each meeting, we discussed areas of key accounting judgements and assumptions relating to COVID-19 and reviewed disclosures relevant to the interim results and this Annual Report.

Regular updates in connection with the delivery of the internal audit plan were provided, reflecting the changing priorities arising from the business's response to the pandemic. See page 70 for further details.

The Committee monitored the impact of COVID-19 on the Group's control environment, identifying no significant or adverse impact. Where appropriate, control processes were promptly adapted to reflect the increase in remote working and with additional controls adopted as required.

The Committee also considered the increased risk of fraud during the pandemic, particularly that concerning technology and cyber fraud. We also reviewed the Technology Disaster Recovery plan, which was vigorously tested through our response to the pandemic, and received assurances regarding essential processes. For more information on technology risk see page 35.

Sustainability-linked finance and environmental disclosures

Despite focus on handling the pandemic, this was a progressive and innovative year for Tesco in terms of ESG. In July 2020, the Group refinanced its committed revolving credit facility which included a pricing adjustment based on performance against selected ESG metrics from the Little Helps Plan. The Committee also reviewed refinancing proposals for the £2.5bn revolving credit facility which incorporated an ESG metric price adjustment for the first time.

In January 2021, the Group became the first UK listed corporate in the retail sector, to launch a bond linked to the Group's commitment to reduce greenhouse gas emissions. We considered the structure of the new bond issuance through review of data assurance, the income statement impact and the Group's debt maturity profile before recommending the launch to the Board. The Committee discussed, and will continue to discuss, the appropriate use of ESG-related metrics within its current and future funding strategy and the mechanism for ESG assessment.

The Committee discussed the proposed disclosure plan and assurance programme which would enable the Group to report progress against certain Task Force on Climate-related Financial Disclosures (TCFD) as described in this year's Annual Report on pages 26 to 28. This is a key area of the Committee's responsibility. Further updates, with a clear line of sight over the TCFD assurance programme, are planned for 2021/22.

For further information on the Group's environmental commitments and details of the 2025 greenhouse gas emissions targets linked to the €750m 2029 bond, visit www.tescopl.com/investors/debt-investors/.

Finance strategy and UK corporate reform

The Committee considered regular updates on the Group's finance strategy, including the impact of changes to our finance leadership. For further information on Board and senior management succession planning see pages 60 to 63 in the Corporate governance report.

During the year, the Committee closely monitored the audit and governance reform agenda. We received updates on the business' proposals to strengthen the control environment in response. We undertook a benchmarking exercise against current controls with support from external advisers which informed a roadmap for UK compliance readiness. The Committee also received a comprehensive update from Deloitte on corporate governance reforms covering: audit reform and the proposals for new reporting and attestation requirements concerning the operational effectiveness of internal controls over financial reporting; dividend and capital maintenance decisions; the FRC's annual review of corporate reporting 2019/20; and climate change and sustainability reporting updates. The Committee will continue to oversee the business's preparations for anticipated corporate reform and monitor regulatory developments in response to the 'Restoring trust in audit and corporate governance' consultation.

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 was addressed.

Issue	How the issue was addressed by the Committee
Going concern basis for the financial statements and viability statement	The Committee reviewed and challenged management's assessment of forecast cash flows including sensitivity to trading and expenditure plans, and for the potential impact of uncertainties including Brexit, the COVID-19 pandemic, a macroeconomic downturn and climate risk. The Committee also considered the Group's financing facilities and future funding plans. Based on this, the Committee confirmed that the application of the going concern basis for the preparation of the financial statements continued to be appropriate, with no material uncertainties noted, and recommended the approval of the viability statement. For further information see page 38 of this Annual Report.
Disposals and discontinued operations	In respect of the disposal of the Group's Asia business, which completed on 18 December 2020, the Committee considered the disclosure of the gain on disposal and associated cash flows, as well as the subsequent special dividend and share consolidation. In respect of the disposal of the Group's business in Poland, which completed on 16 March 2021, the Committee considered the classification of assets as held for sale. For further information, see Note 7 to the financial statements.
Impairment	The Committee reviewed and challenged management's impairment testing of both goodwill, in particular in relation to Tesco Bank, and the Group's portfolio of store cash-generating units. The Committee considered the key assumptions and methodologies 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 projected cash flows, discount rates and the use of independent third-party valuations as well as considering the uncertainties arising from Brexit, the COVID-19 pandemic, a macroeconomic downturn and climate risk. The Committee also reviewed the impairment disclosures. For further information, see Note 15 to the financial statements.
Tesco Bank expected credit losses	The Committee reviewed and challenged management's allowance for expected credit losses on Tesco Bank financial assets, considering the appropriateness of key assumptions, methodologies and macroeconomic scenarios. For further information, see Note 25 to the financial statements.
Pensions	The Committee reviewed and challenged the estimates used by management in valuing pension liabilities, including discount and inflation rates. For further information, see Note 29 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. The Committee concurred with management's assessment that a provision of £88m was required relating to claims from Homeplus (Korea) purchasers, and that due to the stage of the remaining matters and the uncertainties regarding the outcomes, no further provision was required, and disclosure as contingent liabilities at the year end was appropriate. See Notes 27 and 34 to the financial statements.
Recognition and disclosure of commercial income	The Committee continued to monitor commercial income controls across the Group and discussed the outcome of the cyclical internal audits on commercial income and key financial controls. See Notes 1 and 22 to the financial statements for further details on commercial income.
Exceptional items	The Committee considered the presentation of the Group's financial statements and the appropriateness of the presentation of exceptional items. The Committee concurred with the presentation of COVID-19 related costs and the repayment of business rates relief as part of underlying performance. The Committee reviewed the nature of the exceptional items identified and concurred with management that the treatment was clear, even-handed and consistently applied across years. Consideration was also given to the quality of earnings within underlying results and related disclosures. See Note 4 to the financial statements for an analysis of exceptional items.
Prior year restatement	The Committee reviewed the accounting for, and disclosure of, prior year restatements in relation to (i) the original accounting for deferred tax and the associated goodwill recognised on the business combination of three property partnerships in 2015/16, and (ii) notional cash pooling arrangements. See Note 1 to the financial statements for further information on prior year restatements.

Audit Committee membership

All the Committee members are independent Non-executive Directors and the Board is satisfied that Byron Grote, Mark Armour and Melissa Bethell have significant, recent and relevant financial experience. Additionally, Byron Grote and Mark Armour, having both held Chief Financial Officer roles for significant periods, 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 42 to 46. Mark Armour will retire from the Board at the 2021 AGM. Karen Whitworth will be appointed as an independent Non-executive Director and member of the Audit Committee with effect from 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 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 and two ad hoc meetings regarding the disposal of the Asia business. Each meeting had a distinct agenda to reflect the Group's annual 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. The planner is developed with the Group Company Secretary and its content is regularly reviewed with management and Deloitte. It evolves to meet the Group's changing needs as the year progresses.

The Chair of the Committee provides a written and oral update to the Board following each meeting. Committee meetings are generally scheduled close to Board meetings to facilitate an effective and timely reporting process.

Audit Committee continued

Committee members met in private following each Committee meeting. They also held separate private sessions with the Chief Audit and Risk Officer and the external auditor to provide 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.

Committee effectiveness review

The Committee was evaluated this year as part of the Board evaluation process and was rated highly overall, see page 61 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. 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 2021/22.

Internal audit

Internal Audit (IA) sits within the Group Risk and Audit function. Reporting directly to the Audit Committee and administratively to the Chief Financial Officer, its remit is to provide independent and objective assurance over the Company's risk-prioritised operations and activities. In doing this, it seeks to provide insights to management to help the organisation achieve its priorities and support in responding to changes in the operational environment. See page 31 for further information.

Internal Audit's responsibilities include supporting management in assessing and mitigating risks to protect the business, delivering the audit plan and reporting on the effectiveness of the systems of internal control. Management continues to remain responsible for: establishing and maintaining an appropriate system of risk identification and internal control; and for the prevention and detection of irregularities and fraud. The seven steps of the risk, controls and assurance framework are set out on page 31.

Internal Audit effectiveness reviews

In line with the Internal Audit Code of Practice, the Committee conducted an annual assessment of the effectiveness of the IA function in protecting the business based on the feedback of management and key stakeholders. This assessment was facilitated by Lintstock Ltd, an independent company, who provided the assessment reports which were discussed with the Committee Chair, the Chief Financial Officer, and the Chief Audit and Risk Officer. This assessment included consideration of the structure and scope of IA's work, its capabilities, independence, the adequacy and responsiveness of the audit plan, the quality of audit reports, engagement with stakeholders and support during the pandemic.

The Committee discussed the approach and findings of the assessment. The overall assessment concluded that IA was effective, with good ratings across all measures. Areas highlighted for particular improvement included increasing the focus on risk and the technology agenda, opportunities to partner the business by getting closer to challenges and plans for change, and providing greater advice and insight by sharing lessons across other areas of the business.

In addition, consistent with the Institute of Internal Audit (IIA) guidance, a five-yearly external quality assessment was conducted in 2020. Ernst & Young were appointed to conduct the assessment after a tender process led by the Chief Financial Officer and the Chief Audit and Risk Officer. This identified that IA is compliant with Internal Audit Standards and the IIA Code of Practice.

Internal Audit Plan 2020/21

During the year, the Committee reviewed and approved the 2020/21 Internal Audit Plan (the Plan). As a result of the ongoing impacts and changes needed to respond to the pandemic, the Plan was revised to reflect the changing risk profile and impacts on the business. The Plan, and changes thereto, were reviewed and approved by the Committee.

External audit

Deloitte continued as our external auditor for the 2020/21 financial year. John Adam replaced Simon Letts as the new lead partner in April 2020, having undertaken a transition into this role during the second half of the 2019/20 financial year. Deloitte was appointed at the AGM in 2015 following the conclusion of a formal tender process for the statutory audit contract.

Deloitte reported regularly to the Committee and provided assurance of there being no detrimental impact to audit resourcing arising from COVID-19 on the 2020/21 audit.

The Committee regularly reviews the role of the external auditor and the scope of its audit. The Committee also considers the effectiveness of the external auditor on an ongoing basis during the year. Among other things, this covers its 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'.

The Committee conducted an audit effectiveness review of Deloitte in January 2021, which was facilitated by an independent company, Lintstock Ltd, who distributed a questionnaire-based assessment to key stakeholders. Anonymised responses were collated and assessment reports delivered containing territory or business-specific feedback to facilitate the evolution of audit services provided to the Group. The review concluded that the external auditor was highly effective and the Committee recommended to the Board that Deloitte be reappointed at the 2021 AGM.

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 FRC's 'Revised Ethical Standard 2019' has reduced the areas where Deloitte can provide non-audit services, such that only certain types of non-audit services can be provided by the external auditor, which are closely related to an audit, or required by law or regulation. 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 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. Details of the fees subject to the cap are provided in footnotes to the table below.

In 2020/21, Deloitte received total fees of £13.1m (2019/20: £9.7m) consisting of £10.6m of audit fees (2019/20: £7.4m), and £2.5m for non-audit and audit-related services (2019/20: £2.3m). This is an increase of £3.4m in total fees versus the previous period. The total of Deloitte's non-audit and audit-related fees in the year equated to 24% of the audit fees. 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 below. 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.

In addition, following the completion of the Asia sale in December 2020, Deloitte was requested to undertake a Special Purpose Audit of the Parent Company Interim Accounts drawn up to support the declaration of the special dividend to shareholders.

Appointment of auditor statement

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. 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 2021, taken as a whole, and concluded that the disclosures, as well as the processes and controls underlying its production, were appropriate and recommended to the Board that the Annual Report and Financial Statements 2021 is fair, balanced and understandable while providing the necessary information to assess the Company's position and performance, business model and strategy.

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

Nature of service	Level of fees in 2020/21 (£m)	Level of fees in 2019/20 (£m)	Change	Safeguards to preserve independence and objectivity
Provision of reporting accountant services relating to Group disposals, working capital and profit forecast reporting	0.6	0.2	↑	Engagement team separate to the audit team with independent reviews and working with informed management.
Audit of Parent Company Interim Accounts drawn up to support the special dividend to shareholders	0.3	-	↑	This is an audit related service carried out by members of the engagement team and the work is closely related to the work performed in the audit. The threats to independence are insignificant and safeguards need not be applied.
Forensic services: provision of data repository services for information needed for disclosure purposes as part of ongoing claims ^(a)	0.8	0.6	↑	Careful consideration of the scope of services and related threats, in particular the objective, reasonable and informed third party test. Threats are mitigated by having a separate engagement team not involved in the audit, the subject matter being historical and factual in nature, working with informed management and audit partner rotation.
SFO Monitor role: Deloitte was appointed as Monitor by the SFO under the Deferred Prosecution Agreement, agreed with Tesco Stores Limited	-	0.6	↓	Under the Deferred Prosecution Agreement Deloitte was appointed to conduct independent reviews by individuals not directly involved in the commercial income audits. Services were completed in 2019/20.
Other non-audit services: various audit, assurance and compliance related services permissible under the FRC's 'Revised Ethical Standard 2019' and its transitional provisions	0.3	0.4	↓	Careful consideration of the scope of services to ensure the self-review and management threats are mitigated, together with working with informed management. Clear separation of the engagement teams has also been established where required. From March 2020, no new tax services are permissible.
Interim Review performed under International Standards of Review Engagements (UK and Ireland) 2410	0.5	0.5	↔	The Interim Review is considered a non-audit service under the FRC 'Revised Ethical Standard 2019', although the objectives of the review are aligned with those of the audit.
Total	2.5^(b)	2.3^(c)		

(a) Engagement pre-dates Deloitte's appointment as external auditor.

(b) £25,000 fees are not subject to the cap (all within Other non-audit services). The remaining fees are all subject to the cap.

(c) Fees in this period were not subject to the cap.

Key  Increase  No change  Decrease

Annual statement.



“We design our approach to remuneration to provide direct alignment with the purpose and strategy of the Group and to ensure rewards are fair, performance-based and encourage the right behaviours.”

Steve Golsby
Remuneration Committee Chair

Committee composition

Director	Committee tenure
Steve Golsby (Chair)	3 years, 6 months
John Allan	6 years, 1 month
Byron Grote	5 years, 8 months
Mikael Olsson	6 years, 4 months
Deanna Oppenheimer	7 years, 1 month
Alison Platt	5 years, 0 months

Committee responsibilities and key decisions

The Committee determines the remuneration policy and packages for Executive Directors and senior managers. This involves having regard to workforce remuneration and alignment with strategy and culture, so that Tesco is able to recruit, retain and motivate its executives.

Details of the key decisions taken by the Committee in 2020/21 are set out below:

- reviewing the current remuneration policy and agreeing any amendments;
- determining 2020/21 incentive outcomes for Executive Directors and Executive Committee members, particularly in light of the wider socio-economic environment and the impacts of COVID-19;
- setting challenging targets for annual bonus and long-term incentives in a particularly uncertain and challenging environment; and
- agreeing the leaving terms for Alan Stewart and the joining terms for Imran Nawaz.

You can see the Committee's full terms of reference on our corporate website at www.tescopl.com.

Dear Shareholder

On behalf of the Remuneration Committee (the Committee), I am pleased to present this year's Directors' remuneration report. It contains:

- the proposed Directors' remuneration policy, which will be put forward for shareholder consideration and approval by binding vote at the 2021 AGM; and
- the annual remuneration report, describing how the policy was put into practice during 2020/21, and how the new policy will be implemented in 2021/22. This, together with the Annual Statement, will be put to an advisory vote at the 2021 AGM.

Our remuneration policy

Our remuneration policy is to be presented for shareholder approval at the June 2021 AGM. During the year, the Committee conducted a review of the executive remuneration arrangements, considering:

- alignment to business strategy (incentive measures and target-setting);
- alignment to talent strategy (quantum and market practice); and
- corporate governance requirements.

At the outset of the review, the Committee was careful to ensure that the existing policy reflected the factors set out in Provision 40 of the UK Corporate Governance Code and that it applied these consistently as it developed the proposed new policy. The remuneration policy is in line with the market standard structure. It has maintained this structure for several years, ensuring simplicity of design for participants, shareholders and the Company. The inclusion of deferral, recovery mechanisms such as malus and clawback, and post-cessation shareholding requirements mitigates behavioural, reputational and other risks that can arise from target-based incentive plans. Further details are set out on page 83.

Having taken account of the viewpoints of the investor community and best practice corporate governance guidelines, the Committee proposes to make two changes to the remuneration policy, subject to their approval by shareholders at the 2021 AGM:

- **maximum pension contribution for new-hire Executive Directors reduced from 15% to 7.5%.** This is in line with the pension contribution for the wider workforce and the terms agreed with both Ken Murphy and Imran Nawaz; and
- **post-cessation shareholding requirement extended to 100% for two years.** This is in line with the Investment Association guidance.

Following this second change, Executive Directors will be required to hold 100% of whichever is the lower of their shareholding requirement or their actual shareholding for two years following the date of their departure from the Company. This is an extension of our current policy, which operates a 50% reduction of the holding one year after departure. The change is being introduced alongside a condition on equity-based awards, designed to ensure that the policy is enforced effectively. This requires executives to hold shares covered by the post-cessation shareholding requirement in a corporate sponsored nominee account.

With the exception of these two changes, the proposed policy is therefore largely unchanged from that approved by shareholders in 2018. We set out the proposed remuneration policy in full on pages 90 to 96. As discussed with our major shareholders, the Committee plans to undertake a further review of the policy in 2021/22 once Ken Murphy has had some time in the role. This will enable us to ensure continued alignment with the future business strategy. Depending on the outcome of this review, the Committee may therefore seek approval for a new remuneration policy at the 2022 AGM. We will continue to engage with shareholders and colleagues to obtain their views and feedback on this matter.

2020/21 incentive outcomes

As outlined in the Chairman's statement and Group Chief Executive's review, Tesco has delivered a strong performance despite challenging external conditions. Following the completion of the turnaround plan, the Group has been focused on its reaction to the COVID-19 pandemic, which imposed significantly challenging circumstances across and beyond the sector. The safety and wellbeing of customers and colleagues has been at the forefront of management's decisions. This ensures that the public can access the food that they need and colleagues can continue to do their jobs. Tesco's rapid response successfully kept stores open across the Group, recruited around 50,000 additional temporary colleagues to ensure there was enough support to cover absences and to help meet increased demand, supported colleagues and vulnerable customers, and enhanced our revenue performance.

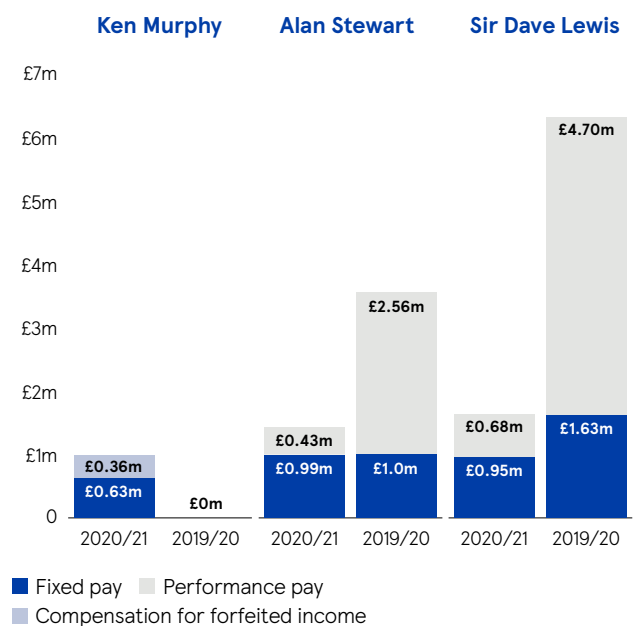
Throughout the pandemic, Tesco has ensured that colleagues have not faced any redundancies or furlough. Recognising the significant and lasting contribution to keeping their nations fed, Tesco introduced a 10% bonus for hourly-paid colleagues in the UK & ROI between March and June 2020. This was repeated for a further four-week period, recognising the challenges over the busy Christmas and New Year period. A further 2% bonus will be paid to hourly-paid colleagues in June 2021 for their continued contribution and efforts throughout the year. The Group introduced similar recognition schemes in Central Europe and Asia.

In December 2020, Tesco announced that it would be voluntarily repaying to the UK Government and Devolved Administrations the business rates relief it had received in respect of the COVID-19 pandemic. This reflected not only the financial strength of the business, but also our commitment to doing the right thing by our customers, colleagues and other stakeholders.

Following the sale of the Asia business, the Group returned £5bn to shareholders in the form of a special dividend and made a significant pension contribution of £2.5bn that has significantly reduced the prospect of having to make a further pension deficit contribution in the future.

Despite the strong performance, the UK retail COVID-19 costs of £892m incurred in supporting our customers and colleagues in addition to the Tesco Bank bad debt charges have resulted in the Group not achieving the Group profit underpin for the 2020/21 annual bonus. No bonus will therefore be paid to Executive Directors in respect of the 2020/21 bonus year. The EPS measure for the 2018 PSP award has also fallen below threshold and the free cash flow measure has also been impacted. This has resulted in a 2018 PSP payout of 23.1% of maximum. The Committee acknowledges that the level of vesting did not reflect the Company's strong performance or the exemplary leadership response during an unprecedented time. However, after much debate, the Committee agreed not to apply any discretion to the formulaic outcomes of either the 2020/21 annual bonus or the 2018 PSP for Executive Directors.

The chart below shows a breakdown of total remuneration paid to Ken Murphy, Alan Stewart and Sir Dave Lewis in respect of 2020/21 and 2019/20.



2021/22 salary and incentives

The Committee remains sensitive to the issues affecting executive remuneration and the views expressed by investors and other stakeholders, the UK Government and the wider public. These issues are arguably even more important than usual at the present time and in the context of the global pandemic. The Committee believes that continuing to exercise restraint in the level and operation of remuneration opportunities is the right approach. The Committee continues to ensure that remuneration remains reflective of the wider business environment and appropriately incentivises senior executives to achieve the Group's business objectives. All awards in relation to 2021/22 will be made in accordance with the new remuneration policy, subject to shareholder approval at the 2021 AGM.

Annual statement continued

The Committee has reviewed the salary levels of the Executive Directors and has concluded that no increases will be made for 2021/22. The same financial metrics will be retained for the 2021/22 bonus and 2021 PSP. However, as set out earlier, the Committee will review the remuneration policy with Ken Murphy later in 2021 to ensure that for the 2022 awards onwards it is aligned with the strategy.

2021 will be the first year that Ken Murphy is granted a PSP award since his appointment was announced in October 2019. Our remuneration policy enabled his recruitment, but the Committee is mindful that the economic environment and shape of the business has changed significantly since then. The Committee has also taken account of the current strategic review and the need to ensure that, following the successful sale of the Asia business, the leadership team is appropriately incentivised to deliver growth and their interests are appropriately aligned to shareholders. The Committee has therefore reviewed Ken Murphy's PSP award level. It has agreed that this will be increased, within the permitted remuneration policy headroom, from 275% to 300% of salary for his first award in 2021. This also ensures similar treatment to that being applied to Imran Nawaz's award level, which will also be moderately enhanced to 275% of salary for the 2021 grant. The Committee is mindful that sufficiently stretching targets should apply to the increased award level and details are set on page 82. The Committee has considered the overall structure and content of the remuneration package to ensure that potential pay outcomes are appropriate and reasonable for a range of different performance scenarios.

2018, 2019 and 2020 PSP targets

During the year, the Committee reviewed the 2018, 2019 and 2020 PSP targets to assess the impact of material events that were not anticipated when the targets were set. As a result of the disposal of the Asia business and the treatment of Poland as a discontinued operation, the Committee has exercised its discretion regarding the EPS targets for the 2018, 2019 and 2020 PSPs by removing the Asia and Poland businesses from both the target and the outcome. We have also applied discretion to the free cash flow targets of the 2018, 2019 and 2020 PSPs, reflecting the sale of the Asia business, the treatment of Poland as a discontinued operation and the settlement of two shareholder litigation claims in connection with the overstatement of expected profits announced in 2014. This approach ensures the alignment between the reward outcomes and the underlying performance of the Company. Neither the Asia and Poland sales nor the settlement of the shareholder claims were anticipated at the time the targets were set. The approach taken ensures that performance upon vesting is assessed against the targets on a like-for-like basis.

The Committee has carefully assessed these adjustments. We have determined that the amended performance conditions will continue to achieve the original purpose of the incentive and will not make the targets materially easier or more difficult to achieve. We set out details of the adjustments made to the 2018, 2019 and 2020 PSP targets on pages 82 and 83.

Remuneration report voting outcome 2020

The Board was naturally disappointed with the overall voting outcome of a 32.7% vote in favour of the 2020 Directors' remuneration report. Following the vote, I engaged with a number of the Company's major shareholders who had voted against the resolution. These engagements confirmed that the voting result reflected the decision to exclude Ocado from the Total Shareholder Return (TSR) comparator group from 16 May 2018. Although most shareholders agreed that the overall outcome of the 2017 PSP was proportionate, there were concerns relating to the principle of the Committee's adjustment to the TSR

comparator group. The low vote was a significant event. However, following the shareholder engagements that have taken place, the Committee and Board are satisfied that we understand the issue. As this was a one-off event and awards no longer include a TSR performance metric, this will not impact future remuneration matters.

Appointment of new Executive Directors

As disclosed in last year's report, Sir Dave Lewis stepped down as Group Chief Executive on 30 September 2020. Ken Murphy was appointed to the Board as Group Chief Executive on 1 October 2020. Details of the leaving and joining arrangements for Sir Dave Lewis and Ken Murphy were set out in last year's Directors' remuneration report and further details are set out on page 83 of this report. We would like to take this opportunity to thank Sir Dave for his excellent work and strong performance over his tenure and look forward to continuing to work with Ken Murphy.

As announced on 2 June 2020, Alan Stewart will be retiring as Group Chief Financial Officer and from the Company on 30 April 2021. Imran Nawaz will be appointed to the Board as Group Chief Financial Officer on 1 May 2021. The Committee has approved good leaver status for Alan Stewart and his unvested annual bonus share awards will continue to vest at their normal time, with unvested PSP awards subject to proration. No PSP award will be granted to him in 2021 and he will not be eligible for any annual bonus in 2021/22. The reward package for Imran Nawaz has been set in line with the existing remuneration policy. You can find further details of the leaving and joining arrangements for Alan Stewart and Imran Nawaz on pages 83 and 84.


Colleague engagement

We continued to hold Colleague Contribution Panels (CCPs) during the year, using the opportunity to hear directly from colleagues across the Group. We considered their views on executive remuneration and other matters of interest to them, and we have incorporated these into our review of the remuneration policy. Further details of this engagement are set out in the Corporate governance report. We have also set out specific details of how we have responded to the wider workforce aspects of the Code in the Reward Principles section on page 76.

During the year, the Committee reviewed the pay, policies, incentives and demographics of the wider workforce and the outcomes on remuneration from the Every Voice Matters colleague survey. We use this information to guide our approach to Executive Director remuneration.

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. We look forward to receiving your support for the proposed new remuneration policy and remuneration report at our 2021 AGM.



Steve Golsby
Remuneration Committee Chair

Governance summary

Operation of the Committee

The role of the Committee is to determine the Company's framework and policy for executive remuneration and to set the remuneration of the Chairman, Executive Directors, Executive Committee members, Chief Audit and Risk Officer and Group Company Secretary.

The Committee reviews the remuneration arrangements as well for Group employees whose salaries exceed specified levels. It also administers the Group's share incentive plans. In addition, the Committee has regard to policies and practices relating to workforce remuneration, the views of colleagues and the alignment of incentives and rewards to our culture when setting executive remuneration.

The Committee maintains an active dialogue with shareholders and their representative bodies. Its terms of reference were reviewed during the year.

Committee composition

The Committee consists of Steve Golsby (Chair), John Allan, Byron Grote, Mikael Olsson, Deanna Oppenheimer and Alison Platt. They are all independent Non-executive Directors, except John Allan who is Non-executive Chairman. Meeting attendance is set out on page 59. No member of the Committee has any personal financial interest in the matters decided, other than as a shareholder, nor do members have any day-to-day involvement in running the business of Tesco. 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. Other people may be invited to attend the meeting. The Committee is supported by the Reward, Corporate Secretariat and Finance functions. No Directors or executives are present when their own remuneration is discussed and have no involvement in determining their own remuneration.

Mikael Olsson and Deanna Oppenheimer will retire from the Committee and the Board at the 2021 AGM. Thierry Garnier and Lindsey Pownall will join the Committee from 30 April 2021 and the conclusion of the 2021 AGM, respectively.

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. You can see the code of conduct at www.remunerationconsultantsgroup.com.

In 2020/21, PwC provided advice and commentary on a range of topics including remuneration trends, the joining terms of Imran Nawaz, consulting with shareholders and corporate governance. PwC fees for advice provided to the Committee were £186,850 (2019/20: £144,400). Fees are charged on a time and materials basis. PwC also provided general consultancy services to management during the year and separate teams within PwC provided unrelated advisory services relating to corporate tax compliance, technology consulting, internal audit, global mobility and immigration services. However, the Committee is satisfied that these activities do not compromise the independence or objectivity of the advice it has received from PwC.

Committee activities

The Committee met eight times during the year, four scheduled meeting and four ad-hoc meetings. All meetings were held virtually. A summary of the key areas of focus is set out below:

Base salaries The Committee annually reviews and considers the remuneration environment of the Executive Directors and other senior managers, approving annual adjustments having regard to the remuneration of the wider workforce.	<ul style="list-style-type: none"> - Reviewed the remuneration environment (including wider employee trends). - 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.	<ul style="list-style-type: none"> - Reviewed the impact of the Board's decision to repay business rates relief, the sale of the Asia and Poland businesses, COVID-19 costs and Tesco Bank bad debt charges. - Determined the outturn of the 2020/21 bonus. - Reviewed and set metrics, targets and objectives for the 2021/22 bonus.
Performance share plan The Committee is responsible for approving PSP grants, assessment of performance and the vesting of PSP awards for Executive Directors, Executive Committee members and below.	<ul style="list-style-type: none"> - Reviewed the impact on the 2018, 2019 and 2020 PSP awards of the Board's decision to repay business rates relief, the special dividend and share consolidation, and the sale of the Asia and Poland businesses. - Reviewed performance against targets for the 2018 PSP award and determined the outturn. - Reviewed and set metrics and targets for 2021 PSP grant.
Remuneration policy The Committee sets the broad framework for the remuneration of Executive Directors.	<ul style="list-style-type: none"> - Reviewed remuneration policy and consulted on recommendations. - Engaged with shareholders and considered feedback.
Governance and other matters The Committee adheres to the highest standards of governance, ensuring alignment between internal actions and external reporting and compliance requirements.	<ul style="list-style-type: none"> - Approved joining terms for Imran Nawaz and departure terms for Alan Stewart. - Reviewed shareholder feedback on 2020 Directors' remuneration report and consulted with major shareholders. - Evaluated the Committee's performance and reviewed its terms of reference. - Reviewed Chair's fee. - Reviewed gender pay gap reporting. - Approved new share plan rules for the LTIP and SAYE.

Reward principles

The principles of a fair workplace

To live up to our purpose, our colleagues need to reflect and represent the communities we serve. Tesco aims to be a place where colleagues can get on, as they wish, irrespective of their background. We are proud of our long history of helping colleagues develop their careers in Tesco.

Our approach to reward is guided by the following principles:

- competitive: setting pay with reference to internal relativity and external market practices;
- simple: helping all colleagues to understand how they are rewarded;
- fair: achieving consistent outcomes through flexible and transparent policies; and
- sustainable: 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 of colleagues throughout the Group. This ensures we take the reward, incentives and conditions available to colleagues into account when the remuneration of Executive Directors and senior management is decided.

In Tesco's UK business in 2020/21 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.

Element of pay	Purpose	Executive Committee and WL4-5 ^(a)	WL1-3 ^(a)	
			Hourly-paid colleagues in stores	Other colleagues
Base salary	Base salary supports the recruitment and retention of colleagues of the calibre, capability and experience needed to perform their role. 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 provides colleagues with 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 PLC shares to provide additional alignment with shareholders' experience.	✓	(b)	✓
Performance Share Plan	Colleagues with responsibility for long-term Group performance are incentivised to achieve Tesco's strategy and create sustainable shareholder value.	✓		

(a) WL refers to Work Levels, which are Tesco's internal grading system.

(b) In recognition of COVID-19 challenges, a 10% colleague recognition bonus was awarded to hourly-paid colleagues in stores, distribution and call centres for hours worked from 8 March to 26 June 2020 and was repeated for the period between 13 December 2020 to 9 January 2021. A further 2% bonus will be paid to hourly-paid colleagues in June 2021 for their continued contribution and efforts throughout the year.

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 achieved against our goals. This approach to pay design also reflects each individual's ability to influence Tesco's performance.

So while the balance of the elements of remuneration may differ, we have a consistent overall principle that all colleagues should be paid competitively against the relevant pay benchmark.

We regularly ask colleagues across the Group about how they feel about pay and benefits at Tesco. In our 2021 survey, 69% of colleagues agreed that the total reward package at Tesco is competitive, which is well ahead of relevant external benchmarks. In addition, 85% of colleagues said they are able to work flexibly and 74% agreed that Tesco supports their health and wellbeing.

Our colleagues are the heart of our business and Tesco remains committed to building an inclusive workplace where everyone can get on through being able to be themselves, develop their skills and be part of a team. Our ongoing initiatives include:

- supporting colleagues to be at their physical, mental and nutritional best through our health and wellbeing proposition;
- creating a sense of belonging by treating everyone fairly and with respect while valuing their individuality and uniqueness; and
- 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 stakeholders. Last year we thanked hourly-paid colleagues in the UK with a 10% bonus, paid in April, May and June and reintroduced in December to recognise their exceptional effort during the peak Christmas trading period. We also shielded our extremely clinically vulnerable colleagues and welcomed around 50,000 additional temporary colleagues. We will also be awarding a 2% end-of-year recognition bonus to hourly-paid colleagues, to be paid in June 2021. Similar colleague recognition schemes were introduced in Central Europe and Asia.

Group Chief Executive pay compared to pay of UK employees

Tesco is a retail business with one of the UK's largest workforces, employing more than 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 below. 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 Single total figure of remuneration (STFR) of the Group Chief Executive for 2020/21 and the lower, median and upper quartile pay of our UK colleagues. We also show for comparison the pay ratios for 2018/19 and 2019/20, which we disclosed in last year's Directors' remuneration report.

Total pay ratio

Financial year	Method	25th percentile pay ratio	50th percentile pay ratio	75th percentile pay ratio
2018/19	Option C	247:1	226:1	209:1
2019/20	Option C	355:1	305:1	279:1
2020/21	Option C	136:1	118:1	116:1

Total pay and benefits amounts used to calculate the ratio

Financial year	Method	25th percentile pay ratio		50th percentile pay ratio		75th percentile pay ratio	
		Total pay and benefits	Total salary	Total pay and benefits	Total salary	Total pay and benefits	Total salary
2019/20	Option C	£18,086	£17,025	£21,057	£19,692	£23,046	£20,135
2020/21 ^(a)	Option C	£19,362	£17,319	£22,239	£20,107	£22,724	£20,876

(a) The total FTE pay and benefits for the relevant colleagues is based on the period from 9 February 2020 to 6 February 2021. The reporting regulations offer three calculation approaches for determining the pay ratio – Options A, B and C. The table above was calculated using the approach determined by Option C, which is deemed the most appropriate methodology for Tesco.

As more than half of Tesco's colleagues work part-time, the exercise required to determine full-time equivalent (FTE) is extensive and particularly complex. Tesco decided to use Option C as it has completed comprehensive data collation and analysis of all relevant colleagues for the purpose of Gender Pay Gap (GPG) reporting, and was able 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 Tesco 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. Tesco believes the 'best equivalent' colleagues identified are reasonably representative of the 25th, 50th and 75th percentiles as Tesco has compiled pay on an FTE basis. Tesco reviewed pay across a sample of employees at each percentile before selecting the employee who was most representative.

As set out on page 76, our reward framework across the Group is based 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. Colleague pay is therefore determined 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. The Single total figure will therefore vary considerably depending on the level of performance against the metrics which drive the annual bonus and PSP. In 2019/20 the annual bonus and PSP paid out at 75.9% and 48.8% of maximum potential compared to 0% and 23.1% in 2020/21. This has resulted in a significant reduction in the CEO pay ratio numbers this year.

Gender pay

Tesco's gender pay gap report for the year to April 2020 shows that our median gender pay gap has reduced further from 8.0% to 6.8%, which is less than half the UK national average of 15.5%. For the second year in a row, we have achieved our lowest figure since we started reporting in 2017. Our median bonus gap has broadly stayed the same at 26.3%.

Our gender pay gap is attributable to two key reasons. The first is having a higher number of men in our more senior roles. While 31.7% of the Board, Executive Committee and direct reports to Executive Committee are women, our focus is on increasing female representation in other areas. We offer flexible working options to fit in with personal career and lifestyle choices. More male colleagues tend to work shifts at times that pay premiums, including Sundays, nights and bank holidays. We support the decisions that are right for our colleagues' individual circumstance. Our parental policy ensures that primary parents and partners are able to take more dedicated leave to care for a new child, with the opportunity to work at the times that best suit them. When we remove premium payments from the calculation, our median pay gap reduces further to 4.2%.

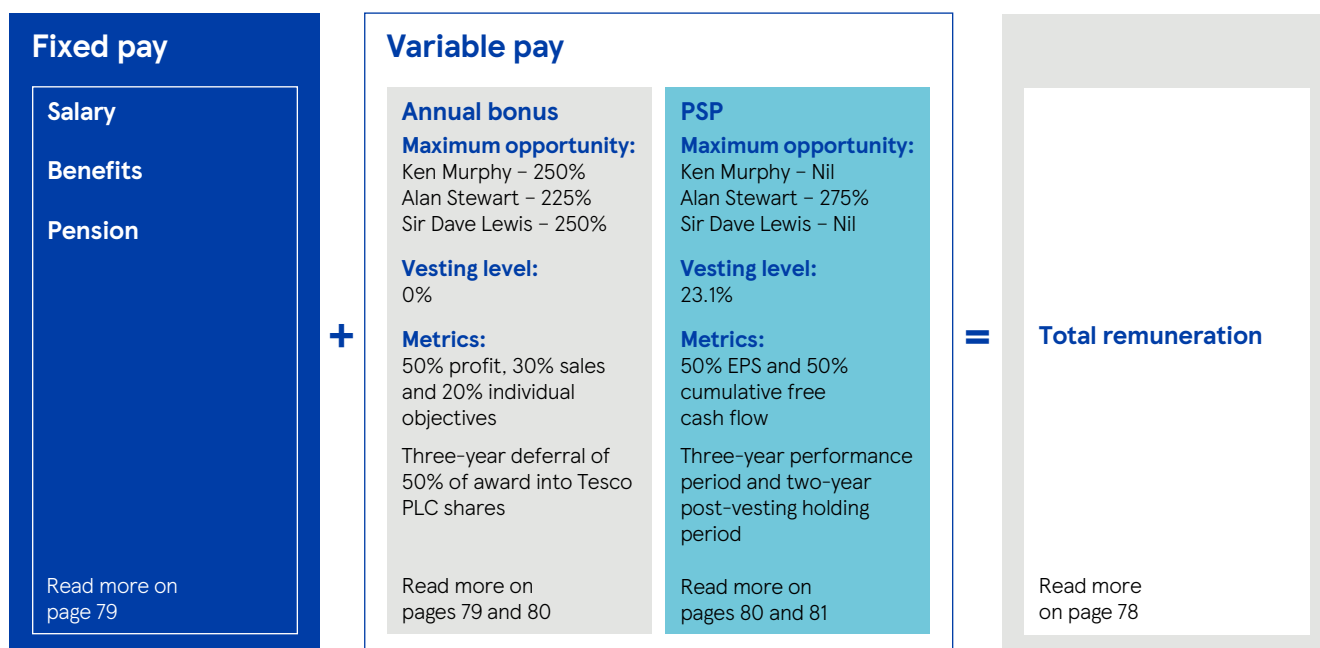
Through our People strategy pillar of recognising individual contribution and collective diversity, we continue to build a diverse and inclusive workplace, where everyone is welcome.



See Tesco Gender Pay Gap Report for more information at www.tescopl.com/genderpay.

Annual report on remuneration

2020/21 total remuneration



Single total figure of remuneration – Executive Directors (audited)

The following table provides a summary Single total figure of remuneration for 2020/21 and 2019/20 for Executive Directors.

	Ken Murphy ^(a)		Alan Stewart		Sir Dave Lewis ^(b)	
	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20
Fixed pay						
Salary (£'000)	556	–	750	750	735	1,250
Benefits (£'000)	31	–	55	62	32	62
Pension (£'000)	42	–	188	188	184	313
Total fixed pay (£'000)	629	–	993	1,000	951	1,625
Variable pay						
Annual bonus (short-term pay) (£'000) ^(c)	–	–	–	1,289	–	2,372
PSP (long-term pay) (£'000) ^{(d)(e)}	–	–	433	1,272	683	2,331
Value delivered through corporate performance (£'000)	–	–	471	961	743	1,762
Value delivered through share price growth performance (£'000) ^(d)	–	–	(38)	311	(60)	569
Total variable pay (£'000)^(f)	0	–	433	2,561	683	4,703
Compensation for forfeited income^(g)	363	–	–	–	–	–
Total remuneration (£'000)	992	–	1,426	3,561	1,634	6,328

(a) Ken Murphy joined the Board as Group CEO on 1 October 2020. Details of his joining arrangements were set out in the 2020 Annual Report and further details are set out on page 83.

(b) Sir Dave Lewis stepped down as Group CEO and from the Board on 30 September 2020. Details of his leaving arrangements were set out in the 2020 Annual Report and further details are set out on page 83.

(c) The underpin of the 2020/21 bonus was not met. As a result, there is no 2020/21 bonus payout for the Executive Directors. The 2019/20 bonus was provided half in cash and half in shares deferred for three years.

(d) Alan Stewart's and Sir Dave Lewis' 2018 PSP awards will vest in July 2021. They have been valued based on the average share price during the three-month period to 27 February 2021 of 235.65p.

Values include dividend equivalents added in shares since the date of grant and the impact of the share consolidation in February 2021. The difference between the share price at grant of the 2018 PSP award of 256.51p and the three-month average share price at 27 February 2021 of 235.65p has been used to calculate the value delivered through share price performance.

(e) The PSP figures for 2019/20 for Alan Stewart and Sir Dave Lewis have been adjusted, in line with statutory reporting requirements following last year's report, to show the actual value when the award vested in May 2020 based on the then share price of 238.1p.

(f) In specific circumstances, and in line with the stated principles, the Committee may apply malus (reduction of outstanding awards or vesting levels) or clawback (recovery of sums paid). Following due consideration by the Committee, no malus or clawback has been applied during 2020/21 in respect of any Executive Directors.

(g) On 14 October 2020, Ken Murphy received £363,000 in compensation for income forfeited under a non-compete clause with his previous employer. £180,000 was paid in cash and the remainder as a one-off award of 82,614 shares at a grant price of 217.9p (based on the average of the closing share prices for the five dealing days prior to 14 October 2020) which vested immediately. The share price on vesting (which is also the date of grant) was 221.5p. The difference between the grant price and price on vesting resulted in a gain of c.£3,000. To cover Income Tax and National Insurance contributions, 38,829 shares were withheld. The net shares were transferred to Ken Murphy and retained under the Company's shareholding guidelines.

(h) The total aggregate remuneration paid to Directors in 2020/21 was £5.9m (2019/20: £11.7m).

The following sections provide details of each element of 2020/21 total remuneration, including how the Committee implemented the approved remuneration policy during the year.

When considering executive remuneration in 2020/21 the Committee primarily used companies in the FTSE 50 as a comparator group. When reviewing the CEO's remuneration, the Committee may also reference remuneration of a group of leading international companies whose selection is based on their size and complexity.

2020/21 fixed pay

Salary

Base salary provides fixed remuneration for the role, which reflects the size and scope of the Executive Directors' responsibilities and their experience.

Salaries are normally reviewed annually, with changes being effective from 1 June. When considering Alan Stewart's salary during 2019, the Committee took into account pay review budgets across the Group and external pay relativities. As a result, the Committee determined that his salary would remain unchanged in 2020/21. Ken Murphy's and Sir Dave Lewis' salaries were also unchanged in 2020/21.

Benefits

Tesco provides benefits at a market-competitive level to assist Executive Directors in performing their roles. Core benefits include a car or cash allowance and the benefit of a driver, private health insurance and life assurance. Benefits include all items deemed by tax authorities to be a taxable benefit for Executive Directors.

Pension

Pension provides an appropriate level of retirement benefits as a part of a holistic benefits package.

Ken Murphy, Alan Stewart and Sir Dave Lewis received a cash allowance in lieu of pension paid in four-weekly instalments. Ken Murphy received an allowance of 7.5% of salary, and Sir Dave Lewis and Alan Stewart each received an allowance of 25% of salary. Alan Stewart will step down from the Board on 30 April 2021.

All-employee share plans

Executive Directors may participate in two HMRC tax-advantaged all-employee share plans with the wider UK workforce – Save As You Earn (SAYE) and Buy As You Earn (BAYE).

Participants in the SAYE plan may save up to £500 per month for three or five years. At the end of that period, they have the option to buy Tesco PLC shares at a discount of up to 20% of the share price at the start of the SAYE invitation. Participants in the BAYE plan contribute up to £150 a month from their pre-tax salary to purchase Tesco PLC shares.

2020/21 variable pay

2020/21 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. Its payment is subject to a Group operating profit underpin, below which no portion of the annual bonus will be paid.

Operating profit outturn for the year was £1,811m^(a), below the threshold set to meet the underpin and trigger payments under either the financial or individual elements of the annual bonus. This resulted in no bonus payments for 2020/21 being made to Ken Murphy, Alan Stewart or Sir Dave Lewis. As set out in the Annual Statement, the Committee exercised no discretion in determining the outcome.

Despite there being no bonus payment under the annual bonus, the Committee reviewed the achievement of the individual objectives to enable transparent disclosure to shareholders. The tables below show the 2020/21 bonus financial targets and potential payouts and achievement against individual objectives for Ken Murphy, Alan Stewart and Sir Dave Lewis. As the underpin was not met, the actual payout to Executive Directors for the 2020/21 bonus year was nil.

Financial performance metric	Weighting (% of total annual bonus opportunity)	Threshold	Target	Stretch	Actual achievement ^(a)	Theoretical payout (% of maximum)
Group sales ^(a)	30%	£50,083m (25% payout)	£51,105m (50% payout)	£52,127m (100% payout)	£53,434	30%
Group operating profit before exceptional items and amortisation of acquired intangibles ^(a)	50%	£2,275m (25% payout)	£2,439m (50% payout)	£2,602m (100% payout)	£1,811m	0%

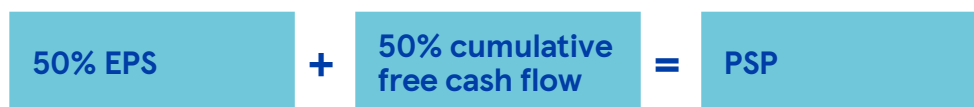
(a) Actual achievement is based on performance over 52 weeks at constant foreign exchange rates to align with targets.

Annual report on remuneration continued

2020/21 achievement of individual objectives

Executive Director	Objective 1	Objective 2	Objective 3
Ken Murphy	(6.66%) Deliver sale of Asia business – Successfully closed out the sale of the Asia business for US\$10.6bn.	(6.66%) Meet or exceed budget for H2 2020/21 – Strong performance on sales with stretch targets being met, however the costs in relation to COVID-19 and Tesco Bank bad debt charges have resulted in the profit target not being met. – Voluntarily repaid business rates relief received in respect of the COVID-19 pandemic. This reflected not only the financial strength of the business, but also our commitment to do the right thing by our customers, colleagues and all our stakeholders.	(6.66%) Develop initial strategy – Strategic review undertaken with the Executive Committee and the Board with launch planned for later in 2021.
Assessment	Stretch	Target	Target
Alan Stewart	(6.66%) Deliver sale of Asia business and return of capital – Successfully closed out the sale of the Asia business for US\$10.6bn.	(6.66%) Deliver Group free cash flow – Group free cash flow was 19% above Target.	(6.66%) Technology/Finance roadmap and LTP strategy agreed with the Audit Committee for 2021/22 and onwards – Recommendations presented and agreed by Audit Committee in September 2020 with strong alignment between the functions. – All recommendations incorporated into LTP and 2021/22 budget. Governance sessions established and both functions aligned to new ways of working.
Assessment	Stretch	Between target and stretch	Stretch
Sir Dave Lewis	(6.66%) Deliver sale of Asia business – Successfully closed out the sale of the Asia business. In addition announced the proposed sale of the Poland business.	(6.66%) Little Helps Plan – Strategy expectations on food waste, plastics, food strategy, and diversity and inclusion – Little Helps Plan commitments delivered across People, Product, Planet and Places. This included: – a strengthened diversity and inclusion programme; – offering 1,000 work placements as part of the Kickstart programme; – collaborating with over 70 suppliers to cut 200,000 tonnes of waste from their combined operations; – progressing towards the removal of 1 billion pieces of plastic from our UK business; and – becoming the first UK retailer to establish a clear public target for sales of meat alternatives and restating our deforestation commitments.	(6.66%) Handover and transition to Ken Murphy – Successful transition of CEO completed.
Assessment	Stretch	Target	Target

2020 PSP award grant (audited)



The following summarises the PSP awards made to Alan Stewart in 2020/21:

Executive Director ^(a)	Type of award	Date of award	Shares granted	Face value (% of base salary)	Face value (£) ^(b)	Threshold vesting (Face value ^(b))	Stretch vesting (Face value ^(b))	Vesting date
Alan Stewart ^(d)	Conditional award ^{(c)(f)}	03/07/20	907,790	275%	2,062,499	25% (£515,625)	100% (£2,062,499)	03/07/2023 ^(e)

(a) No other Executive Director received a PSP award in 2020/21.

(b) The face value has been calculated using the market price on grant of 227.2p (3 July 2020).

(c) The award has a three-year performance period which will end on 25 February 2023. It is subject to malus and clawback.

(d) Alan Stewart will retire from the Board on 30 April 2021 and has been granted good leaver status. His 2020 PSP will vest on its scheduled date to the extent the performance conditions are met and after pro-rating for the portion of the performance period that he worked.

(e) The vested shares, net of any tax liabilities, will be subject to a post-vesting holding period of two years.

(f) The table shows the maximum number of shares that could be released if the award was to vest in full.

2020 PSP performance targets

Performance metrics and targets ^{(a)(b)}	Weighting	Performance targets (and % payout)	
		Threshold (25% payout)	Stretch (100% payout)
EPS	50%	17.2p	25.4p
Free cash flow (three years)	50%	£3.4bn	£5.6bn

(a) Both performance metrics are defined in the same manner as the alternative performance measures set out on pages 205 to 208. The EPS metric reflects EPS adjusted for the share consolidation.

(b) Both PSP performance metrics have straight-line vesting between threshold and stretch.

Dividend equivalents

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 reinvestment of those dividends in Tesco PLC shares on a cumulative basis.

2018 PSP vesting (audited)

The PSP award granted in 2018 will vest in July 2021 based on performance over three years up to and including the 2020/21 financial year. Taking all factors into account, the 2018 PSP performance outcome was as follows:

Metrics (% maximum)	Performance targets (and % payout)			Actual performance	Payout (vesting level)	Payout (% of maximum)
	Threshold	Target	Stretch			
EPS ^(a) (50%)				11.9p	0%	0%
	17.5p (25% vesting)	20.7p (50% vesting)	23.9p (100% vesting)			
Cumulative free cash flow ^(b) (50%)				£4.1bn	46.2%	23.1%
	£3.3bn (25% payout)	£4.2bn (50% payout)	£5.1bn (100% payout)			

	Alan Stewart	Sir Dave Lewis
Vesting (% of award)	23.1%	23.1%
Number of shares granted	730,965	1,340,103
Number of dividend equivalent shares	230,315	422,247
Number of shares removed to take account of share consolidation	166,525	305,296
Number of shares before performance conditions applied	794,755	1,457,054
Number of shares after performance conditions applied	183,588	336,579
Three-month average share price to 27 February 2021	235.65p	235.65p
Estimated value at end of performance period	£432,625	£793,148
Number of shares after time pro-ration	–	289,831
Estimated value after time pro-ration	–	£682,987

(a) During the year, adjustments were made to the EPS target to reflect the sale of the Asia business and the treatment of Poland as a discontinued operation. The free cash flow generation target was also adjusted to reflect the sale of the Asia business, the treatment of Poland as a discontinued operation and the settlement of two shareholder litigation claims in connection with the overstatement of expected profits announced in 2014. Further details are set out on pages 74, 82 and 83.

(b) As disclosed in the 2019 Directors' remuneration report, the 2018 EPS target has also been adjusted to take account of the introduction of IFRS 16.

Implementation of policy in 2021/22

The Committee receives an annual report from management setting out key details of remuneration for colleagues across the Group. This includes details of salary, incentive awards, risk factors, gender pay gap, ethnicity and colleague demographics. The Committee uses this information to inform its approach to the remuneration of Executive Directors and senior management. In particular, the Committee focuses on ensuring that the approach to reward as set out on page 76 is consistently applied to the wider workforce as it is to Executive Directors and senior management. For those colleagues who participate in performance-related share plans, the use of malus and clawback mechanisms disincentivises unethical working practices by allowing the recovery of performance-related pay.

Directors' remuneration report continued

Annual report on remuneration continued

Fixed pay

Element of remuneration	Ken Murphy	Imran Nawaz ^(a)	Alan Stewart ^(b)
Annual base salary	£1,350,000	£700,000	£750,000
Pension	Cash allowance in lieu of pension of 7.5% of base salary	Cash allowance in lieu of pension of 7.5% of base salary	Cash allowance in lieu of pension of 25% of base salary

(a) As disclosed elsewhere in the report, Imran Nawaz will be joining as Chief Financial Officer on 1 May 2021. He will receive his base salary and cash allowance in lieu of pension from this date. More details on his joining arrangements can be found on pages 83 and 84.

(b) Alan Stewart will receive his base salary and cash allowance in lieu of pension until he steps down from the Board on 30 April 2021. More details on his leaving arrangements can be found on page 83.

Annual bonus

Element of remuneration	Ken Murphy	Imran Nawaz	Alan Stewart
Quantum	Maximum of 250% of base salary	Maximum of 225% of base salary	Nil
Annual bonus deferral	50% of bonus awarded deferred into Tesco PLC shares for three years		
Annual bonus performance metrics ^{(a)(b)}	Group sales (30%) Group operating profit before exceptional items and amortisation of acquired intangibles (50%) Individual objectives (20%) Underpin based on Group operating profit before exceptional items and amortisation of acquired intangibles, below which no portion of the annual bonus will be paid.		

(a) The Board considers annual bonus targets to be commercially sensitive as they could inform Tesco's competitors of its budgeting. We therefore do not publish details of the targets on a prospective basis. However, we will provide full and transparent disclosure of the targets and the performance against these targets on a retrospective basis in next year's Annual Report when we report the bonus outcome.

(b) The 2021/22 targets were set based on 2020/21 average actual foreign exchange rates. Performance against these targets will be measured using the same rates to ensure consistent treatment of foreign exchange in targets and actual performance.

2021 PSP award grant

In setting the 2021 PSP targets the Committee has taken into account the significant uncertainty as we come out of the pandemic.

	Ken Murphy	Imran Nawaz	Alan Stewart
Quantum	Maximum of 300% of base salary	Maximum of 275% of base salary	Nil
Term	Three-year performance period and two-year post-vest holding period		

Performance metrics and targets ^{(a)(b)}	Weighting	Performance targets (and % payout)	
		Threshold (25% payout)	Stretch (100% payout)
EPS	50%	17.3p	26.0p
Free cash flow (three years)	50%	£4,253m	£6,379m

(a) Both performance metrics are defined in the same manner as the reported alternative performance measures as set out on pages 205 to 208. The EPS metric reflects EPS adjusted for the share consolidation.

(b) Both PSP performance metrics have straight-line vesting between threshold and stretch.

Adjustments to targets

The Committee considered adjustments to targets resulting from material events that were not anticipated at the time the targets were set. It also agreed changes to ensure the PSP awards remained equally stretching and a clear line of sight was maintained. The free cash flow targets were adjusted downwards to reflect the sale of the Asia business, the treatment of Poland as a discontinued operation and the settlement of two shareholder litigation claims in connection with the overstatement of expected profits announced in 2014. The EPS targets were also adjusted to reflect the sale of the Asia business and the treatment of Poland as a discontinued operation. As disclosed in the 2019 Directors' remuneration report, the 2018 EPS target has also been adjusted to take account of the introduction of IFRS 16.

2020 PSP award – Adjustments to targets^(a)

EPS	Threshold	Stretch
Original targets	16.5p	24.7p
Adjustments	0.7p	0.7p
Revised targets	17.2p	25.4p
Cumulative free cash flow	Threshold	Stretch
Original targets	£4.4bn	£6.7bn
Adjustments	£(1.0)bn	£(1.1)bn
Revised targets	£3.4bn	£5.6bn

2019 PSP – Adjustments to targets^(a)

EPS	Threshold	Stretch
Original targets	17.2p	23.2p
Adjustments	0.8p	0.8p
Revised targets	18.0p	24.0p
Cumulative free cash flow	Threshold	Stretch
Original targets	£4.3bn	£6.5bn
Adjustments	£(0.8)bn	£(0.8)bn
Revised targets	£3.5bn	£5.7bn

2018 PSP – Adjustments to targets^(a)

EPS	Threshold	Stretch
Original targets	18.0p	24.4p
Adjustments	(0.5)p	(0.5)p
Revised targets	17.5p	23.9p
Cumulative free cash flow	Threshold	Stretch
Original targets	£3.7bn	£5.5bn
Adjustments	£(0.4)bn	£(0.4)bn
Revised targets	£3.3bn	£5.1bn

(a) Both performance metrics are defined in the same manner as the reported alternative performance measures as set out on pages 205 to 208. The EPS metric reflects EPS adjusted for the share consolidation.

Malus and clawback

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 of 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.

Where PSP awards are settled prior to the fifth anniversary of the award being granted, the Committee has the discretion to claw back awards up to the fifth anniversary of their being granted in the circumstances described above. Cash bonus payments can also be clawed back in the circumstances described above up to the third anniversary of payment.

Director changes during the year**Sir Dave Lewis**

Details of the remuneration earned by Sir Dave Lewis pro-rated for the period from 1 March 2020 to 30 September 2020 are set out on pages 78 to 81. He has been treated as a good leaver in respect of his outstanding awards under Tesco's share plans. Accordingly, his unvested deferred bonus awards will vest in full in accordance with their original timeframes. Any shares released from the 2019 deferred bonus award will be subject to a post-employment shareholding requirement, with post-tax vested shares being held until 30 September 2022. Additionally, the 2018 and 2019 PSP awards will vest on their original vesting dates to the extent that the performance conditions are met. On vesting, they will be pro-rated to reflect his period of service from the start of the relevant performance period until 30 September 2020. The vested pro-rata shares will be subject to a post-vesting holding period of two years. As Sir Dave Lewis is a voluntary leaver, he did not receive any severance payment or pay in lieu of notice when he left the Company.

Ken Murphy

Ken Murphy joined Tesco on 1 October 2020 as Group Chief Executive. As set out in last year's Directors' remuneration report, all pay and benefits for Ken Murphy were set in line with the current remuneration policy. Details of his remuneration, including compensation for income forfeited under a non-compete clause with his previous employer, are set out in this Directors' remuneration report.

Owing to restrictions on travel arising from the COVID-19 pandemic, the Committee agreed to extend for a further six months to 31 March 2023 the commuting support and relocation assistance provided to Ken Murphy.

Alan Stewart

As announced on 2 June 2020, Alan Stewart will retire from the Board on 30 April 2021. In line with the current remuneration policy, Alan Stewart will receive his current salary, benefits and 25% pension cash allowance to 30 April 2021. He will not be eligible for a 2021/22 bonus or PSP award.

Alan Stewart has been granted good leaver status for his 2017/18, 2018/19 and 2019/20 deferred bonuses and his 2018, 2019 and 2020 PSP grants. These will be released on the scheduled vesting dates, including PSP grants to the extent performance conditions are met and after pro-rating for the portion of the performance period worked. Post-vesting holding periods, where relevant, and malus and clawback terms will apply. Alan Stewart has one year from his retirement date in which to exercise the vested options from his 2015/16 and 2016/17 bonus awards, his 2015, 2016 and 2017 PSP awards and his 2014 and 2015 buyout awards. A post-employment shareholding requirement will apply for two years after departure regarding share awards granted after 1 March 2019.

The performance period for the 2018 PSP award came to an end on 27 February 2021, and the award will vest in July 2021. In line with the current remuneration policy, those shares which Alan Stewart receives as a result of the vesting of his 2018 PSP award will be subject to a two-year post-vesting holding period and will also be subject to malus and clawback.

Imran Nawaz

Imran Nawaz will join Tesco on 1 May 2021 as Chief Financial Officer. All pay and benefits have been set in line with the current remuneration policy:

- salary of £700,000 set at a level that the Committee regards as appropriate for his experience and the size and scope of the role;
- benefits appropriate for his role and position in the Company;
- pension allowance of 7.5% of salary in line with the wider workforce;
- maximum annual bonus opportunity of 225% of salary; and
- maximum PSP award of 275% of salary in 2021.

He will be required to build up a shareholding of 300% of base salary and to retain all shares that are vested to him, net of any tax liabilities, until the requirement is satisfied. He will also be subject to Tesco's post-cessation shareholding requirement. His service agreement is terminable on 12 months' notice by either party.

Directors' remuneration report continued

Annual report on remuneration continued

The Committee has also agreed the following buyout arrangements to compensate for the forfeiture of incentive compensation from Imran Nawaz's current employer, Tate & Lyle PLC:

- bonus for financial year 2020/21 will be based on the disclosed outturn in Tate & Lyle's annual report and will be delivered in Tesco PLC shares;
- 2019 deferred bonus award will be made in Tesco PLC shares and subject to the Tate & Lyle vesting schedule;
- 2018 and 2019 PSP awards will be converted into Tesco PLC shares and subject to the existing Tate & Lyle performance conditions, vesting schedule and holding periods; and
- one-third of the 2020 PSP award will be converted into Tesco PLC shares and subject to the existing Tate & Lyle performance conditions, vesting schedule and holding period. This reduction recognises that Imran Nawaz will receive an enhanced PSP award with a maximum value of 275% of salary in 2021.

All buyout awards will be subject to the Company's shareholding guidelines.

He will receive buyout amounts in respect of certain payments which were also subject to forfeiture (and are repayable to Tate & Lyle) upon his resignation. These include his commuter support and the first tranche of his vested 2018 restricted stock award, which were made on joining Tate & Lyle. These amount to £644,600 and will be paid in cash on a grossed-up basis after Imran Nawaz joins Tesco.

Full details of buyout and clawback compensation will be set out in the 2022 Annual Report.

Additional remuneration disclosures for Executive Directors

Executive Directors' interests in shares and shareholding guidelines (audited)

The Committee wants to incentivise Executive Directors to take a long-term, sustainable view of the Company's performance. For this reason, when the Committee looks at the remuneration paid in the year, it also looks at the total equity Executive Directors hold and its value based on the Company's performance. Executive Directors are required to retain all shares that vest, net of any tax, until the requirement is met. The table below sets out the shares held by current and former Executive Directors who held office during the year and their connected persons (including beneficial interests). It also includes a summary of outstanding share awards.

Executive Director	Ordinary shares beneficially owned at 01/03/2020	Ordinary shares beneficially owned at 27/02/2021 or date of cessation ^(a)	Unvested deferred annual bonus awards subject to continued employment ^(b)	Unvested PSP awards subject to performance conditions ^(b)	Vested but unexercised nil cost options, not subject to performance conditions ^(b)	Current shareholding (% of base salary) ^(c)	Shareholding requirement (% of base salary) ^{(d)(e)}
Ken Murphy ^(f)	–	35,045	–	–	–	6%	400%
Alan Stewart	120,555	124,199	758,151	2,670,338	3,140,804	688%	300%
Sir Dave Lewis ^{(f)(g)}	173,160	178,548	890,522	1,583,017	–	N/A	N/A

(a) Between 28 February and 13 April 2021 Ken Murphy acquired 9,839 Ordinary shares through the Dividend Reinvestment Plan (DRIP) and Alan Stewart acquired 2,833 Ordinary shares through the DRIP and 61 partnership shares under the BAYE Plan. No other changes in Executive Director share interests occurred in the period.

(b) Vested options and unvested awards include dividend equivalents added as shares since the date of grant. These have been adjusted to take account of the share consolidation in February 2021.

(c) Value of Executive Directors' shareholdings based on the three-month average share price of 235.65p to 27 February 2021.

(d) The Group Chief Executive and the Chief Financial Officer are required to establish and maintain a minimum personal shareholding of 400% and 300% of base salary, respectively. Until this requirement is met, Executive Directors are required to retain all shares that vest, net of any tax liability.

(e) Shares used to determine the shareholding guideline are shares beneficially owned and vested nil cost options and unvested share awards, which are not subject to performance conditions on a net of tax basis.

(f) Sir Dave Lewis stood down from the Board on 30 September 2020 and Ken Murphy joined the Board on 1 October 2020.

(g) Sir Dave Lewis is subject to a post-employment shareholding requirement, requiring him to hold all awards granted to him since February 2019 up to the second anniversary of his departure date, 30 September 2022. Sir Dave Lewis continues to meet this requirement. His holding of Ordinary shares excludes the impact of the share consolidation in February 2021.

Executive Directors' interests in share awards (audited)

Awards vesting in financial year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22	2022/23	2023/24
Ken Murphy^(a)									
Vested options	–	–	–	–	–	–	–	–	–
Options/awards subject to service	–	–	–	–	–	–	–	–	–
Options/awards subject to performance and service (PSP) ^(f)	–	–	–	–	–	–	–	–	–
Alan Stewart^{(b)(c)}									
Vested options ^{(d)(e)(f)}	278,647	360,425	279,585	345,302	933,324	943,521	–	–	–
Options/awards subject to service ^{(d)(e)(f)}	–	–	–	–	–	–	286,953	184,198	287,000
Options/awards subject to performance and service (PSP) ^{(d)(e)(f)}	–	–	–	–	–	–	794,755	949,809	925,774
SAYE options (exercise price 188p) ^(f)	–	–	–	–	–	–	–	9,574	–
Sir Dave Lewis^{(b)(c)}									
Vested options ^{(d)(e)(f)}	–	–	–	–	–	–	–	–	–
Options/awards subject to service ^{(d)(e)(f)}	–	–	–	–	–	–	523,348	362,518	528,004
Options/awards subject to performance and service (PSP) ^{(d)(e)(f)}	–	–	–	–	–	–	1,457,054	1,583,017	–

(a) After the release of 82,614 shares to Ken Murphy on 14 October 2020, he has no further interests in share awards. See page 78 for further details.

(b) Sir Dave Lewis exercised 6,224,090 vested nil cost options at a market price of 215.7p on 8 October 2020. See page 86 for further details. No options were exercised by Alan Stewart in 2020/21.

(c) 560,328 nil cost options granted to Alan Stewart and 1,027,268 nil cost options granted to Sir Dave Lewis lapsed from the 2017 PSP award in 2020/21.

(d) Vested options and unvested awards include dividend equivalents added since the date of grant. This includes special dividend equivalent shares added to take account of the special dividend paid to shareholders on 26 February 2021.

(e) Vested options and unvested awards, including dividend equivalents, that were outstanding on 12 February 2021 were consolidated following the share consolidation in February 2021 in the same way as Ordinary shares held by shareholders.

(f) All options expire 10 years after grant. The exception is SAYE options, which expire six months after maturity.

(g) The range of the Company's share price for the year was 203p to 248p. The year-end price was 225p.

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 from 2018/19 onwards.

As the only employees of the Company are its 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 Group Chief Executive is normally predominantly based in the UK.

	Salary or fees (% change)		Benefits (% change)		Bonus (% change)	
	2019/20 to 2020/21	2018/19 to 2019/20	2019/20 to 2020/21	2018/19 to 2019/20	2019/20 to 2020/21	2018/19 to 2019/20
Average UK colleague	6.8%	3.0%	0%	0%	N/A% ^(a)	(100)% ^(a)
Ken Murphy ^(b)	-	-	-	-	-	-
Alan Stewart	0%	0%	(11.3)%	5.1%	(100)%	54.6%
Sir Dave Lewis ^{(b)(c)}	0%	0%	(12.2)%	1.6%	(100)%	44.5%
John Allan	1.5%	3.4%	(46.2)%	62.5%	-	-
Mark Armour	2.2%	4.7%	(100)%	100%	-	-
Melissa Bethell ^(d)	2.2%	172.7%	(100)%	100%	-	-
Stewart Gilliland ^{(d)(e)}	5.0%	42.3%	(50.0)%	300%	-	-
Steve Golsby ^(e)	2.5%	22.2%	(100)%	30.8%	-	-
Byron Grote	3.0%	3.9%	(100)%	100%	-	-
Mikael Olsson	2.9%	5.1%	(100)%	(60.0)%	-	-
Deanna Oppenheimer	2.8%	(7.7)%	(66.7)%	(50.0)%	-	-
Simon Patterson	2.2%	4.7%	(100)%	100%	-	-
Alison Platt ^(e)	5.0%	17.4%	(100)%	0%	-	-
Lindsey Pownall	1.9%	2.9%	(87.5)%	(20.0)%	-	-

(a) It was 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. Although not reflected in the above table, during the year a 10% bonus was paid to hourly-paid colleagues in the UK & ROI between March and June 2020, which was repeated for a further four-week period over the Christmas and New Year period. A further 2% bonus will be paid to hourly-paid colleagues in June 2021 for their continued contribution and efforts throughout the year.

(b) Ken Murphy joined the Board on 1 October 2020 and Sir Dave Lewis stepped down from the Board on 30 September 2020.

(c) Sir Dave Lewis' 2020/21 salary and benefits have been annualised to ensure a consistent comparison with the prior year.

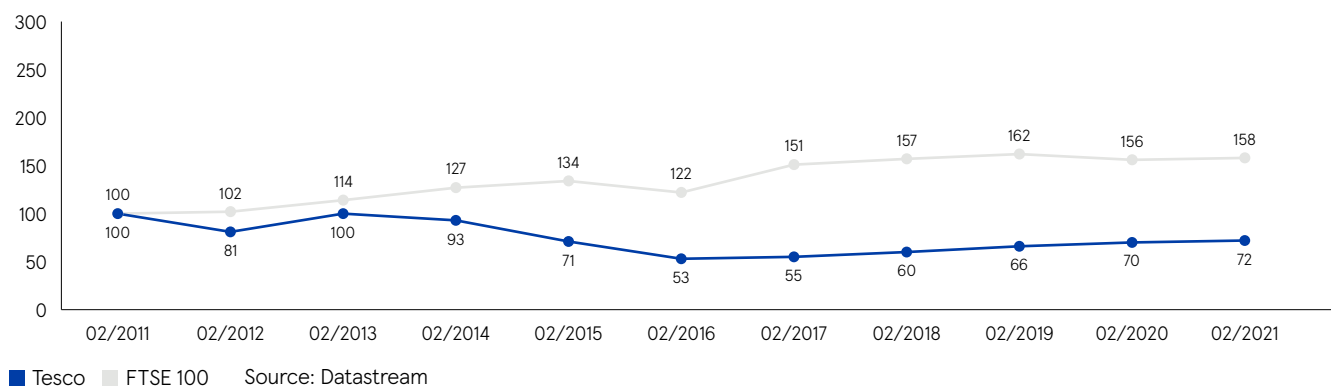
(d) Stewart Gilliland and Melissa Bethell joined the Board on 5 March 2018 and 24 September 2018, respectively.

(e) Steve Golsby became Chair of the Remuneration Committee on 1 February 2019 succeeding Deanna Oppenheimer, and Stewart Gilliland and Alison Platt became members of the Nominations and Governance Committee on 18 April 2019.

You can see further details of fees and taxable expenses paid to Non-executive Directors on page 88.

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 over a 10-year period to 27 February 2021. The FTSE 100 index has been chosen because it is a broad-based index of which the Company has been a constituent member throughout the period.



While total shareholder returns have been increasing for Tesco in recent years, the period covered by the chart reflects a period of corporate change. It includes the decision to make a significant reinvestment in our customer offer and withdraw the dividend in 2015 to focus on improving the competitiveness of the core UK business and protecting and strengthening the balance sheet. The sector more broadly has faced a number of challenges in recent years, including consumer uncertainty, price competition, cost inflation and most recently the COVID-19 pandemic. Tesco is in a strong position to deal with these challenges. Reflecting improving performance and confidence in the Company's future prospects, the Board reinstated the dividend in 2017. The turnaround goals shared in October 2016 were completed last year. Following the completion of the sale of the Asia business in December 2020, a special dividend of 50.93p per Ordinary share was paid to shareholders on 26 February 2021. The Board recommends a final dividend of 5.95p per Ordinary share, making a full-year dividend of 9.15p in line with the prior year. Many opportunities remain available to Tesco to create further value for shareholders.

Annual report on remuneration continued

Group Chief Executive remuneration history

	2011/12	2012/13	2013/14	2014/15		2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	
	Philip Clarke ^(a)	Philip Clarke	Philip Clarke	Philip Clarke ^(a)	Sir Dave Lewis ^(b)	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis	Sir Dave Lewis ^(c)
Group Chief Executive Single total figure of remuneration (£'000)	4,595	1,280	1,634	764	4,133	4,632	4,147	5,113	4,600	6,328	1,634	992
Annual bonus outturn (% of maximum award)	0% ^(a)	0%	0%	0%	-	96%	76%	73%	52.5%	75.9%	0%	0%
PSP vest (% of maximum award)	46.5%	0%	0%	0%	-	-	-	30%	28.8%	48.8%	23.1%	-
Share option vesting (% of maximum award)	100%	0%	-	-	-	-	-	-	-	-	-	-

(a) Philip Clarke elected not to take a bonus for 2011/12 and left the Board on 1 September 2014.

(b) The Single total figure of remuneration for 2014/15 includes one-off buyout awards made to Sir Dave Lewis to compensate him for awards forfeited from his previous employer.

The awards were made based on the expected value of the awards forfeited, taking into account performance at his previous employer. They were delivered in nil cost options.

Since these were awards related to previous employment, and were not subject to Tesco performance conditions, there is no direct alignment with Tesco's performance in 2014/15.

The awards had no impact on the Single total figure of remuneration for 2015/16 or any future years.

(c) Sir Dave Lewis stepped down as Group Chief Executive on 30 September 2020 and was succeeded by Ken Murphy on 1 October 2020.

(d) The Single total figure of remuneration for 2020/21 includes a one-off award made to Ken Murphy to compensate him for the loss of forfeited income from his previous employer.

Relative importance of spend on pay

The table below indicates how the earnings of Executive Directors compare with other financial dispersals.

	2019/20 £m	2020/21 £m	% change
Executive Directors' remuneration ^(a)	10.0	4.1	(59.5)%
Dividends to shareholders ^(b)	656	5,892	798.2%
Total income taxes paid ^(c)	290	104	(64.1)%
Colleague costs ^(d)	6,869	7,449	8.4%

(a) This is calculated on the same basis as the Single total figure of remuneration on page 78.

(b) Dividends to shareholders include interim, final and special dividends paid in each financial year (see Note 8 of the financial statements for further information). In addition to a final and interim dividend paid in 2020/21, a special dividend of 50.93p per Ordinary share was paid on 26 February 2021 in relation to the sale of the Asia business.

(c) As set out in the Income Statement (see Note 6 of the financial statements for further information).

(d) Colleague costs includes wages and salaries, social security, pension and share-based costs at actual exchange rates. See Note 3 of the financial statements for further information.

(e) There were no share purchases by the Company in 2020/21.

For every £1 spent on Executive Directors' remuneration by the Company in 2020/21, £1,454 was made in dividend payments, £26 was paid in tax and £1,838 was spent on colleague costs.

Payments to former Directors (audited)

As set out in last year's Directors' remuneration report, Sir Dave Lewis stepped down from the Board on 30 September 2020. He did not receive any severance payment or pay in lieu of notice when he left the Company. He will not receive a 2020/21 bonus payment as the underpin was not met. His 2018 and 2019 PSP awards will vest on their original vesting dates to the extent that performance conditions are met. On vesting, these will be pro-rated to reflect his period of service during the performance periods.

Details of the options exercised by Sir Dave Lewis following his stepping down from the Board are set out below:

Sir Dave Lewis

Type of award	Date of Grant	Number of shares awarded	Number of shares exercised including dividend equivalent shares	Date of exercise	Grant price	Market price at exercise	Gain on exercise
Deferred bonus	12/05/2016	939,720	1,015,399	08/10/2020	Nil	£2.157	£2,190,216
Deferred bonus	12/05/2016	469,860	507,697	08/10/2020	Nil	£2.157	£1,095,102
Deferred bonus	11/05/2017	655,815	708,629	08/10/2020	Nil	£2.157	£1,528,513
LR9.4.2	24/10/2014	448,933	488,685	08/10/2020	Nil	£2.157	£1,054,094
LR9.4.2	24/10/2014	603,461	656,898	08/10/2020	Nil	£2.157	£1,416,929
LR9.4.2	24/10/2014	605,595	659,220	08/10/2020	Nil	£2.157	£1,421,938
PSP	24/07/2015	1,566,987	507,952	08/10/2020	Nil	£2.157	£1,095,652
PSP	12/05/2016	2,161,405	672,614	08/10/2020	Nil	£2.157	£1,450,828
PSP	11/05/2017	1,909,722	1,006,996	08/10/2020	Nil	£2.157	£2,172,090

No other payments to former Directors or for loss of office were made in the year.

Further information on remuneration in 2020/21

Risk management

When developing the remuneration structures, the Committee considered whether any aspect of these might encourage risk-taking or behaviours that are incompatible or inconsistent with:

- Tesco's purpose, values, environmental and sustainability objectives; and
- the long-term interests of shareholders and other stakeholders.

If necessary, the Committee would take appropriate steps to address this. The Committee also has the discretion to apply malus and clawback in certain circumstances.

Outside appointments

In 2020/21, Alan Stewart received £128,000 (2019/20: £123,000) in fees and a product allowance as a non-executive director of Diageo plc. He does not receive any fees as a director of Tesco Personal Finance Group PLC (Tesco Bank). Ken Murphy received \$50,000 (circa £36,000) as a non-executive director of Hatch Beauty LLC.

Evaluation

Through the internal Board evaluation process which was carried out during the year, it was 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.

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 manage 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
Alan Stewart	9 July 2014	12 months	6 months

Relations with Tesco Bank

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

Shareholder voting

The table below sets out the voting outcome for the remuneration report at the 2020 AGM and the remuneration policy at the 2018 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 ^(a)	2,403	32.71%	4,943	67.29%	7.5
Remuneration policy	6,732	93.15%	495	6.85%	35

(a) Details of the vote on the 2020 remuneration report are set out on page 74.

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 27 February 2021, the Trusts held 59,532,456 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 27 February 2021 was as follows:

All Tesco colleague share plans



Executive share plans



Remuneration disclosures for Non-executive Directors

Non-executive Director fees

The fees for the Non-executive Chairman and the Non-executive Directors are reviewed each year and may be increased if considered appropriate. The Non-executive 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 Non-executive Chairman, Group Chief Executive and Chief Financial Officer. In 2020, following a review of independently sourced data, it was deemed appropriate to increase the average Non-executive Director fees by 2.9% from 1 September 2020 and to maintain the Non-executive Chairman's fee at its current level.

	1 March 2020 to 31 August 2020 (per annum)	From 1 September 2020 (per annum)
Non-executive Chairman fee	£687,000	£687,000
Non-executive Director fee	£77,000	£79,000
Additional fees:		
Senior Independent Director	£27,000	£28,000
Chairs of the Audit, Corporate Responsibility and Remuneration Committees	£31,000	£32,000
Membership of Audit, Corporate Responsibility, Nominations and Governance, and Remuneration Committees	£14,000	£14,500

Directors' remuneration report continued

Annual report on remuneration continued

Fees paid to Non-executive Directors during 2020/21 (audited)

The following table sets out the fees paid to the Non-executive Directors for the year ended 27 February 2021. Non-executive Directors are not paid a pension and do not participate in any of the Company's variable incentive schemes.

	2020/21			2019/20		
	Fees (£'000)	Taxable expenses ^(a) (£'000)	Total (£'000)	Fees (£'000)	Taxable expenses ^(a) (£'000)	Total (£'000)
John Allan	687	7	694	677	13	690
Mark Armour	92	–	92	90	2	92
Melissa Bethell	92	–	92	90	1	91
Stewart Gilliland	106	1	107	101	2	103
Steve Golsby	124	–	124	121	17	138
Byron Grote	138	–	138	134	1	135
Mikael Olsson	106	–	106	103	2	105
Deanna Oppenheimer	148	3	151	144	9	153
Simon Patterson	92	–	92	90	0.5	90.5
Alison Platt	106	–	106	101	0.5	101.5
Lindsey Pownall	109	1	110	107	8	115

(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.

Beneficial share ownership (audited)

The table below outlines the current interests of the Non-executive Directors in the Company's securities. Holdings include securities held by connected persons. Non-executive Directors are subject to the same share dealing policy as Executive Directors. Between 28 February and 13 April 2021 Stewart Gilliland acquired 10,315 Ordinary shares through the Dividend Reinvestment Plan (DRIP) and Mikael Olsson acquired 10,696 Ordinary shares through the DRIP. There were no other changes to Non-executive Director share interests between 28 February and 13 April 2021. 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 or, if later, from 1 March 2017.

Non-executive Director	Ordinary shares held at 1 March 2020	Ordinary shares held at 27 February 2021 ^(a)	Value of holding in securities (% of base fee) ^{(b)(c)}	Compliance with shareholding guideline
John Allan ^(b)	306,082	265,327	169%	✓
Mark Armour	50,000	39,473	118%	✓
Melissa Bethell	25,335	37,447	112%	✓
Stewart Gilliland	44,630	36,742	110%	✓
Steve Golsby	42,296	33,391	99%	✗
Byron Grote ^(c)	280,500	233,289	696%	✓
Mikael Olsson	46,278	38,100	114%	✓
Deanna Oppenheimer ^(c)	114,048	93,915	280%	✓
Simon Patterson	100,000	134,545	401%	✓
Alison Platt	35,246	33,629	100%	✓
Lindsey Pownall	70,000	55,263	165%	✓

(a) On 12 February 2021, all existing Tesco PLC shares were consolidated at a ratio of 15 new Ordinary shares of 6 ½ pence each for every 19 existing Ordinary shares of 5 pence each. This resulted in a circa 21.1% reduction in the number of shares held by Non-executive Directors and led to Steve Golsby falling below the guideline.

(b) John Allan also held 398,000 bonds in the Company at 27 February 2021 and 29 February 2020. Value of his bonds is based on three-month average bond price to 27 February 2021 of 134.56p.

(c) Byron Grote and Deanna Oppenheimer held their shares in the form of American Depositary Receipts (ADRs). Each ADR is equivalent to three Ordinary shares of 6 ½ pence each in the Company.

(d) The value of Non-executive Directors' shareholdings is based on the three-month average share price to 27 February 2021 of 235.65p.

Non-executive Directors' dates of appointment

Non-executive Director	Date of appointment	Notice period	Appointment end date in accordance with letter of appointment	Total length of service as at 27 February 2021 (years)
John Allan	1 March 2015	None	AGM 2021	6.0
Mark Armour ^(a)	2 September 2013	None	AGM 2021	7.5
Melissa Bethell	24 September 2018	None	AGM 2021	2.4
Stewart Gilliland	5 March 2018	None	AGM 2021	3.0
Steve Golsby	1 October 2016	None	AGM 2021	4.4
Byron Grote	1 May 2015	None	AGM 2021	5.8
Mikael Olsson ^(a)	1 November 2014	None	AGM 2021	6.3
Deanna Oppenheimer ^(a)	1 March 2012	None	AGM 2021	9.0
Simon Patterson	1 April 2016	None	AGM 2021	4.9
Alison Platt	1 April 2016	None	AGM 2021	4.9
Lindsey Pownall	1 April 2016	None	AGM 2021	4.9

(a) Mark Armour, Mikael Olsson and Deanna Oppenheimer will step down from the Board at the 2021 AGM.

Directors' remuneration policy

Remuneration policy review

Shareholders approved our current remuneration policy at the 2018 AGM, with a vote of over 93% in favour. As required under the Companies Act 2006, we will seek approval for a new remuneration policy at the 2021 AGM. If approved, this will take effect from this date. The new remuneration policy will be available on the Tesco website at www.tescopl.com following the 2021 AGM.

In developing our 2021 remuneration policy, the Committee has considered the current business strategy, the talent strategy and best practice corporate governance guidelines. When setting the remuneration framework, the Committee also took account of guidelines issued by the Investment Association, ISS, Glass Lewis and other shareholder bodies. The Committee consulted with the Company's largest shareholders in respect of the proposed changes and took shareholders' feedback into account when finalising the new policy. While colleagues were not formally consulted on the new remuneration policy, the Committee received feedback from colleagues on remuneration through the Colleague Contribution Panels (CCPs) and the Every Voice Matters survey.

The remuneration policy is based on 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 shoppers a little better every day and align with, and incentivise delivery of, the strategic plan, which aims to create long-term, sustainable performance and increased shareholder value. Also, it fosters performances in line with the Group's culture, values and behaviours, is aligned with wider workforce pay policies and drives the success of the Company for the benefit of key stakeholders.

As the current remuneration policy has been fit for purpose to recruit both Ken Murphy and Imran Nawaz, it is proposed that the policy remains broadly unchanged in 2021, with the exception of two corporate governance changes set out below. The Committee plans to undertake a further review of the policy in 2021/22 once Ken Murphy has had some time in the role, so that it can ensure continued alignment with the future business strategy. Depending on the outcome of this review, we may therefore seek approval for a remuneration policy at the 2022 AGM. We will continue to engage with shareholders and colleagues on our remuneration policy to obtain their views and feedback.

No Executive Directors have been involved in determining their own remuneration. They have remained well-informed to ensure alignment between executive and wider colleague remuneration structures.

The table below sets out the two corporate governance changes proposed for the new policy.

Remuneration element	Proposed changes to policy	Rationale for the change
Post-cessation share ownership requirement	Executive Directors will be required to hold 100% of their shareholding requirement for two years	Alignment with the 2018 UK Corporate Governance Code and market practice
Pension	Any new Executive Director will receive a pension aligned with the wider workforce	Alignment with the 2018 UK Corporate Governance Code and market practice

Summary of remuneration policy

A summary of the proposed remuneration policy is shown below. The full policy is set on pages 90 to 96.

Base salary	Benefits	Pension	Annual bonus	Performance Share Plan (PSP)	Shareholding requirements
Main features of proposed policy					
<ul style="list-style-type: none"> Executive Directors receive a base salary based on the size and scope of their responsibilities and their experience. Salaries are normally reviewed annually, with changes being effective from 1 June. Pay decisions are informed, but not driven, by external benchmarking and market data. 	<ul style="list-style-type: none"> Executive Directors receive a number of core benefits such as company car, life assurance and health care insurance. 	<ul style="list-style-type: none"> Executive Directors receive a cash allowance in lieu of pension; the maximum opportunity is aligned to the wider workforce. 	<ul style="list-style-type: none"> Executive Directors can be awarded an annual bonus of up to 250% of base salary. 50% of any bonus earned is deferred into Tesco PLC shares for three years. Performance is measured against financial and non-financial metrics. Payment of the annual bonus is subject to meeting a financial underpin. Malus and clawback provisions apply. 	<ul style="list-style-type: none"> Executive Directors can participate in a PSP with a maximum grant value of 350% of base salary. Performance is measured against financial and non-financial metrics over a three-year performance period. A subsequent two-year holding period applies post vesting. Malus and clawback provisions apply. 	<ul style="list-style-type: none"> The Group Chief Executive and Chief Financial Officer are respectively subject to a minimum shareholding requirement of 400% and 300% of base salary. Executive Directors are required to hold 100% of their shareholding requirement for two years post-cessation. Shares covered by the post-cessation shareholding requirement must be held in a corporate sponsored nominee account.

Key

- Fixed annual remuneration (salary + benefits + pension)
- Long Term Incentive Plan
- Short-term annual bonus
- Shareholding requirements

Directors' remuneration report continued

Directors' remuneration policy continued

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: <ul style="list-style-type: none"> - 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 employees in the Group. Increases may be above this level in certain circumstances such as: <ul style="list-style-type: none"> - 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 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	Effective date of salary changes to be brought forward one month to 1 June.
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. 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 of 7.5% of base salary.
Measure	n/a
Change	The policy has been amended to align with the UK Corporate Governance Code.

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 PLC shares provides alignment with shareholders.
Operation	<p>The annual bonus is normally delivered:</p> <ul style="list-style-type: none"> - 50% in cash; and - 50% in shares which are deferred for three years. <p>Performance is assessed over a financial year.</p> <p>The Committee determines the level of bonus taking into account performance against targets and the underlying performance of the business. The Committee may apply judgement in making appropriate adjustments to bonus outcomes to ensure they reflect underlying business performance. Malus and/or clawback provisions apply as described on page 95.</p>
Maximum	<p>Maximum annual bonus opportunity of 250% of base salary.</p> <p>For details of award levels for 2021/22, see page 92.</p>
Measures	<p>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.</p> <p>Payment of the annual bonus will be subject to meeting a financial underpin.</p> <p>The Committee determines the exact metrics each year depending on the key goals for the forthcoming year.</p> <p>Up to 25% of the bonus is paid for achieving a threshold level of performance. 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.</p> <p>The Committee sets bonus targets each year to ensure they are appropriately stretching in the context of the business plan.</p>
Change	No change from previous policy.
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	<p>Awards normally vest based on performance over a period of not less than three years (unless the Committee determines otherwise).</p> <p>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/or clawback provisions apply as described on page 95.</p>
Maximum	<p>The maximum annual award that can be granted under the PSP is 350% of base salary.</p> <p>For details of award levels for 2021/22, see the annual report on remuneration on page 92.</p>
Measures	<p>Awards vest based on 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.</p> <p>The current measures are diluted EPS from continuing operations (50%) and free cash flow (50%). Any substantial or significant change to measures will be subject to shareholder consultation.</p> <p>Up to 25% of the award vests for threshold levels of performance, increasing to 100% of the award for stretching performance.</p> <p>The Committee sets targets each year so that targets are stretching, representing value creation for shareholders while remaining motivational for management.</p>
Change	No change from previous policy.
Shareholding requirements	
Guidelines	<p>Tesco operates shareholding guidelines of 400% of base salary for the Group Chief Executive, 300% for the Chief Financial Officer and 200% for the members of the Executive Committee. Executive Directors are required to retain all shares that vest to them, net of any tax liability, whether from the annual bonus or the PSP, until the relevant shareholding guideline is satisfied. The Committee may waive this requirement for certain exceptional personal circumstances.</p> <p>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. Shares covered by the post-cessation shareholding requirement must be held in a corporate sponsored nominee account.</p>
Change	The policy has been amended to reflect the UK Corporate Governance Code and Investment Association guidance.

Directors' remuneration policy continued

Summary of key elements of 2021/22 remuneration packages

A summary of the proposed 2021/22 remuneration packages for the Executive Directors is set out below:

Element of remuneration	Ken Murphy	Imran Nawaz	Alan Stewart ^(c)
Base salary	£1,350,000	£700,000	£750,000
Pension	Cash allowance in lieu of pension of 7.5% of base salary	Cash allowance in lieu of pension of 7.5% of base salary	Cash allowance in lieu of pension of 25% of base salary
Annual bonus	Maximum of 250% of base salary	Maximum of 225% of base salary	Nil
Annual bonus deferral	50% of bonus awarded deferred into Tesco PLC shares for three years	50% of bonus awarded deferred into Tesco PLC shares for three years	N/A
Performance Share Plan (PSP)	Maximum of 300% of base salary ^(a)	Maximum of 275% of base salary ^(b)	Nil
PSP term	Three-year performance period and two-year post-vest holding period	Three-year performance period and two-year post-vest holding period	N/A
Shareholding requirement	400%	300%	300%

(a) To reflect the significant changes to the economic environment and the shape of the business since his appointment was announced in October 2019, Ken Murphy's 2021 PSP award has been increased, within the existing remuneration policy headroom, from 275% to 300% of salary.

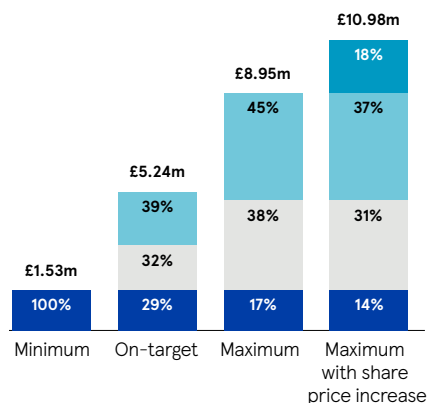
(b) In compensation for the forfeiture of a proportion of a PSP award from his current employer, the Committee agreed that Imran Nawaz would receive an enhanced 2021 PSP award of 275% of salary.

(c) Alan Stewart will step down from the Board on 30 April 2021. He will not receive an annual bonus or PSP award in 2021/22.

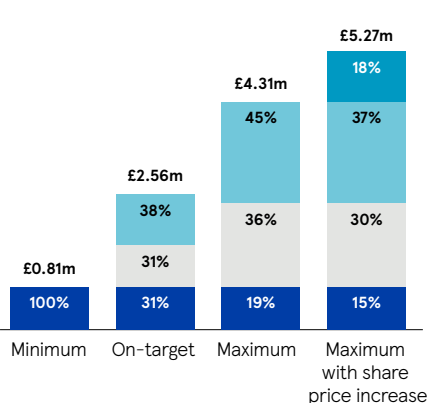
Scenarios for future total remuneration

The charts below provide illustrations of the future total remuneration for each of the Executive Directors arising from the remuneration opportunity granted to each of them in 2021/22 under the proposed 2021 remuneration policy. A range of potential outcomes is provided for each Executive Director and the underlying assumptions.

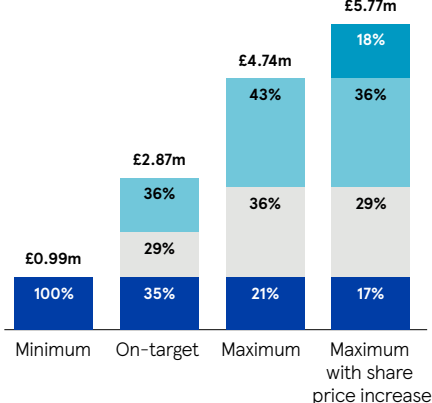
Group Chief Executive Ken Murphy



Chief Financial Officer Imran Nawaz (from 1 May 2021)



Chief Financial Officer Alan Stewart (to 30 April 2021)



■ Fixed pay ■ Annual bonus ■ Long term incentive ■ Share price increase

Remuneration assumptions

	Group Chief Executive – Ken Murphy	Chief Financial Officer – Imran Nawaz	Chief Financial Officer – Alan Stewart
Annual bonus (% of base salary)	250%	225%	Nil
PSP (% of base salary)	300%	275%	Nil
Minimum	Includes fixed pay – base salary, benefit and pension. As Alan Stewart will be stepping down from the Board on 30 April 2021, his pension amount is based on the current remuneration policy. No annual bonus payout. No vesting under the PSP.		
On-target performance	Includes fixed pay – base salary, benefit and pension. 50% annual bonus payout. 50% PSP.		
Maximum performance	Includes fixed pay – base salary, benefit and pension. 100% annual bonus payout. 100% PSP vesting.		
Maximum with 50% share price increase	All elements are the same as the maximum but assume a 50% increase in share price.		

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

	Base salary	Benefits ^(a)	Pension ^(b)	Total fixed pay
Group Chief Executive – Ken Murphy (£'000)	1,350	74	101	1,525
Chief Financial Officer – Imran Nawaz (£'000)	700	55	53	808
Chief Financial Officer – Alan Stewart (£'000)	750	55	188	993

(a) Benefits for Ken Murphy are his annualised benefits for 2020/21. Benefits for Imran Nawaz are based on those received by Alan Stewart in 2020/21.

(b) Pension for Ken Murphy and Imran Nawaz is based on contribution rate of 7.5% of salary and for Alan Stewart on 25% of salary.

Remuneration policy for new hires

When hiring a new Executive Director, the Committee would generally seek to align his or her 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' 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.

In the event that 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 96.

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, Imran Nawaz and Alan Stewart entered into service agreements with Tesco PLC on 1 October 2019, 6 October 2020 and 9 July 2014, respectively. These are rolling service agreements with no fixed expiry date. Ken Murphy, Imran Nawaz and Alan Stewart are entitled to 12 months' notice by the Company. Ken Murphy and Imran Nawaz are required to give 12 months' notice and Alan Stewart six months' notice to the Company.
Termination payments (does not apply if notice is provided, as per the service agreement, or for termination by reason of resignation or unacceptable performance or conduct)	If the Company terminates 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 his or her notice period, or may choose to place him or her 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 he or she worked. The Committee will determine the level of bonus taking into account time in active employment and performance. The Company may reimburse the Executive Director for reasonable legal expenses in the event he or she leaves by mutual consent. Directors' and Officers' liability insurance for a specified period following the Executive Director termination date may be provided. Where an Executive Director has been recruited from overseas, the Company may pay for repatriation.

Service agreements of the Executive Directors are available to shareholders to view at the Company's registered office.

Directors' remuneration policy continued

Share plan rules – leaver provisions

The relevant share plan rules govern the treatment of outstanding share awards in the event that 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 such discretion. 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 the Executive Director ceasing to be part of the Group or any other reason determined by the Committee, taking into account the circumstances of departure and performance.

Share plan	Good leavers as determined by the Committee in accordance with the plan rules
Executive Incentive Plan and Deferred Bonus Plan (deferred bonus shares)	Unvested awards vest at cessation. The Committee has discretion to defer vesting to the normal vesting date.
Performance Share Plan and Long Term Incentive Plan 2021 ^(a)	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 post-vesting holding. 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.

(a) To be considered and approved by shareholders at the 2021 AGM. If approved, grants in 2021 will be made under the Long Term Incentive Plan 2021.

Other vesting circumstances

Awards may also vest early to the extent determined by the Committee if:

- a participant is transferred to another country, as a result of which the participant will suffer a tax disadvantage or become subject to restrictions on his or her award (under the PSP, LTIP or Deferred Bonus Plan); 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 the PSP and LTIP, when determining the level of vesting the Committee will consider performance and the time elapsed since grant. Awards will vest in full in the case of the deferred bonus shares (under the Executive Incentive Plan or Deferred Bonus Plan).

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 variable rewards

The Committee retains discretion regarding both the 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 or underpins are used and performance against those measures or underpins is not commensurate with the Group's overall financial or strategic performance over the performance period;
- circumstances where a qualitative underpin threshold is used and performance against the underpin is not commensurate with the Group's overall financial performance over the underpin period;
- the adjustment of targets and measures if events occur which cause it to determine that it is appropriate to do so. The Committee also retains the right to change performance measures and the weighting of measures, 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 exercise of the Committee's discretion will be disclosed 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 of 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.

Where PSP awards are settled prior to the fifth anniversary of the award being granted, the Committee shall have the discretion to claw back awards up to the fifth anniversary of awards being granted in the circumstances described above. Cash bonus payments can also be clawed back in the circumstances described above up to the third anniversary of payment.

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 consider (taking into account the interest of shareholders) that an amended performance condition would be more appropriate and would continue to achieve the original purpose and 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 appointment.

Section 40 disclosures

When considering the proposed policy and its implementation for 2021, 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	We provide open and transparent disclosures regarding our executive remuneration arrangements. We have explained the changes to our proposed remuneration policy in the context of market practice as well as the provisions of the UK Corporate Governance Code.
Simplicity	The policy design was simplified in 2018 and is in line with the market standard and linked to our KPIs.
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, risk and alignment to culture	The annual bonus and PSP plans have a clear link to the success of the business and the achievement of Tesco's strategy. Stretching performance conditions are 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) provides a clear link to the ongoing performance of the business and therefore alignment with shareholders. The Committee considers that our variable pay structures do not encourage inappropriate risk-taking. The annual bonus and PSP are subject to the achievement of stretching performance targets, and the Committee's holistic assessment of performance that can result in the application of discretion. The Committee also has the discretion to apply malus and clawback to both the annual bonus and PSP, including in the event of any behavioural risks.

Directors' remuneration policy continued

Remuneration policy for Non-executive Directors

Approach to setting fees	Basis of fees	Other items
<ul style="list-style-type: none"> - 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: <ul style="list-style-type: none"> - 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 his 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. 	<ul style="list-style-type: none"> - Non-executive Director fees policy is to pay: <ul style="list-style-type: none"> - 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; and - an additional fee for membership of a Committee to take into account the additional responsibilities and time commitment of the role. - Additional fees may be paid to reflect additional Board or Committee responsibilities as appropriate. - Non-executive Directors may also serve on the board of Tesco Personal Finance Group Limited. Such Non-executive Directors also receive a basic fee for serving on this board and additional fees for Committee membership in line with other members of this board. Fees for membership of the board of Tesco Personal Finance Group Limited are determined by the board of Tesco Personal Finance Group Limited and are reviewed at appropriate intervals. - The Non-executive 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. 	<ul style="list-style-type: none"> - The Non-executive Directors are not entitled to participate in the annual bonus, Performance Share Plan 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 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.

Non-executive Director letters of appointment

Non-executive Directors have letters of appointment setting out their duties and the time commitment expected. Appointments are for an initial period of three years after which they are reviewed. The unexpired term of Non-executive Directors' appointments can be found on page 88. 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. Non-executive Directors' letters of appointment are available for shareholders to view at the Company's registered office.

Approved by the Board on 13 April 2021.



Steve Golsby
Remuneration Committee Chair

Directors' report

The Directors present their report, together with the audited accounts for the 52 weeks ended 27 February 2021.

Dividends

The profit for the financial year, after taxation, amounts to £721m (2019/20: £738m) from continuing operations. The Directors have declared dividends as follows:

Ordinary shares	£m
Paid interim dividend of 3.20 pence per share ^(a) (2019/20: 2.65 pence per share)	310
Paid special dividend of 50.93 pence per share ^{(b)(c)} (2019/20: nil)	4,948
Proposed final dividend of 5.95 pence per share ^(d) (2019/20: 6.5 pence per share)	460
Total dividend of 9.15 pence per share for 2020/21 ^(d) (2019/20: 9.15 pence per share)	770

(a) Excludes £3m dividends waived (2019/20: £3m).

(b) As approved at a General Meeting on 11 February 2021, a special dividend was paid to shareholders following the disposal of the Company's Thailand and Malaysia businesses. Further information can be found on page 182.

(c) Excludes £43m dividends waived (2019/20: £nil).

(d) Subject to shareholder approval at this year's AGM, the final ordinary dividend will be paid on 2 July 2021 to all shareholders on the Register of Members at the close of business on 21 May 2021.

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.

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 30 on page 182.

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 11 February 2021 General Meeting to replace the existing authority (as granted by Shareholders at the 2020 AGM) 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 22 January 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 11 February 2021 General Meeting to replace the existing authority (as granted by Shareholders at the 2020 AGM) to purchase its own shares in the market up to a maximum of approximately 10% of its issued share capital. No shares were purchased under that authority during the financial year. The Company is seeking to renew the authority at the forthcoming AGM, within the limits set out in the notice of that meeting and in line with the recommendations of the Pre-emption Group.

Details of the Company's share capital can be found on page 182. These include changes during the year in the issued share capital, in particular the share consolidation which took place in connection with the payment of the special dividend, and details of the rights attached can be found on page 182.

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.

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 27 February 2021 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	3.99

(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.

A special resolution to amend the Company's Articles of Association will be put to shareholders at the forthcoming Annual General Meeting. Further details are set out in the 2021 Notice of Annual General Meeting, available at www.tescoplc.com.

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 and in accordance with the provisions of the UK Corporate Governance Code, all Directors will retire, and those wishing to serve again will submit themselves for re-election at the forthcoming Annual General Meeting.

As detailed in the 2021 Notice of Annual General Meeting, Deanna Oppenheimer (Senior Independent Director), Mark Armour (Non-executive Director) and Mikael Olsson (Non-executive Director) will be stepping down from the Board and will not be seeking re-election at the Annual General Meeting. The following Directors will be put forward for appointment for the first time: Imran Nawaz (Chief Financial Officer), Karen Whitworth (Non-executive Director), Bertrand Bodson (Non-executive Director) and Thierry Garnier (Non-executive Director).

Directors' report continued

Directors and their interests

The biographical details of the current serving Directors are set out on pages 42 to 46. The Directors who served during the year were: John Allan; Mark Armour; Melissa Bethell; Stewart Gilliland; Steve Golsby; Byron Grote; Mikael Olsson; Deanna Oppenheimer; Simon Patterson; Alison Platt; Lindsey Pownall; Sir Dave Lewis (who stood down from the Board on 30 September 2020); Ken Murphy (who took up the role of Group Chief Executive on 1 October 2020); and Alan Stewart (who will stand down from the Board on 30 April 2021). Imran Nawaz will take up the role of Chief Financial Officer on 1 May 2021 and will join the Board on the same date. 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 72 to 96.

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 are able to source the information they need quickly and easily. We have transitioned colleague self-service to online. This support is now available to all UK & ROI colleagues, as it supports and enables an honest and transparent culture. Continuous development of our Colleague Help service in the last year ensured that colleagues in Central Europe and our subsidiaries also get information directly into their own hands. This ensures policies are better utilised and available to all. This platform continues to provide helpful feedback and analytics which facilitate our understanding of how and where we can continue to improve our offer.

Over the last year 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. These take into account the unique challenges posed by COVID-19, including ensuring that all colleagues are paid company sick pay from the first day of any COVID-19 related absence, regardless of their entitlement and excluding COVID-19 related absence from any attendance management processes. We have also made 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. Our local and national forums are invaluable for giving colleagues a voice and ensuring they are engaged with business decisions. 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 (CCPs). These give our colleagues the opportunity to share their views directly with our Non-executive Directors, who then relay 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 welcome a diverse range of applicants from all different backgrounds. All of our applicants and colleagues will be 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 a 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. We are also a proud Disability Confident Employer (level 2) offering various activities and programmes to attract, develop and retain disabled talent.

To further strengthen our commitment in this area, we have recently completed a review of all our family-friendly, flexible working and reasonable adjustments policies across the Group, to establish common minimum standards, exceeding legislative requirements, that we can adopt. This is with a view to improving diversity and inclusion outcomes across all our companies and the geographies where we operate. Within the UK we have also had a significant focus on creating and maintaining a culture that does not tolerate harassment in any form. This has included the relaunch of our Bullying and Harassment Policy and the introduction of mandatory anti-harassment training for all colleagues.

Our five colleague networks (LGBTQ+; Women at Tesco; Black Asian Minority Ethnic Network; Armed Forces Network; and Disability Network) provide support in creating a diverse and inclusive culture where everyone is welcome. To support our networks and commitments to inclusion we have signed several external commitments, including: The BITC Race at Work Charter in 2019, the Sunday Times Open Letter in 2020 and the 30% Club to improve gender balance across the business. We are proud to be a Disability Confident Employer as part of the UK Government's Disability Confident scheme, 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 deferred shares through the Annual Bonus Plan and colleagues at WL4 and above across all markets and countries are awarded shares through the Performance Share Plan.

Colleagues in the UK & ROI can participate in Save As You Earn schemes and UK colleagues can also participate in the Buy As You Earn scheme which is part of the Share Incentive Plan.

Political donations

The Group did not make any political donations (2019/20: £nil) or incur any political expenditure during the year (2019/20: £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 13 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). In 2020/21, we continued to engage constructively and positively with both Christine Tacon and her successor Mark White around areas of key interest to the GCA, including our approach to GSCOP compliance, risk management, and longstanding topics such as delays in payment, delisting and forensic auditing.

Our Code compliance programme continues to strengthen and transform the way we work with suppliers. This year, we have implemented various new and/or improved supplier-facing systems to improve transparency with our suppliers. Furthermore, we improved internal guidance on Code-related topics such as delisting and introduced a new approach for managing our supplier lifecycle with small suppliers (our Small Supplier Principles).

Against the backdrop of COVID-19 and Brexit, we have continued to work constructively with our suppliers, including providing improved shorter payment terms for our smaller suppliers. We were pleased that in the GCA's annual supplier survey for 2020, 93% of our suppliers recognised that we comply 'consistently well' or 'mostly well' with the Code.

In our own Supplier Viewpoint survey, conducted in January 2021, the results continue to reflect the progress we have made with our supplier relationships. Both our total Group and UK scores for suppliers rating their satisfaction with Tesco, as either 'extremely satisfied' or 'very satisfied', were our highest scores to date, at 85% and 85.6%, respectively. Among topics relevant to the Code, our strongest score in Viewpoint continues to be 'Tesco pays promptly (within policy terms)' at 93.6%.

Also, in the 2020 independent, industry-wide Advantage survey of retailers, we were pleased to be ranked first in five of the six categories, coming second by one percentage point in the remaining category and, retaining our first place ranking overall.

During the preceding financial year, we provided annual refresher training for all colleagues involved in buying groceries. Our GSCOP training module includes a link to the Code to ensure that all new starters and colleagues transferring from another division receive a copy. All colleagues, both new and current, received and completed training successfully.

This year, 22 Code-related issues, were raised by suppliers, down from 45 during 2019/20. In addition, five issues were carried over from 2019/20.

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). Two of the issues raised, were found to be outside the scope of the Code. 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 26 of the 27 concerns 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 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

On 16 March 2021, the Group completed the sale of its business in Poland to Salling Group A/S. Following completion, there will be a transition period of up to 18 months during which time Tesco stores in Poland will be converted to Netto. More information can be found on page 20 in the Strategic report and in Note 36 on page 188.

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.

Directors' report continued

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 31 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.

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 its 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. More information on our statement can be found on our website.

Anti-bribery matters

We have a zero-tolerance approach to bribery. Our anti-bribery programme operates around 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.

Streamlined Energy and Carbon Reporting (SECR) disclosures

	Group		UK	
	2020/21	2019/20	2020/21	2019/20
Annual global emissions (Scope 1 and Scope 2 – market-based) tCO ₂ e	1,066,762	1,186,714	880,039	905,053
Annual energy use (GWh)	6,016	6,427	5,037	5,293
Intensity ratio: emissions (kgCO ₂ e) per sq. ft.	11.63	15.57	15.88	17.06

Methodology

We are obligated to report GHG emissions and energy consumption in accordance with the Companies (Directors' Report) and Limited Liability Partnerships (Energy and Carbon Report) Regulations 2018. To calculate our emissions, our methodology follows GHG Protocol Corporate Accounting Standard, using an operational control approach.

For both energy and emissions data, we have included all subsidiaries within the Group measure, and have included all UK-based subsidiary operations within our consolidated UK measure.

Energy efficiency measures

We continue to invest heavily in energy efficiency across all our operations. Key initiatives include:

- LED lighting upgrades across the entire Group estate.
- Installation of aerofoil technology across all our UK stores, saving 15% energy use in fridge operation.
- Invested in high-efficiency ventilation fans.
- Trialled Lightfoot® telematics which improves driver efficiency. Initial findings indicate 7% improvement in miles per gallon fuel consumption.
- Continue to optimise distribution and home delivery operations to reduce road miles and secure efficiencies.

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	188
Future developments	1 to 39
Research and development	1 to 39
Financial instruments and financial risk management	156 to 179
Greenhouse gas emissions	15
Corporate governance report	40 to 101
Colleague engagement	9 and 52
Stakeholder engagement	8, 9, 52 and 53
Section 172 statement	30

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

	Pages
Statement of capitalised interest	133 to 137
Allotment for cash of equity securities	182
Waiver of dividends	97

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 1 to 39.

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 international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union. The Group Financial Statements are also prepared in accordance with IFRS as issued by the International Accounting Standards Board. 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 42 to 46, confirm 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

13 April 2021

Independent auditor's report to the members of Tesco PLC

Report on the audit of the financial statements

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 27 February 2021 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards (IFRSs) as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB);
- 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;
- 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 36 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 international accounting standards in conformity with the requirements of the Companies Act 2006 and IFRSs as adopted by the European Union and IFRSs as issued by the International Accounting Standards Board (IASB). 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).

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 to the financial statements. We confirm that the non-audit services prohibited by the FRC's Ethical Standard were not provided 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.

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;
- contingent liabilities;
- presentation of the Group's income statement; 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

Materiality

We have determined materiality based on 0.13% of revenue. Our determined materiality is 8.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 0.6% of net assets.

In the prior year materiality was determined on the basis of 4.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles. Prior year materiality equated to 0.14% of prior year revenue. The change in the benchmark year on year is due to the impact of COVID-19 on the profitability of the group as a whole.

Scoping

Our audit scoping provides full scope audit coverage of 98% (2019/20: 96%) of revenue from continuing operations, 96% (2019/20: 92%) of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 95% (2019/20: 92%) of net assets.

In addition we performed full scope audit procedures covering 86% of revenue from discontinued operations and 84% of discontinued profit before tax before exceptional items.

Significant changes in our approach

Our 2020/21 report includes a new key audit matter relating to the assessment of impairment of goodwill relating to Tesco Personal Finance PLC ('Tesco Bank') due to the impact of the COVID-19 pandemic on the performance of and outlook for Tesco Bank. The pension valuation key audit matter reflects increased audit risk over the valuation of UK alternative investment assets in the current year due to market volatility.

We no longer report on the presentation of the operations of the Asia business as a key audit matter because, upon approval of the sale by the Board in 2020/21, these met the criteria of a discontinued operation in accordance with IFRS 5 – Non-current Assets Held for Sale and Discontinued Operations.

There are no other significant changes in our approach in comparison to the prior period.

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 the following audit procedures:

- obtained confirmation for the financing facilities including nature of facilities, repayment terms and covenants to ensure that these facilities remain available at year-end;
- assessed the reasonableness of the assumptions used in the Group's funding plan approved by the Board (which included the impact of macro-economic downturn, COVID-19 and Brexit);
- tested the clerical accuracy and assessed the sophistication of the model used to prepare the forecasts including obtaining an understanding of relevant controls over management's model;
- reviewed the liquidity forecast to assess whether there is sufficient headroom;
- challenged the assumptions used within the Group's going concern model;

- evaluated the historical accuracy of forecasts prepared by management;
- considered the mitigating factors identified by Group management in relation to their going concern analysis;
- assessed the sensitivity of the headroom in management's forecasts; and
- assessed 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 twelve 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.

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
<p>🔴 Tesco Bank goodwill impairment</p> <p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 10 (Goodwill and other intangibles) of the financial statements, the Group held £4,271m (2019/20: £4,840m) of goodwill of which £480m relates to Tesco Bank (2019/20: £775m).</p> <p>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.</p> <p>Assessing the recoverable value 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.</p> <p>As detailed in Note 2 (Segmental reporting) Tesco Bank has made an operating (loss)/profit before exceptional items and amortisation of acquired intangibles of £(175)m (2019/20: £193m), reflecting an increase in the provision for potential bad debts and a reduction in income as a consequence of COVID-19.</p> <p>The key audit matter specifically relates to the following:</p> <ul style="list-style-type: none"> – the post-tax discount rate that management has calculated which reflects an increase of 3.2% from the discount rate used as at 29 February 2020; 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. <p>An increase in the discount rate and a more pessimistic macro-economic outlook has led to a £295m (2019/20: £nil) impairment in the Tesco Bank goodwill, as noted in Note 15 (Impairment of non-current assets). Tesco Bank goodwill is sensitive to changes in the key assumptions, with a 1% increase in the discount rate leading to a £203m increase in the impairment, as noted in Note 15.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 69.</p>	<p>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 series of specific audit procedures to address the key audit matter which included the following:</p> <p>Management's discount rate</p> <p>Use of experts: We engaged our valuation experts to assist in testing the discount rate used in calculating the recoverable value. We calculated an independent range and challenged management's inputs to their own calculation.</p> <p>Sensitivity analysis: We performed a sensitivity analysis on the impairment of goodwill using our independently calculated rate.</p> <p>Other recoverable value assumptions</p> <p>Forecasting accuracy: We assessed management's forecasting accuracy based on the historical forecasts and actuals.</p> <p>With support from our internal economic modelling experts, we challenged the achievability of the Bank's return to pre-COVID levels of performance with reference to the anticipated shape of the macro-economic 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.</p> <p>Use of independent market expectations: We challenged management's key assumptions within the cash flow forecasts based on historical and market trends.</p>	<p>Based on our audit procedures we concluded that the assumptions in the Tesco Bank goodwill impairment model were within an acceptable range and that the overall level of the impairment was appropriate. We have recommended to management that improvements be made to enhance the precision and granularity of the review controls over the impairment model.</p> <p>We also consider the disclosures, including the sensitivity disclosure in Note 15, to be appropriate.</p>

Independent auditor's report to the members of Tesco PLC continued

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Pension valuation</p> <p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 29 Post-employment benefits of the financial statements, the Group has a defined benefit pension plan in the UK retail business. At 27 February 2021, the Group recorded a net retirement obligation before deferred tax of £1,222m (2019/20: £3,085m), comprising plan assets of £20,082m (2019/20: £17,425m) and scheme liabilities of £21,304m (2019/20: £20,510m). The net retirement obligation in the UK represents 86% of the Group's total net retirement obligation.</p> <p>The valuation of the Group's pension obligations is sensitive to changes in key assumptions and dependent on market conditions. In addition, pension plan assets include alternative investments (such as credit funds, hedge funds, infrastructure funds and private equity funds). As market conditions change, it is necessary to consider whether a stale price adjustment is required to reflect movements in the market value between the latest valuations and the position at year-end.</p> <p>The key audit matter specifically relates to the following:</p> <ul style="list-style-type: none"> – key assumptions linked to the valuation of the UK retail pension plan obligations: discount rate, inflation expectations and mortality assumptions; and – the determination as to whether a stale price adjustment is required in relation to the year-end valuation of alternative investments in the UK retail pension plan given volatility in the market as a result of COVID-19. <p>The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of management's actuaries and valuation experts.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 69.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls in relation to the pension obligation valuation process and the process to assess whether a stale price adjustment is required in relation to the alternative investment assets. In addition we performed the following:</p> <p>Pension liability assumptions</p> <p>We engaged our actuarial experts to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. In order to challenge management's discount rate, we independently calculated an appropriate rate and compared this to management's rate.</p> <p>Working with our actuarial experts, we benchmarked and challenged other assumptions used by management in determining the value of pension liabilities particularly focusing on inflation and life expectancy. This included comparing the inputs and assumptions used in determining the valuation of the UK retail pension plan to those used in comparable pension plans and our internal benchmarks. Additionally, we have considered the independence, competence, capabilities and objectivity of the independent actuaries engaged by management to perform valuations of the relevant plans.</p> <p>Alternative pension assets</p> <p>We have worked with our pension asset specialists to assess and challenge whether a stale price adjustment is required in relation to the year-end valuation of alternative investments in the UK retail pension plan given volatility in the market as a result of COVID-19. We performed independent benchmarking and looked for contradictory evidence that the year-end valuation may not be appropriate, and therefore whether a stale price adjustment is required.</p>	<p>We are satisfied that the overall methodology is appropriate and the key assumptions applied in relation to determining the pension valuation are within our reasonable range.</p> <p>We are satisfied that the valuation methodology of alternative asset investments at the year end is appropriate and that no stale price adjustment was required.</p>
<p>Store impairment review</p> <p>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 £17,211m (2019/20: £19,234m) of property, plant and equipment and £5,951m of right of use assets (2019/20: £6,874m) at 27 February 2021.</p> <p>Under IAS 36: 'Impairment of assets', 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.</p> <p>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'.</p> <p>Value in use has been calculated using probability weighted cash flows reflecting management's best estimate of the impact of COVID-19, the consequences of Brexit, climate change and other economic factors including changes in customer behaviour on the future trading performance of the Group.</p> <p>Management's impairment review is sensitive to changes in the key assumptions set out in Note 15.</p> <p>The areas which are key to the store impairment review key audit matter are as follows:</p> <ul style="list-style-type: none"> – forecast cash flows for year 1 to year 3, from the Board-approved Long Term Plan ("LTP"), used to derive the value-in-use of store assets, specifically the ability of management to achieve their forecasts in light of changing consumer behaviour, the volatile retail environment brought about by COVID-19 and the Group's ability to realise forecast cost savings; – the probability applied to each cash flow scenario in calculating the probability weighted cash flows; – the discount rate used to determine value in use from the probability weighted cash flows; and 	<p>Our audit procedures included obtaining an understanding of relevant controls around the impairment review processes.</p> <p>Our procedures in relation to the Group's value-in-use assessment included:</p> <ul style="list-style-type: none"> – challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, impacts of COVID-19 and Brexit on future cash flows, anticipated changes in consumer behaviour, competitor actions and our understanding of the Group's strategic initiatives; – 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 support of our valuation specialists, calculating an independent range and challenging management's inputs to their discount rate, in particular their methodology to calculate an appropriate risk-free rate and equity risk premium; – 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 and property fair values; – 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 'Impairment of Assets' and checking the integrity of the value-in-use model prepared by the Group; – engaging our specialist modelling team to assist in auditing the integrity of the impairment model; and 	<p>Based on our audit procedures we concluded that the assumptions in the impairment models were within an acceptable range and that the overall level of net impairment reversal was reasonable. Through the completion of our work we are satisfied with the integrity of the model used for the current year impairment exercise. As discussed in the annual report in Note 15, we have recommended to management that improvements continue to be made to enhance the precision and granularity of the review controls over the impairment model.</p> <p>We consider the disclosures, including the sensitivity disclosure in Note 15 to be appropriate.</p>

Key audit matter description

How the scope of our audit responded to the key audit matter

Key observations

Store impairment review continued

- the fair value of properties supporting the carrying value of store assets in each of the Group's territories particularly in response to the changing retail and broader property landscape as a result of COVID-19.

In addition, as the LTP is prepared on a top down basis and not at an individual store level, management perform an exercise to allocate the forecast performance across individual stores within the portfolio. 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 reversal of property, plant and equipment and right of use assets of £103m (2019/20: net impairment charge of £312m) was recognised.

The Audit Committee's discussion of this key audit matter is set out on page 69.

- with the involvement of our property valuation specialists, challenging the assumptions used by the Group in determining the fair market value including those completed by external valuers and assessed whether appropriate valuation methodologies have been applied.

▶ Tesco Bank loan impairment

As described in Note 19 (Loans and advances to customers and banks) the Group held an impairment provision in respect of loans and advances to customers of £625m at 27 February 2021 (2019/20: £488m).

The expected credit loss ("ECL") on these loans and advances charged to the income statement was £360m in the year to 27 February 2021 (2019/20: £179m). The increase in provision compared to the prior year is primarily due to the deterioration in the macro-economic outlook, which management had previously concluded had a low probability of crystallising at 29 February 2020 based on reasonable and supportable information available at that time.

Loan impairment remains one of the most significant judgements made by management particularly in light of the uncertain economic outlook in the UK as a result of COVID-19 and the United Kingdom's withdrawal from the European Union.

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:

- Macro-economic 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 macro-economic scenarios and the probability weighting of each scenario that are incorporated into the ECL model. Management also applied a number of methodology refinements in the current period to optimise model performance during this period of economic stress.
- Post-model adjustments ("PMAs") management has included a number of PMAs to capture the potential downside risks and model limitations arising as a result of the continued macro-economic uncertainty. This includes PMAs to address the uncertainty associated with the future behaviour of customers who have been granted payment holidays and the impact of government support schemes on arrears and behavioural scores.

The sensitivities associated with management's judgements are presented within Note 25 to the financial statements.

The Audit Committee's discussion of this key audit matter is set out on page 69.

Our audit procedures included obtaining an understanding of relevant controls which relate to the determination of loan impairments.

We have obtained an understanding of, and assessed, relevant controls over model governance forums, model monitoring and calibrations, including the determination of PMAs, the review and approval of macro-economic scenarios, the flow of data from Tesco Bank'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:

Macro-economic scenarios and related model refinements

With support from internal economic modelling experts, we challenged the macro-economic scenario forecasts that were incorporated into the ECL model, including management's selection of the relevant macro-economic 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 macro-economic forecasts, and considered whether the methodology adopted by the expert was reasonable.

With regards to the related model refinements, with support from internal credit risk modelling experts, we assessed the changes against the requirements of IFRS 9, tested the completeness and accuracy of the data which support management's conclusions regarding the appropriateness of the changes and tested that the methodology changes had been appropriately reflected in the models through review of the underlying computer code.

We also evaluated whether there was adequate disclosure regarding the macro-economic scenarios selected by management, their probability weighting, and the related sensitivities.

Post-model adjustments

With support from internal credit risk experts, we challenged the appropriateness of each significant PMA recorded by management as well as the completeness of PMAs with reference to our observations in the broader market and understanding of the risk profile of the portfolio.

We evaluated the accuracy of the calculation of the PMAs, which included an assessment of the completeness and accuracy of the underlying data used by management in their calculation.

We also evaluated whether there was adequate disclosure regarding the significant PMAs including how they were determined and the range of possible outcomes.

The results of our testing are satisfactory. 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 25 to the financial statements to be appropriate.

Independent auditor's report to the members of Tesco PLC continued

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Recognition of commercial income</p> <p>As described in Note 1 (Accounting policies, judgements and estimates) and Note 22 (Commercial income) of the financial statements, 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. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from those suppliers.</p> <p>Commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held.</p> <p>The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement. As such we have identified this as a key audit matter and considered that there was a potential for fraud through possible manipulation of this income.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 69.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls the Group has established in relation to commercial income recognition.</p> <p>In addition, we performed the following:</p> <ul style="list-style-type: none"> - testing whether amounts recognised were accurate and recorded in the correct period, by agreeing to the contractual performance obligations in a sample of individual supplier agreements; - testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables (as set out in Note 22) via balance sheet reconciliation procedures; - circularising a sample of suppliers to test whether the arrangements recorded were complete; where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; - holding discussions with a sample of the Group's buying personnel to further understand the buying processes; - reviewing the impact of COVID-19 on arrangements with suppliers across the Group; - using data analytics to identify commercial income deals which exhibited characteristics of audit interest upon which we completed detailed audit testing; - reviewing the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP) and additionally, reviewing the reporting and correspondence to the Group's supplier hotline in order to identify any areas where further investigation was required; and - assessing the adequacy of the disclosures made in relation to commercial income in the Group's financial statements 	<p>The results of our testing are satisfactory. We consider the disclosure given around supplier rebates provide an appropriate understanding of the types of rebate income received and the impact on the Group's balance sheet.</p>
<p>Contingent liabilities</p> <p>As described in Note 1 (Accounting policies, judgements and estimates), Note 27 (Provisions) and Note 34 (Commitments and contingencies) of the financial statements, the Group has a number of contingent liabilities and provisions regarding significant legal matters. Judgement is required in assessing the likelihood of outflow, the potential quantum of any outflow and the associated disclosure requirements.</p> <p>This key audit matter specifically relates to the following exposures:</p> <ul style="list-style-type: none"> - Homeplus claim: following the sale of Homeplus in 2015 the Group has received claims from the purchaser relating to the sale of the business. In July 2020, the arbitration tribunal dismissed the majority of the claims but made findings of liability in relation to the remaining claims, reserving its position in relation to quantum. Given the decision is binding, the likelihood of a material outflow is now considered to be probable and therefore a provision of £88m was recorded during the year. - UK shareholder litigation: in July 2020, the Group settled claims brought by two claimant groups at a cost to the Group of £93m linked to the overstatement of expected profits in 2014. In September 2020 two further claimant groups issued proceedings against the Group in respect of the same matter and which may therefore result in legal exposures. - Equal pay claim: Tesco Stores Limited has received claims from current and former store colleagues alleging that their work is of equal value to that of colleagues working in the Group's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable. <p>The Audit Committee's discussion of this key audit matter is set out on page 69.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls in relation to the contingent liabilities and provisions and management's disclosures. In assessing the potential exposures to the Group, we have completed a range of procedures including:</p> <ul style="list-style-type: none"> - working with our forensic accounting experts to understand and challenge the interpretation of any legal and tribunal findings and conclusions; - assessing the reasonableness of management's likelihood and quantification of outflow assessment; - challenging the appropriateness of amounts provided for the Homeplus claim; - reading Board and other meeting minutes to identify other matters relevant to the Group's accounting and disclosure considerations; - meeting with the Group's internal legal advisors to understand ongoing and potential legal matters and reviewing third party correspondence and reports; - meeting with the Group's external legal advisors to challenge the status of the cases and their expectations as to expected outcome and the size of any liability; and - reviewing the proposed accounting and disclosure of potential legal liabilities, considering the third party assessment of open matters. 	<p>Based on our audit procedures we are satisfied that the provision recognised in relation to the Homeplus arbitration claim is reasonable. We also conclude that the Group's contingent liabilities disclosure is complete and, specifically the accounting and disclosures in relation to the ongoing UK shareholder actions and the Group's equal pay matter are appropriate.</p>

Key audit matter description	How the scope of our audit responded to the key audit matter	Key observations
<p>Presentation of Group's income statement</p> <p>One of the Group's key performance indicators is 'Group operating profit before exceptional items and amortisation of acquired intangibles' (2020/21: £1,815m, 2019/20: £2,571m).</p> <p>Management's reconciliation of this key performance indicator to the Group's statutory profit measure is set out in Note 2 (Segmental reporting) of the financial statements.</p> <p>Management judgement is required when applying this policy and when determining the classification of items as exceptional within the Group's income statement.</p> <p>We have determined that there is a potential for fraud through possible manipulation of the Group's income statement presentation. This is due to the level of judgement involved and remuneration targets being linked to key performance indicators, particularly in light of COVID-19 and the potential for management to attribute exceptional items to the pandemic that are difficult to quantify and could be misleading.</p> <p>The Audit Committee's discussion of this key audit matter is set out on page 69.</p>	<p>Our audit procedures included obtaining an understanding of relevant controls which address the risk of inappropriate presentation of the Group's income statement.</p> <p>In order to address this key audit matter we have completed audit procedures including:</p> <ul style="list-style-type: none"> - challenging the accuracy of exceptional items disclosed by the Group by agreeing to underlying supporting documentation; - assessing the appropriateness of exceptional items disclosed by the Group both individually and in aggregate, considering consistency with the Group's definition of exceptional items, IAS 1 and recent guidance from the FRC, specifically considering their recent guidance in light of the COVID-19 pandemic; - assessing the appropriateness of excluding the amortisation of intangible assets acquired in business combinations from the Group's operating profit alternative performance measure; - evaluating the presentation of COVID-19 costs within the Group's underlying results; - assessing transactions completed outside of the normal course of business; - assessing consistency of application of the policy across multiple financial years; and - assessing whether any bias exists in management's presentation of results to achieve key targets which drive elements of variable executive remuneration, including the annual bonus and Performance Share Plan award. 	<p>Based on our testing we have concluded that the accuracy, classification and disclosure of the exceptional and other items is appropriate.</p> <p>We concur with management's treatment of COVID-19 costs and the business rates relief repayment as underlying, rather than exceptional expenses, for 2020/21.</p>
<p>Retail technology environment, including IT security</p> <p>The Group's retail operations utilise a range of information systems. From 2015/16 to 2019/20 we reported deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems.</p> <p>IT remediation is a complex, multi-year project involving management judgement and processes which are at risk of being inappropriately designed or executed. Areas of management's remediation programme to which the risk has been pinpointed include:</p> <ul style="list-style-type: none"> - appropriateness of remediated access controls across in scope applications and their supporting infrastructure; and - whether the remediated controls address previously identified deficiencies. 	<p>We have continued to challenge and assess changes to the IT environment through the testing of remediated controls and concluding on the sufficiency and appropriateness of management's changes.</p> <p>During the year we have obtained an understanding of relevant controls over the information systems that are important to financial reporting, including the changes made as part of the Group's IT remediation programme.</p> <p>Consistent with 2019/20, in 2020/21 we did not plan to take a control reliant audit approach in the retail business due to the ongoing weaknesses in the IT environment.</p> <p>We have obtained an understanding of relevant manual controls which relate to identified deficiencies and consistent with the prior year we extended the scope of our substantive audit procedures in response to the deficiencies which affected the applications and databases within the scope of our audit.</p>	<p>Although management's remediation plan is designed to address our concerns, given the complexity of the underlying systems the plan is a multi-year programme and not yet complete, and therefore weaknesses remain in the control environment. Progress continues to be made and further remediation work is ongoing.</p>

Independent auditor's report to the members of Tesco PLC continued

Our application of materiality

Materiality

We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a 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:

	Group financial statements	Parent Company financial statements
Materiality	£75m (2019/20: £85m)	£56m (2019/20: £55m)
Basis for determining materiality	0.13% (2019/20: 0.13%) of revenue from continuing operations of £57,887m (2019/20: £58,091m).	Materiality represents less than 1% (2019/20: less than 1%) of net assets.
Rationale for the benchmark applied	<p>We have determined materiality based on 0.13% of revenue. Our determined materiality is 8.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles and 0.6% of net assets.</p> <p>In the prior year materiality was determined on the basis of 4.3% of continuing profit before tax before exceptional items and amortisation of acquired intangibles. Prior year materiality equated to 0.14% of prior year revenue. The change in the benchmark year on year is due to the impact of COVID-19 on the profitability of the group as a whole.</p> <p>Refer to Note 4 for further details of exceptional items, amortisation of acquired intangibles and management's reconciliation of this alternative performance measure to the Group's statutory measure.</p>	<p>As this is the Parent Company of the Group, it does not generate significant revenues other than investment returns but incurs costs.</p> <p>Net assets are of most relevance to users of the financial statements.</p>
Component Materiality	The work performed on components identified in our Group audit scope (excluding the Parent Company) was completed to a component materiality level between £8m and £37m (2019/20: £26m and £39m).	

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.

	Group financial statements	Parent Company financial statements
Performance materiality	65% (2019/20: 66%) of Group materiality	65% (2019/20: 70%) of Parent Company materiality
Basis and rationale for determining performance materiality	As we continue to be unable to rely on internal controls in the retail business we have used a lower percentage of materiality to determine our performance materiality for 2020/21. In determining performance materiality, we have also considered the nature, quantum and volume of corrected and uncorrected misstatements in prior periods, including prior period errors, and our expectation that misstatements from prior periods would not likely recur in the current period.	

Error reporting threshold

We agreed with the Audit Committee that we would report to the Committee all uncorrected audit differences in excess of £3.75m (2019/20: £4.25m), 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.

An overview of the scope of our audit

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 presented within continuing operations and three countries presented within discontinued operations, together with interests in a number of other businesses both in the UK and internationally.

The Group's accounting process is structured around local finance functions and is 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 into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on six significant retail locations within continuing operations (UK, Booker, Republic of Ireland, Czech Republic, Hungary and Slovakia), two significant retail locations within discontinued operations (Poland and Thailand) and Tesco Bank. The operations in Czech Republic, Hungary and Slovakia are managed as one combined business. All of these were subject to a full audit and represent 98% (2019/20: 96%) of revenue from continuing operations, 96% (2019/20: 92%) of continuing profit before tax before exceptional items and amortisation of acquired intangibles, and 95% (2019/20: 92%) of net assets. In respect of discontinued operations our full scope audit procedures covered 86% of revenue and 84% of profit before tax before exceptional items.

In addition, we instructed the Malaysia component to perform review procedures and have performed analytical review procedures for Malaysia, three other businesses (dunnhumby, Tesco Mobile and OneStop), where the extent of our testing was based on our assessment of the risks of material misstatement and of the size of the Group's operations at these locations.

Revenue from continuing operations



Profit before tax before exceptional items and amortisation of intangibles from continuing operations



Net 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 analytical review procedures. 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 level of direction and supervision in this audit work. During the course of our audit, the UK audit team visited 52 (2019/20: 52) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 5 (2019/20: 5) distribution centre inventory counts.

Our consideration of the control environment

The Group's retail operations utilise a range of information systems. In previous years we reported deficiencies in certain IT controls. As described in the Audit Committee report on page 69, 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 deficiencies' key audit matter in section 5.8 above.

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 the significant locations set out above. However, the Group audit team held communications through virtual meetings with all in scope components for 2020/21. These were timed to allow the Group audit team to be involved in the planning process, to attend audit close meetings or other key meetings with management during the

early warning and year-end audit work and perform virtual reviews of the audit files for compliance with auditing standards. 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.

The UK, Republic of Ireland, Central Europe and Booker key component audit teams attended a virtual two-day planning meeting led by the Group audit team and held prior to the commencement of our detailed audit work. The purpose of this planning meeting was to provide a common level of understanding of the Group's businesses, its 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 meeting to support these planning activities.

In addition, the Group team led a virtual planning briefing with the Thailand and Malaysia component audit teams prior to the commencement of their detailed audit and review work. The purpose of this meeting was to provide the component teams with information on the Group's business and discuss the planned testing approach to significant risks and other areas. Particular focus was given to the impact on the audit approach as a result of the disposal of the Group's businesses in Asia.

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.

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.

Independent auditor's report to the members of Tesco PLC continued

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.

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.

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' remuneration, bonus levels and performance targets;
- 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 management were aware of any instances of non-compliance;
 - detecting and responding to the risks of fraud and whether management 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 Groceries Supplier Code of Practice (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: timing of recognition of commercial income, Tesco Bank's loan impairment provisioning, posting of unusual journals and complex transactions and manipulating the Group's alternative performance profit measures and other key performance indicators to meet remuneration targets and externally communicated targets. 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, employment law, health and safety, 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 and FCA in relation to Tesco Bank.

Audit response to risks identified

As a result of performing the above, we identified presentation of the Group's income statement, recognition of commercial income and Tesco Bank's loan impairment provisioning 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 correspondence with HMRC ;
- 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; and
- As part of assessing relevant controls, we sought to gain an understanding of the impact that COVID-19 and remote working had on the nature and operation of those controls, to inform our risk assessment and conclusions on their effectiveness.

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 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.

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 the appropriateness of adopting the going concern basis of accounting and any material uncertainties identified set out on page 99;
- 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 101;
- the board's confirmation that it has carried out a robust assessment of the emerging and principal risks set out on pages 31 to 32;
- the section of the annual report that describes the review of effectiveness of risk management and internal control systems set out on pages 33 to 37; and
- the section describing the work of the Audit Committee set out on pages 67 to 71.

Matters on which we are required to report by exception

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.

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.

Other matters which we are required to address

Auditor tenure

Following the recommendation of the Audit Committee, we were appointed by the Group's shareholders on 26 June 2015 to audit the financial statements for the year ended 27 February 2016 and subsequent financial periods. The period of total uninterrupted engagement including previous renewals and reappointments of the firm is six years, covering the years ended 27 February 2016 to 27 February 2021.

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).

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.

John Adam (Senior statutory auditor)

For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
13 April 2021

Group income statement

	Notes	52 weeks ended 27 February 2021			53 weeks ended 29 February 2020 ^(a)		
		Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles (Note 4) £m	Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles (Note 4) £m	Total £m
Continuing operations							
Revenue	2	57,887	–	57,887	58,091	–	58,091
Cost of sales ^(b)		(53,921)	383	(53,538)	(53,601)	(209)	(53,810)
Impairment loss on financial assets ^(b)	2	(384)	–	(384)	(183)	–	(183)
Gross profit/(loss)		3,582	383	3,965	4,307	(209)	4,098
Administrative expenses		(1,767)	(462)	(2,229)	(1,736)	(156)	(1,892)
Operating profit/(loss)		1,815	(79)	1,736	2,571	(365)	2,206
Share of post-tax profits/(losses) of joint ventures and associates	14	26	–	26	–	(8)	(8)
Finance income	5	15	–	15	20	–	20
Finance costs	5	(952)	–	(952)	(1,039)	(151)	(1,190)
Profit/(loss) before tax		904	(79)	825	1,552	(524)	1,028
Taxation	6	(200)	96	(104)	(342)	52	(290)
Profit/(loss) for the year from continuing operations		704	17	721	1,210	(472)	738
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	309	5,117	5,426	318	(83)	235
Profit/(loss) for the year		1,013	5,134	6,147	1,528	(555)	973
Attributable to:							
Owners of the parent		1,009	5,134	6,143	1,526	(555)	971
Non-controlling interests		4	–	4	2	–	2
		1,013	5,134	6,147	1,528	(555)	973
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			63.80p			9.99p
Diluted	9			63.62p			9.93p
Earnings/(losses) per share from continuing operations							
Basic	9			7.56p			7.60p
Diluted	9			7.54p			7.54p

The notes on pages 118 to 188 form part of these financial statements.

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.
(b) Impairment loss on financial assets' comparatives have been presented separately from Cost of sales. Refer to Note 1 for further details.

Group statement of comprehensive income/(loss)

	Notes	52 weeks 2021 £m	53 weeks 2020* £m
Items that will not be reclassified to the Group income statement			
Remeasurements of defined benefit pension schemes	29	(963)	(466)
Net fair value gains/(losses) on inventory cash flow hedges		(3)	49
Tax on items that will not be reclassified	6	248	71
		(718)	(346)
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		(1)	9
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		(68)	(68)
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement		(413)	-
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		59	57
Reclassified and reported in the Group income statement		(86)	(7)
Tax on items that may be reclassified	6	(3)	(9)
		(512)	(18)
Total other comprehensive income/(loss) for the year		(1,230)	(364)
Profit/(loss) for the year		6,147	973
Total comprehensive income/(loss) for the year		4,917	609
Attributable to:			
Owners of the parent		4,913	607
Non-controlling interests		4	2
Total comprehensive income/(loss) for the year		4,917	609
Total comprehensive income/(loss) attributable to owners of the parent arising from:			
Continuing operations		(65)	352
Discontinued operations		4,978	255
		4,913	607

The notes on pages 118 to 188 form part of these financial statements.

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

Group balance sheet

	Notes	27 February 2021 £m	29 February 2020* £m	23 February 2019* £m
Non-current assets				
Goodwill and other intangible assets	10	5,393	6,078	6,223
Property, plant and equipment	11	17,211	19,234	19,186
Right of use assets	12	5,951	6,874	7,713
Investment property	13	19	26	36
Investments in joint ventures and associates	14	178	307	602
Financial assets at fair value through other comprehensive income	16	11	866	979
Investment securities at amortised cost	16	752	–	–
Trade and other receivables	18	170	166	243
Loans and advances to customers and banks	19	3,309	4,171	7,868
Derivative financial instruments	24	1,425	1,083	1,178
Deferred tax assets	6	552	449	408
		34,971	39,254	44,436
Current assets				
Financial assets at fair value through other comprehensive income	16	3	202	67
Investment securities at amortised cost	16	175	–	–
Inventories	17	2,069	2,433	2,617
Trade and other receivables	18	1,263	1,396	1,550
Loans and advances to customers and banks	19	3,093	4,280	4,882
Derivative financial instruments	24	37	63	52
Current tax assets		41	21	6
Short-term investments	20	1,011	1,076	390
Cash and cash equivalents	20	2,510	4,137	4,227
		10,202	13,608	13,791
Assets of the disposal groups and non-current assets classified as held for sale	7	605	285	98
		10,807	13,893	13,889
Current liabilities				
Trade and other payables	21	(8,399)	(8,922)	(9,131)
Borrowings	23	(1,080)	(2,219)	(2,874)
Lease liabilities	12	(575)	(598)	(646)
Derivative financial instruments	24	(81)	(61)	(250)
Customer deposits and deposits from banks	26	(5,321)	(6,377)	(8,832)
Current tax liabilities		(79)	(324)	(325)
Provisions	27	(186)	(155)	(226)
		(15,721)	(18,656)	(22,284)
Liabilities of the disposal groups classified as held for sale	7	(276)	–	–
		(5,190)	(4,763)	(8,395)
Net current liabilities				
Non-current liabilities				
Trade and other payables	21	(109)	(170)	(365)
Borrowings	23	(6,188)	(6,005)	(5,580)
Lease liabilities	12	(7,827)	(8,968)	(9,859)
Derivative financial instruments	24	(926)	(887)	(389)
Customer deposits and deposits from banks	26	(1,017)	(1,830)	(3,296)
Post-employment benefit obligations	29	(1,222)	(3,085)	(2,808)
Deferred tax liabilities	6	(48)	(40)	(49)
Provisions	27	(119)	(137)	(147)
		(17,456)	(21,122)	(22,493)
Net assets		12,325	13,369	13,548
Equity				
Share capital	30	490	490	490
Share premium		5,165	5,165	5,165
All other reserves		3,183	3,658	3,770
Retained earnings		3,505	4,078	4,147
Equity attributable to owners of the parent		12,343	13,391	13,572
Non-controlling interests		(18)	(22)	(24)
Total equity		12,325	13,369	13,548

* Refer to Note 1 for further details regarding the prior year restatement.

The notes on pages 118 to 188 form part of these financial statements.



Ken Murphy
Alan Stewart
Directors

The financial statements on pages 112 to 188 were approved and authorised for issue by the Directors on 13 April 2021.

Group statement of changes in equity

	Share capital £m	Share premium £m	All other reserves					Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			Capital redemption reserve £m	Cost of hedging reserve £m	Hedging reserve £m	Translation reserve £m							
At 29 February 2020 (restated*)	490	5,165	16	(15)	154	663	(250)	3,090	4,078	13,391	(22)	13,369	
Profit/(loss) for the year	-	-	-	-	-	-	-	-	6,143	6,143	4	6,147	
Other comprehensive income/(loss)													
Retranslation of net assets of overseas subsidiaries, joint ventures and associates	-	-	-	-	-	-	(68)	-	-	(68)	-	(68)	
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement (Note 7)	-	-	-	-	-	(413)	-	-	-	(413)	-	(413)	
Change in fair value of financial instruments at fair value through other comprehensive income	-	-	-	-	-	-	-	-	(1)	(1)	-	(1)	
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	(963)	(963)	-	(963)	
Gains/(losses) on cash flow hedges	-	-	-	17	39	-	-	-	-	56	-	56	
Cash flow hedges reclassified and reported in the Group income statement	-	-	-	-	(86)	-	-	-	-	(86)	-	(86)	
Tax relating to components of other comprehensive income	-	-	-	(2)	11	(7)	-	-	243	245	-	245	
Total other comprehensive income/(loss)	-	-	-	15	(36)	(488)	-	-	(721)	(1,230)	-	(1,230)	
Total comprehensive income/(loss)	-	-	-	15	(36)	(488)	-	-	5,422	4,913	4	4,917	
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													
Purchase of own shares	-	-	-	-	-	-	(246)	-	-	(246)	-	(246)	
Share-based payments	-	-	-	-	-	-	308	-	(97)	211	-	211	
Dividends (Note 8)	-	-	-	-	-	-	-	-	(5,892)	(5,892)	-	(5,892)	
Tax on items charged to equity	-	-	-	-	-	-	-	-	(6)	(6)	-	(6)	
Total transactions with owners	-	-	-	-	-	-	62	-	(5,995)	(5,933)	-	(5,933)	
At 27 February 2021	490	5,165	16	-	90	175	(188)	3,090	3,505	12,343	(18)	12,325	

The notes on pages 118 to 188 form part of these financial statements.

* Refer to Note 1 for further details regarding the prior year restatement.

Group statement of changes in equity continued

	Share capital £m	Share premium £m	All other reserves				Own shares held £m	Merger reserve £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
			Capital redemption reserve £m	Cost of hedging reserve £m	Hedging reserve £m	Translation reserve £m						
At 23 February 2019 (as previously reported)	490	5,165	16	(5)	118	730	(179)	3,090	4,031	13,456	(24)	13,432
Cumulative adjustment to opening balances	-	-	-	-	-	-	-	-	116	116	-	116
At 23 February 2019 (restated*)	490	5,165	16	(5)	118	730	(179)	3,090	4,147	13,572	(24)	13,548
Profit/(loss) for the year	-	-	-	-	-	-	-	-	971	971	2	973
Other comprehensive income/(loss)												
Retranslation of net assets of overseas subsidiaries, joint ventures and associates	-	-	-	-	-	(68)	-	-	-	(68)	-	(68)
Change in fair value of financial assets at fair value through other comprehensive income	-	-	-	-	-	-	-	-	9	9	-	9
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	-	(466)	(466)	-	(466)
Gains/(losses) on cash flow hedges	-	-	-	(12)	118	-	-	-	-	106	-	106
Cash flow hedges reclassified and reported in the Group income statement	-	-	-	-	(7)	-	-	-	-	(7)	-	(7)
Tax relating to components of other comprehensive income	-	-	-	2	(11)	1	-	-	70	62	-	62
Total other comprehensive income/(loss)	-	-	-	(10)	100	(67)	-	-	(387)	(364)	-	(364)
Total comprehensive income/(loss)	-	-	-	(10)	100	(67)	-	-	584	607	2	609
Inventory cash flow hedge movements												
Gains/(losses) transferred to the cost of inventory	-	-	-	-	(64)	-	-	-	-	(64)	-	(64)
Total inventory cash flow hedge movements	-	-	-	-	(64)	-	-	-	-	(64)	-	(64)
Transactions with owners												
Purchase of own shares	-	-	-	-	-	-	(221)	-	-	(221)	-	(221)
Share-based payments	-	-	-	-	-	-	150	-	5	155	-	155
Dividends (Note 8)	-	-	-	-	-	-	-	-	(656)	(656)	-	(656)
Tax on items charged to equity	-	-	-	-	-	-	-	-	(2)	(2)	-	(2)
Total transactions with owners	-	-	-	-	-	-	(71)	-	(653)	(724)	-	(724)
At 29 February 2020	490	5,165	16	(15)	154	663	(250)	3,090	4,078	13,391	(22)	13,369

The notes on pages 118 to 188 form part of these financial statements.

* Refer to Note 1 for further details regarding the prior year restatement.

Group cash flow statement

	Notes	52 weeks 2021 £m	53 weeks 2020 (restated ^{(a)(b)}) £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		1,736	2,206
Operating profit/(loss) of discontinued operations		5,482	312
Depreciation and amortisation		1,767	2,157
(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		(190)	(170)
(Profit)/loss arising on sale of financial assets		–	(3)
(Profit)/loss arising on sale of joint ventures and associates		(29)	(68)
(Profit)/loss arising on sale of subsidiaries	7	(5,197)	–
Transaction costs associated with sale of subsidiaries		6	22
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property		(85)	302
Impairment of goodwill	15	295	–
Net remeasurement (gain)/loss of non-current assets held for sale		(5)	–
Impairment of joint ventures		–	47
Adjustment for non-cash element of pensions charge		14	9
Other defined benefit pension scheme payments	29	(2,851)	(267)
Share-based payments		30	87
Tesco Bank fair value movements included in operating profit/(loss)		367	100
Retail (increase)/decrease in inventories		(52)	178
Retail (increase)/decrease in development stock		2	1
Retail (increase)/decrease in trade and other receivables		63	175
Retail increase/(decrease) in trade and other payables		329	(403)
Retail increase/(decrease) in provisions		56	(87)
Retail (increase)/decrease in working capital		398	(136)
Tesco Bank (increase)/decrease in loans and advances to customers and banks		1,686	127
Tesco Bank (increase)/decrease in trade and other receivables		62	310
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		(1,902)	(3,849)
Tesco Bank increase/(decrease) in provisions		2	5
Tesco Bank (increase)/decrease in working capital		(152)	(3,407)
Cash generated from/(used in) operations		1,586	1,191
Interest paid		(729)	(803)
Corporation tax paid		(255)	(340)
Net cash generated from/(used in) operating activities		602	48
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		237	3,965
Purchase of property, plant and equipment and investment property		(1,171)	(1,003)
Purchase of intangible assets		(206)	(201)
Disposal of subsidiaries, net of cash disposed	7	7,093	(6)
Acquisition of subsidiaries, net of cash acquired		15	–
Disposal of associate		–	277
Net (increase)/decrease in loans to joint ventures and associates		(2)	8
Investments in joint ventures and associates		(11)	(9)
Net (investments in)/proceeds from sale of short-term investments		62	(687)
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	25c	116	(6)
Dividends received from joint ventures and associates		26	42
Interest received		12	18
Net cash generated from/(used in) investing activities		6,171	2,398
Cash flows generated from/(used in) financing activities			
Own shares purchased		(66)	(149)
Repayment of capital element of obligations under leases		(621)	(634)
Increase in borrowings		1,098	1,272
Repayment of borrowings		(1,814)	(1,756)
Net cash flows from derivative financial instruments	25c	(580)	(17)
Dividends paid to equity owners	8	(5,858)	(656)
Net cash generated from/(used in) financing activities		(7,841)	(1,940)
Net increase/(decrease) in cash and cash equivalents		(1,068)	506
Cash and cash equivalents at the beginning of the year		3,031	2,567
Effect of foreign exchange rate changes		8	(42)
Cash and cash equivalents including cash and overdrafts held in disposal groups at the end of the year		1,971	3,031
Cash and overdrafts held in disposal groups		7	–
Cash and cash equivalents at the end of the year	20	1,978	3,031

The notes on pages 118 to 188 form part of these financial statements.

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Refer to Note 1 for further details regarding the prior year restatement.

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.

Basis of preparation

The consolidated Group financial statements have been prepared in accordance with international accounting standards in conformity with the requirements of the Companies Act 2006 and International Financial Reporting Standards adopted pursuant to Regulation (EC) No 1606/2002 as it applies in the European Union and IFRS as issued by the International Accounting Standards Board. 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 pension 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. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. The Directors have considered the potential impact of Brexit, the COVID-19 pandemic, a macroeconomic downturn and climate risk, and have concluded that there are no material uncertainties relating to going concern. Further information on the Group's strong liquidity position is given in the Financial review, Summary of total indebtedness section.

Unless otherwise stated, the accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

The Group has adopted the 'Definition of a business' amendment to IFRS 3, 'Business combinations' in the current financial year, and has applied its guidance when evaluating whether acquisitions in the period are asset acquisitions or business combinations. The Group early-adopted 'interest rate benchmark reform' phase 1 amendments in the prior year and has also early-adopted phase 2 amendments in the current year. The Group has elected not to apply the exemption granted in the 'COVID-19-related rent concessions' 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'.

Other standards, interpretations and amendments issued but not yet effective are not expected to have a material impact on the Group financial statements.

Discontinued operations

During the year, the Board approved plans to dispose of the Group's operations in Thailand, Malaysia and Poland. The disposal of the Thailand and Malaysia operations completed on 18 December 2020, and the corporate sale of the Group's business in Poland completed after the balance sheet date on 16 March 2021. The assets and liabilities of the Group's Poland operation are presented separately in the Group balance sheet as a disposal group held for sale. Further properties in Poland not included in the corporate sale also individually meet the criteria to be classified as held for sale. The net results of the Group's operations in Thailand and

Malaysia, up until disposal, and of the Group's entire business in Poland, are presented as discontinued operations in the Group income statement (for which the comparatives have been restated). See Note 7 for further details.

Income statement presentation

The Group now presents 'Impairment (loss)/reversal on financial assets' on a separate line on the face of the Group income statement, following a significant increase in expected credit losses in Tesco Bank in the year. Prior year comparatives have been reclassified. For further details, see Note 25.

Change in classification

On 1 March 2020, the Group's portfolio of debt investment securities measured at fair value through comprehensive income was reclassified to investment securities at amortised cost, measured using the effective interest rate method less allowance for expected credit losses. This was following a change in business model resulting from the sale of the Group's mortgage business which increased management's expectation that these debt investments would be held for the collection of contractual cash flows only. In the prior year, gains and losses arising from changes in fair value were recognised directly in other comprehensive income, except for impairment gains or losses, interest income and foreign exchange gains and losses, which were recognised in the Group income statement. For further details, see Note 16.

Prior year restatement

The consolidated financial statements include a prior year restatement in relation to the original accounting for deferred tax and the associated goodwill recognised on the business combination of three property partnerships in 2015/16. A reassessment of tax-related information from 2005 has identified a material difference in deferred tax. The Group has corrected this as a prior year error, as it concluded this information should reasonably have been available in 2016. The impact in the 29 February 2020 and 23 February 2019 balance sheets is to increase deferred tax assets by £157m (being a reduction in UK deferred tax liabilities) and reduce goodwill by £41m with a corresponding net £116m increase in net assets and retained earnings. There is no impact on the comparative period income statement or cash flow statement.

The consolidated financial statements also include a prior year restatement in relation to notional cash pooling arrangements where the intention to net settle cannot be clearly demonstrated. The Group has corrected prior year comparatives by grossing up cash and overdraft balances that had previously been offset on the balance sheet. The impact on the 29 February 2020 and 23 February 2019 balance sheets is an increase in both cash and overdraft balances of £729m and £1,311m respectively. As at 27 February 2021, the Group's notional cash pooling arrangements were physically settled where possible. All overdrafts including those subject to cash pooling arrangements are considered an integral part of the Group's cash management and so the cash flow statement has been restated to include all overdrafts in cash and cash equivalents on the cash flow statement (see Note 20). Previously, only overdrafts that were offset on the balance sheet were also included within cash and cash equivalents on the cash flow statement. The impact on the 29 February 2020 cash flow statement is to decrease cash and cash equivalent balances at the beginning of the year and at the end of the year by £349m and £377m respectively. There is no impact on the comparative period income statement, 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 27 February 2021 (prior financial year 53 weeks ended 29 February 2020). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 27 February 2021 (prior financial year 53 weeks ended

29 February 2020). For all other operations, the results are for the calendar year ended 28 February 2021 (prior calendar year ended 29 February 2020).

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.

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

The end policy holders 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.

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.

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

Finance income

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

Finance costs

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

Business combinations and goodwill

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

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair 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.

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 fair value less costs to sell using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of inventories.

Cash and cash equivalents

Cash and cash equivalents in the Group balance sheet consist of cash at bank and in 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 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.

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 all 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.

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

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

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. 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.

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.

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.

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. 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, short-term investments and loan receivables from joint ventures and associates. The credit risk 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.

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.

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 – Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in

Notes to the Group financial statements continued

Note 1 Accounting policies, judgements and estimates continued

aggregate, are excluded from the Group's APMs by virtue of their size and nature in order to better reflect management's view of the underlying trends, performance and position of the Group.

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. Reversals of previous exceptional items are assessed based on the same criteria.

An analysis of the exceptional 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 205 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 29.

Impairment of non-financial assets

The Group treats each store as a separate cash-generating unit for impairment testing. 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, and Tesco Bank represents a separate cash-generating unit.

Recoverable amounts for cash-generating units are the higher of fair value less cost of disposal, and value in use.

Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate. Key estimates and sensitivities are 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 25.

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. Refer to Note 34 for the disclosures.

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.

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 Group's operations in Thailand, Malaysia and Poland have been classified as discontinued operations as described in more detail in Notes 1 and 7. The segment results do not include these discontinued operations and intercompany recharges previously reported between continuing and discontinued operations have been eliminated in both the current and prior year.

Following the presentation of the Group's operations in Thailand and Malaysia as discontinued operations, the Group no longer presents Asia as a separate reportable segment. The remaining operations previously reported within the Asia segment, which consist of our Trent Hypermarket joint venture, have been reclassified to the UK & ROI segment. The comparatives for UK & ROI have also been reclassified to include the China associate Gain Land, which the Group sold on 28 February 2020 and which was previously included within the Asia segment. As a result of this, the Group has reclassified £(7)m of operating costs before exceptional items and amortisation of acquired intangibles, and £(7)m of exceptional items to the UK & ROI segment income statement for the year ended 29 February 2020. The Group has also reclassified £59m of investments in joint ventures and associates and £22m of current tax assets as at 29 February 2020 to the UK & ROI segment balance sheets.

The principal activities of the Group are therefore 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 operating profit/(loss) before exceptional items and amortisation of acquired intangibles, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it reflects the segments' underlying performance for the financial year under evaluation. Operating profit/(loss) before exceptional items and amortisation of acquired intangibles is a consistent measure within the Group as defined within the Glossary. Refer to Note 4 for exceptional items and amortisation of acquired intangibles. Inter-segment revenue between the operating 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:

52 weeks ended 27 February 2021 At constant exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Group sales	48,780	3,919	735	53,434	11	53,445
Revenue	53,102	4,038	735	57,875	12	57,887
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	1,861	125	(175)	1,811	4	1,815
Exceptional items and amortisation of acquired intangibles	213	2	(295)	(80)	1	(79)
Operating profit/(loss)	2,074	127	(470)	1,731	5	1,736
Operating margin	3.5%	3.1%	(23.8)%	3.1%		3.1%

52 weeks ended 27 February 2021 At actual exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	48,848	3,862	735	53,445
Revenue	53,170	3,982	735	57,887
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles	1,866	124	(175)	1,815
Exceptional items and amortisation of acquired intangibles	213	3	(295)	(79)
Operating profit/(loss)	2,079	127	(470)	1,736
Operating margin	3.5%	3.1%	(23.8)%	3.1%
Share of post-tax profits/(losses) of joint ventures and associates				26
Finance income				15
Finance costs				(952)
Profit/(loss) before tax				825

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

53 weeks ended 29 February 2020 At actual exchange rates	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales*	45,752	3,968	1,068	50,788
Revenue	52,898	4,125	1,068	58,091
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles*	2,202	176	193	2,571
Exceptional items and amortisation of acquired intangibles	(279)	33	(119)	(365)
Operating profit/(loss)	1,923	209	74	2,206
Operating margin*	4.2%	4.3%	18.1%	4.4%
Share of post-tax profits/(losses) of joint ventures and associates				(8)
Finance income				20
Finance costs				(1,190)
Profit/(loss) before tax				1,028

* Refer to page 209 for a reconciliation from Group sales, Operating profit before exceptional items and amortisation of acquired intangibles and Operating margin shown above to the Group's 52-week alternative performance measures for the year ended 29 February 2020.

Tesco Bank revenue of £735m (2020: £1,068m) comprises interest and similar revenues of £542m (2020: £733m) and fees and commissions revenue of £193m (2020: £335m).

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, all other components of net debt have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated other than intercompany transactions with Tesco Bank in net debt.

At 27 February 2021	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total Continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets	4,750	32	611	-	5,393	-	5,393
Property, plant and equipment and investment property	15,397	1,768	65	-	17,230	-	17,230
Right of use assets	5,571	368	12	-	5,951	-	5,951
Investments in joint ventures and associates	84	1	93	-	178	-	178
Non-current financial assets at fair value through other comprehensive income ^(a)	9	-	2	-	11	-	11
Non-current investment securities at amortised cost ^(a)	-	-	752	-	752	-	752
Non-current trade and other receivables ^(b)	97	-	52	-	149	-	149
Non-current loans and advances to customers and banks	-	-	3,309	-	3,309	-	3,309
Deferred tax assets	460	25	67	-	552	-	552
Non-current assets^(c)	26,368	2,194	4,963	-	33,525	-	33,525
Inventories and current trade and other receivables ^{(d)(e)}	2,684	325	222	-	3,231	-	3,231
Current loans and advances to customers and banks	-	-	3,093	-	3,093	-	3,093
Current financial assets at fair value through other comprehensive income ^(a)	-	-	3	-	3	-	3
Current investment securities at amortised cost ^(a)	-	-	175	-	175	-	175
Total trade and other payables	(7,797)	(495)	(216)	-	(8,508)	-	(8,508)
Total customer deposits and deposits from banks	-	-	(6,338)	-	(6,338)	-	(6,338)
Total provisions	(224)	(22)	(59)	-	(305)	-	(305)
Deferred tax liabilities	(9)	(39)	-	-	(48)	-	(48)
Net current tax	(79)	5	36	-	(38)	-	(38)
Post-employment benefits	(1,222)	-	-	-	(1,222)	-	(1,222)
Assets of the disposal group and non-current assets classified as held for sale	53	-	-	-	53	552	605
Liabilities of the disposal group classified as held for sale	-	-	-	-	-	(276)	(276)
Net debt (including Tesco Bank) ^{(f)(g)}	(7,879)	(493)	242	(3,442)	(11,572)	-	(11,572)
Net assets	11,895	1,475	2,121	(3,442)	12,049	276	12,325

(a) Refer to Note 1.

(b) Excludes loans to joint ventures of £21m (2020: £23m) which form part of net debt.

(c) Excludes derivative financial instrument non-current assets of £1,425m (2020: £1,083m).

(d) Excludes net interest and other receivables of £nil (2020: £1m) which form part of net debt.

(e) Excludes loans to joint ventures of £101m (2020: £104m) which form part of net debt.

(f) Refer to Note 32.

(g) Net debt (including Tesco Bank) at 27 February 2021 excludes net debt of the disposal groups classified as held for sale of £(141)m.

At 29 February 2020 (restated)	UK & ROI £m	Central Europe £m	Tesco Bank £m	Unallocated £m	Total Continuing operations £m	Discontinued operations £m	Total £m
Goodwill and other intangible assets	4,851	25	914	-	5,790	288	6,078
Property, plant and equipment and investment property	14,635	1,826	61	-	16,522	2,738	19,260
Right of use assets	5,719	392	14	-	6,125	749	6,874
Investments in joint ventures and associates	70	1	87	-	158	149	307
Non-current financial assets at fair value through other comprehensive income ^(a)	7	-	859	-	866	-	866
Non-current trade and other receivables ^(b)	65	-	65	-	130	13	143
Non-current loans and advances to customers and banks	-	-	4,171	-	4,171	-	4,171
Deferred tax assets	286	33	69	-	388	61	449
Non-current assets^(c)	25,633	2,277	6,240	-	34,150	3,998	38,148
Inventories and current trade and other receivables ^{(d)(e)}	2,678	314	252	-	3,244	480	3,724
Current loans and advances to customers and banks	-	-	4,280	-	4,280	-	4,280
Current financial assets at fair value through other comprehensive income ^(a)	-	-	202	-	202	-	202
Total trade and other payables	(7,215)	(511)	(249)	-	(7,975)	(1,117)	(9,092)
Total customer deposits and deposits from banks	-	-	(8,207)	-	(8,207)	-	(8,207)
Total provisions	(161)	(11)	(57)	-	(229)	(63)	(292)
Deferred tax liabilities	(4)	(36)	-	-	(40)	-	(40)
Net current tax	(248)	9	(26)	-	(265)	(38)	(303)
Post-employment benefits	(3,056)	-	-	-	(3,056)	(29)	(3,085)
Assets of the disposal groups and non-current assets classified as held for sale	75	-	45	-	120	165	285
Net debt (including Tesco Bank) ^(f)	(8,203)	(497)	47	(3,167)	(11,820)	(431)	(12,251)
Net assets	9,499	1,545	2,527	(3,167)	10,404	2,965	13,369

(a)-(g) Refer to previous table for footnotes.

Other segment information

52 weeks ended 27 February 2021	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)(b)}	1,466	79	15	1,560	2	1,562
Goodwill and other intangible assets ^(c)	156	10	40	206	-	206
Depreciation and amortisation:						
Property, plant and equipment	(799)	(99)	(9)	(907)	(14)	(921)
Right of use assets	(522)	(37)	(2)	(561)	(5)	(566)
Investment property	(1)	-	-	(1)	-	(1)
Other intangible assets	(225)	(7)	(46)	(278)	(1)	(279)
Impairment ^(d)						
(Loss)/reversal on financial assets	(23)	(1)	(360)	(384)	(2)	(386)

53 weeks ended 29 February 2020	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)(b)}	1,674	90	7	1,771	135	1,906
Goodwill and other intangible assets ^(c)	145	12	44	201	6	207
Depreciation and amortisation:						
Property, plant and equipment	(771)	(98)	(9)	(878)	(260)	(1,138)
Right of use assets	(537)	(32)	(2)	(571)	(80)	(651)
Investment property	(1)	-	-	(1)	-	(1)
Other intangible assets	(218)	(11)	(130)	(359)	(8)	(367)
Impairment ^(d)						
(Loss)/reversal on financial assets	(4)	-	(179)	(183)	3	(180)

(a) Includes £476m related to obtaining control of The Tesco Property (No. 2) Limited Partnership (2020: £914m related to obtaining control of The Tesco Atrato Limited Partnership). Refer to Note 33 for further details.

(b) Includes £12m (2020: £nil) of property, plant and equipment acquired through business combinations.

(c) Includes £5m (2020: £nil) of goodwill and other intangible assets acquired through business combinations.

(d) Refer to Note 15 for impairment of non-current assets.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

Cash flow statement

The following tables provide further analysis of the Group cash flow statement, including a split of cash flows between Retail continuing operations and Tesco Bank as well as an analysis of Group continuing and discontinued operations.

	Retail			Bank		Tesco Group	
	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Retail Total £m	Before exceptional items and amortisation of acquired intangibles £m	Exceptional items and amortisation of acquired intangibles £m	Tesco Bank Total £m	Total £m
52 weeks ended 27 February 2021							
Continuing operations							
Operating profit/(loss) of continuing operations	1,990	216	2,206	(175)	(295)	(470)	1,736
Depreciation and amortisation	1,614	76	1,690	57	-	57	1,747
ATM net income	(13)	-	(13)	13	-	13	-
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases	(47)	(150)	(197)	2	-	2	(195)
(Profit)/loss arising on sale of financial assets	-	-	-	-	-	-	-
(Profit)/loss arising on sale of joint ventures and associates	-	(29)	(29)	-	-	-	(29)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(4)	(124)	(128)	-	-	-	(128)
Impairment of goodwill	-	-	-	-	295	295	295
Impairment of joint ventures	-	-	-	-	-	-	-
Adjustment for non-cash element of pensions charge	7	7	14	-	-	-	14
Other defined benefit pension scheme payments	(351)	(2,500)	(2,851)	-	-	-	(2,851)
Share-based payments	31	-	31	(3)	-	(3)	28
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	367	-	367	367
Cash flows generated from operations excluding working capital	3,227	(2,504)	723	261	-	261	984
(Increase)/decrease in working capital	450	(11)	439	(133)	(19)	(152)	287
Cash generated from/(used in) operations^(a)	3,677	(2,515)	1,162	128	(19)	109	1,271
Interest paid	(680)	-	(680)	(6)	-	(6)	(686)
Corporation tax paid	(161)	-	(161)	(9)	-	(9)	(170)
Net cash generated from/(used in) operating activities	2,836	(2,515)	321	113	(19)	94	415
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	33	148	181	-	51	51	232
Purchase of property, plant and equipment and investment property – store buybacks	(239)	(52)	(291)	-	-	-	(291)
Purchase of property, plant and equipment and investment property – other capital expenditure	(740)	-	(740)	(21)	-	(21)	(761)
Purchase of intangible assets	(162)	-	(162)	(40)	-	(40)	(202)
Disposal of subsidiaries, net of cash disposed	-	7,806	7,806	-	-	-	7,806
Acquisition of businesses, net of cash acquired	15	-	15	-	-	-	15
Disposal of associate	-	-	-	-	-	-	-
Net (increase)/decrease in loans to joint ventures and associates	(2)	-	(2)	-	-	-	(2)
Investments in joint ventures and associates	(11)	-	(11)	-	-	-	(11)
Net (investments in)/proceeds from sale of short-term investments	62	-	62	-	-	-	62
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	(1)	-	(1)	117	-	117	116
Dividends received from joint ventures and associates	10	-	10	7	-	7	17
Dividends received from Tesco Bank	13	-	13	(13)	-	(13)	-
Interest received	10	-	10	-	-	-	10
Net cash generated from/(used in) investing activities	(1,012)	7,902	6,890	50	51	101	6,991
Own shares purchased	(66)	-	(66)	-	-	-	(66)
Repayment of capital element of obligations under leases	(561)	-	(561)	(3)	-	(3)	(564)
Add/(less): Cash inflow from major disposal	-	(5,337)	(5,337)	-	-	-	(5,337)
Less: Net increase/(decrease) in loans to joint ventures and associates	2	-	2	-	-	-	2
Less: Net investments in/(proceeds from sale of) short-term investments	(62)	-	(62)	-	-	-	(62)
Free cash flow^(b)	1,137	50	1,187	160	32	192	1,379
Increase in borrowings	1,097	-	1,097	1	-	1	1,098
Repayment of borrowings	(1,039)	-	(1,039)	(775)	-	(775)	(1,814)
Net cash flows from derivative financial instruments	(632)	52	(580)	-	-	-	(580)
Dividends paid to equity holders	(942)	(4,916)	(5,858)	-	-	-	(5,858)
Net cash generated from/(used in) financing activities	(2,143)	(4,864)	(7,007)	(777)	-	(777)	(7,784)
Net increase/(decrease) in cash and cash equivalents from continuing operations	(319)	523	204	(614)	32	(582)	(378)
Net increase/(decrease) in cash and cash equivalents from discontinued operations	38	(728)	(690)	-	-	-	(690)
Intra-Group funding and intercompany transactions	-	2	2	(2)	-	(2)	-
Net increase/(decrease) in cash and cash equivalents	(281)	(203)	(484)	(616)	32	(584)	(1,068)
Cash and cash equivalents at the beginning of the year			1,667			1,364	3,031
Effect of foreign exchange rate changes			8			-	8
Cash and cash equivalents at the end of the year			1,191			780	1,971
Cash and overdrafts held in disposal groups			7			-	7
Cash and cash equivalents not held in disposal groups			1,198			780	1,978

(a) APM: 'Retail operating cash flow' of £1,162m (2020: £3,580m) is the cash generated from operations of the continuing Retail business.

(b) Free cash flow of £1,187m (2020: £1,493m) is reported on a continuing operations basis.

	Retail			Bank			Tesco Group
	Before exceptional items and amortisation of acquired intangibles	Exceptional items and amortisation of acquired intangibles	Retail Total	Before exceptional items and amortisation of acquired intangibles	Exceptional items and amortisation of acquired intangibles	Tesco Bank Total	Total
	£m	£m	£m	£m	£m	£m	£m
53 weeks ended 29 February 2020 (restated ^(a))							
Continuing operations							
Operating profit/(loss) of continuing operations	2,378	(246)	2,132	193	(119)	74	2,206
Depreciation and amortisation	1,589	79	1,668	77	64	141	1,809
ATM net income	(34)	-	(34)	34	-	34	-
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases	1	(153)	(152)	-	-	-	(152)
(Profit)/loss arising on sale of financial assets	-	-	-	-	(3)	(3)	(3)
(Profit)/loss arising on sale of joint ventures and associates	-	(68)	(68)	-	-	-	(68)
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(2)	223	221	-	-	-	221
Impairment of joint ventures	-	47	47	-	-	-	47
Adjustment for non-cash element of pensions charge	2	-	2	-	-	-	2
Other defined benefit pension scheme payments	(267)	-	(267)	-	-	-	(267)
Share-based payments	84	-	84	1	-	1	85
Tesco Bank fair value movements included in operating profit/(loss)	-	-	-	100	-	100	100
Cash flows generated from operations excluding working capital	3,751	(118)	3,633	405	(58)	347	3,980
(Increase)/decrease in working capital	24	(77)	(53)	(3,422)	15	(3,407)	(3,460)
Cash generated from/(used in) operations^{(a)(c)}	3,775	(195)	3,580	(3,017)	(43)	(3,060)	520
Interest paid	(739)	-	(739)	(8)	-	(8)	(747)
Corporation tax paid	(219)	-	(219)	(69)	-	(69)	(288)
Net cash generated from/(used in) operating activities	2,817	(195)	2,622	(3,094)	(43)	(3,137)	(515)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	3	263	266	-	3,696	3,696	3,962
Purchase of property, plant and equipment and investment property - store buybacks	(136)	(36)	(172)	-	-	-	(172)
Purchase of property, plant and equipment and investment property - other capital expenditure	(690)	-	(690)	(5)	-	(5)	(695)
Purchase of intangible assets	(156)	-	(156)	(39)	-	(39)	(195)
Disposal of subsidiaries, net of cash disposed	4	(10)	(6)	-	-	-	(6)
Acquisition of businesses, net of cash acquired	-	-	-	-	-	-	-
Disposal of associate	-	277	277	-	-	-	277
Net (increase)/decrease in loans to joint ventures and associates	-	-	-	8	-	8	8
Investments in joint ventures and associates	(9)	-	(9)	-	-	-	(9)
Net (investments in)/proceeds from sale of short-term investments	(687)	-	(687)	-	-	-	(687)
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	(3)	-	(3)	(3)	-	(3)	(6)
Dividends received from joint ventures and associates	12	-	12	16	-	16	28
Dividends received from Tesco Bank	50	-	50	(50)	-	(50)	-
Interest received	16	-	16	-	-	-	16
Net cash generated from/(used in) investing activities	(1,596)	494	(1,102)	(73)	3,696	3,623	2,521
Own shares purchased	(149)	-	(149)	-	-	-	(149)
Repayment of capital element of obligations under leases	(565)	-	(565)	(2)	-	(2)	(567)
Add/(less): Cash inflow from major disposal	-	-	-	-	-	-	-
Less: Net increase/(decrease) in loans to joint ventures and associates	-	-	-	(8)	-	(8)	(8)
Less: Net investments in/(proceeds from sale of) short-term investments	687	-	687	-	-	-	687
Free cash flow^{(b)(c)}	1,194	299	1,493	(3,177)	3,653	476	1,969
Increase in borrowings	1,022	-	1,022	250	-	250	1,272
Repayment of borrowings	(1,346)	-	(1,346)	(410)	-	(410)	(1,756)
Net cash flows from derivative financial instruments	(17)	-	(17)	-	-	-	(17)
Dividends paid to equity holders	(656)	-	(656)	-	-	-	(656)
Net cash generated from/(used in) financing activities	(1,711)	-	(1,711)	(162)	-	(162)	(1,873)
Net increase/(decrease) in cash and cash equivalents from continuing operations	(490)	299	(191)	(3,329)	3,653	324	133
Net increase/(decrease) in cash and cash equivalents from discontinued operations	395	(22)	373	-	-	-	373
Intragroup funding and intercompany transactions	3	-	3	(3)	-	(3)	-
Net increase/(decrease) in cash and cash equivalents	(92)	277	185	(3,332)	3,653	321	506
Cash and cash equivalents at the beginning of the year			1,524			1,043	2,567
Effect of foreign exchange rate changes			(42)			-	(42)
Cash and cash equivalents at the end of the year			1,667			1,364	3,031
Cash and overdrafts held in disposal groups			-			-	-
Cash and cash equivalents not held in disposal groups			1,667			1,364	3,031

(a)-(b) Refer to previous table for footnotes.

(c) Refer to page 211 for a reconciliation from Retail operating cash flow, Retail free cash flow and Free cash flow shown above to the Group's 52-week alternative performance measures.

(d) Refer to Note 1 for further details regarding the prior year restatement.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	Continuing operations		Discontinued operations		Total Group	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020* £m
Operating profit/(loss)	1,736	2,206	5,482	312	7,218	2,518
Depreciation and amortisation	1,747	1,809	20	348	1,767	2,157
(Profit)/loss arising on sale of property, plant and equipment, investment property, intangible assets, assets held for sale and early termination of leases	(195)	(152)	5	(18)	(190)	(170)
(Profit)/loss arising on sale of financial assets	-	(3)	-	-	-	(3)
(Profit)/loss arising on sale of joint ventures and associates	(29)	(68)	-	-	(29)	(68)
(Profit)/loss arising on sale of subsidiaries	-	-	(5,197)	-	(5,197)	-
Transaction and derivative costs associated with sale of subsidiaries	-	-	6	22	6	22
Net impairment loss/(reversal) on property, plant and equipment, right of use assets, intangible assets and investment property	(128)	221	43	81	(85)	302
Impairment of goodwill	295	-	-	-	295	-
Net remeasurement (gain)/loss of non-current assets held for sale	-	-	(5)	-	(5)	-
Impairment of joint ventures	-	47	-	-	-	47
Adjustment for non-cash element of pensions charge	14	2	-	7	14	9
Other defined benefit pension scheme payments	(2,851)	(267)	-	-	(2,851)	(267)
Share-based payments	28	85	2	2	30	87
Tesco Bank fair value movements included in operating profit/(loss)	367	100	-	-	367	100
Cash flows generated from operations excluding working capital	984	3,980	356	754	1,340	4,734
(Increase)/decrease in working capital	287	(3,460)	(41)	(83)	246	(3,543)
Cash generated from/(used in) operations	1,271	520	315	671	1,586	1,191
Interest paid	(686)	(747)	(43)	(56)	(729)	(803)
Corporation tax paid	(170)	(288)	(85)	(52)	(255)	(340)
Net cash generated from/(used in) operating activities	415	(515)	187	563	602	48
Proceeds from sale of property, plant and equipment, investment property, intangible assets and assets classified as held for sale	232	3,962	5	3	237	3,965
Purchase of property, plant and equipment and investment property	(1,052)	(867)	(119)	(136)	(1,171)	(1,003)
Purchase of intangible assets	(202)	(195)	(4)	(6)	(206)	(201)
Disposal of subsidiaries, net of cash disposed	7,806	(6)	(713)	-	7,093	(6)
Acquisition of businesses, net of cash acquired	15	-	-	-	15	-
Disposal of associate	-	277	-	-	-	277
Net (increase)/decrease in loans to joint ventures and associates	(2)	8	-	-	(2)	8
Investments in joint ventures and associates	(11)	(9)	-	-	(11)	(9)
Net (investments in)/proceeds from sale of short-term investments	62	(687)	-	-	62	(687)
Net (investments in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost	116	(6)	-	-	116	(6)
Dividends received from joint ventures and associates	17	28	9	14	26	42
Interest received	10	16	2	2	12	18
Net cash generated from/(used in) investing activities	6,991	2,521	(820)	(123)	6,171	2,398
Own shares purchased	(66)	(149)	-	-	(66)	(149)
Repayments of obligations under leases	(564)	(567)	(57)	(67)	(621)	(634)
Increase in borrowings	1,098	1,272	-	-	1,098	1,272
Repayment of borrowings	(1,814)	(1,756)	-	-	(1,814)	(1,756)
Net cash flows from derivative financial instruments	(580)	(17)	-	-	(580)	(17)
Dividends paid to equity holders	(5,858)	(656)	-	-	(5,858)	(656)
Net cash generated from/(used in) financing activities	(7,784)	(1,873)	(57)	(67)	(7,841)	(1,940)
Net increase/(decrease) in cash and cash equivalents before intragroup funding and intercompany transactions	(378)	133	(690)	373	(1,068)	506
Intragroup funding and intercompany transactions	(357)	371	357	(371)	-	-
Net increase/(decrease) in cash and cash equivalents	(735)	504	(333)	2	(1,068)	506
Cash and cash equivalents at the beginning of the year					3,031	2,567
Effect of foreign exchange rate changes					8	(42)
Cash and cash equivalents at the end of the year					1,971	3,031
Cash and overdrafts held in disposal groups					7	-
Cash and cash equivalents not held in disposal groups					1,978	3,031

* Refer to Note 1 for further details regarding the prior year restatement.

Note 3 Income and expenses

Auditor's remuneration

	52 weeks 2021 £m	53 weeks 2020 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	2.3	1.6
The audit of the accounts of the Company's subsidiaries	8.3	5.8
Total audit services	10.6	7.4
Audit-related assurance services	1.1	0.5
Other services:		
Transaction services	0.6	0.2
All other non-audit services	0.8	1.6
Total non-audit services	2.5	1.8
Total auditor's remuneration	13.1	9.7

Audit-related assurance services of £1.1m (2020: £0.5m) comprise: review of the Group's interim report £0.5m (2020: £0.5m), audit of the parent company interim accounts drawn up to support the special dividend to shareholders £0.3m (2020: £nil) and other services £0.3m (2020: £nil). Transaction services represents provision of reporting accountant services related to the disposal of the Group's Thailand and Malaysia operations £0.6m (2020: £0.2m). Other non-audit services of £0.8m (2020: £1.6m) represents: provision of data repository services for information needed for disclosure purposes as part of ongoing claims £0.8m (2020: £0.6m), SFO monitor role £nil (2020: £0.6m) and other services £nil (2020: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.3m (2020: £0.1m) for the audit of the main Group pension scheme. 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 71, including how objectivity and independence is safeguarded.

Employment costs, including Directors' remuneration

	Notes	52 weeks 2021 £m	53 weeks 2020 £m
Continuing operations			
Wages and salaries		6,443	5,817
Social security costs		509	464
Post-employment defined benefits ^(a)	29	48	37
Post-employment defined contributions	29	347	329
Share-based payments expense	28	69	122
Termination benefits ^(b)		33	100
Total		7,449	6,869

(a) Includes £7m (2020: £nil) past service cost related to guaranteed minimum pensions (GMPs). This is treated as an exceptional item. Refer to Note 4 and Note 29.
(b) Includes £nil (2020: £95m) of redundancy costs included within exceptional items. Refer to Note 4.

Post-employment defined contribution charges include £132m (2020: £116m) of salaries paid as pension contributions.

The table below shows the average number of employees by operating segment during the financial year.

Continuing operations	Average number of employees		Average number of full-time equivalents	
	2021	2020 ^(a)	2021	2020 ^(b)
UK & ROI	336,392	319,303	214,470	210,768
Central Europe	27,273	31,558	25,054	28,955
Tesco Bank	3,656	3,587	3,387	3,305
Total	367,321	354,448	242,911	243,028

(a) The average number of employees in the year ended 29 February 2020 excludes the average number of employees of 68,644 in discontinued operations.
(b) The average number of full-time equivalents in the year ended 29 February 2020 excludes the average number of full-time equivalents of 50,935 in discontinued operations.

Notes to the Group financial statements continued

Note 4 Exceptional items and amortisation of acquired intangibles

Group income statement

52 weeks ended 27 February 2021

Profit/(loss) for the year from continuing operations included the following exceptional items and amortisation of acquired intangibles:

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/(losses) £m	Finance costs £m	Taxation £m
Exceptional items:						
Property transactions ^(a)	19	7	26	-	-	18
Booker integration costs ^(b)	(21)	(4)	(25)	-	-	4
ATM business rates ^(c)	105	-	105	-	-	(20)
Acquisition of property joint venture ^(d)	134	-	134	-	-	(23)
Litigation costs ^(e)	-	(93)	(93)	-	-	-
GMP equalisation ^(f)	(6)	(1)	(7)	-	-	1
Net impairment reversal of non-current assets ^(g)	156	-	156	-	-	8
Impairment charge on goodwill ^(h)	-	(295)	(295)	-	-	-
Employee Share Scheme ⁽ⁱ⁾	(4)	-	(4)	-	-	-
Release of tax provisions ^(j)	-	-	-	-	-	106
Total exceptional items	383	(386)	(3)	-	-	94
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 10)	-	(76)	(76)	-	-	2
Total exceptional items and amortisation of acquired intangibles	383	(462)	(79)	-	-	96

(a) As part of the Group's strategy to maximise value from property, the Group disposed of surplus properties.

(b) Final costs incurred in integrating Booker within the Tesco Group, mainly focused on aligning distribution networks and operating platforms.

(c) Supreme Court ruling in May 2020 that Tesco Group is due a refund of business rates related to external facing ATMs in stores.

(d) The Group obtained control of The Tesco Property (No. 2) Limited Partnership, previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest in the partnership for a net consideration of £29m. The acquisition, which is treated as an asset acquisition, increases the Group's owned property portfolio and borrowings, replacing the Group's associated right of use assets and lease liabilities. Refer to Note 33 for further details.

(e) Costs arising from the 2016 claims against Tesco PLC for matters arising out of or in connection with the overstatement of expected profit announced in 2014.

(f) This relates to a non-cash charge in respect of the Group's defined benefit pension obligations in the UK, arising from equalisation of guaranteed minimum pensions (GMPs) following a further High Court ruling. Refer to Note 29 for further details.

(g) Net impairment reversal relating to the Group's non-current assets. A further £32m net impairment loss of non-current assets is included within the £134m gain on acquisition of property joint venture. Refer to Notes 15 and 33 for further details.

(h) An impairment charge was recognised on the goodwill associated with Tesco Bank (2020: £nil). Refer to Note 15 for further details.

(i) These are costs related to the special dividend and share consolidation with respect to employee share schemes.

(j) The agreement of previously uncertain tax positions arising in prior periods has resulted in a release of tax provisions no longer required.

53 weeks ended 29 February 2020

Profit/(loss) for the year from continuing operations included the following exceptional items and amortisation of acquired intangibles:

Exceptional items and amortisation of acquired intangibles included in:	Cost of sales £m	Administrative expenses £m	Total exceptional items and amortisation of acquired intangibles included within operating profit £m	Share of joint venture and associates profits/(losses) £m	Finance costs £m	Taxation £m
Exceptional items:						
Net restructuring and redundancy costs	(95)	(13)	(108)	-	-	21
Provision for customer redress	(45)	-	(45)	-	-	-
Derivative restructuring	-	-	-	-	(180)	34
Acquisition of property joint venture	(136)	-	(136)	-	-	(23)
Impairment of investment in India joint venture	-	(47)	(47)	-	-	-
Disposal of China associate	-	37	37	-	-	(30)
China land penalties	-	-	-	(12)	-	-
Tesco Bank mortgage disposal	(8)	3	(5)	-	29	(14)
Closure of Tesco Bank current accounts to new customers	-	(56)	(56)	-	-	14
Ogden rate change	-	-	-	4	-	-
Property transactions	33	-	33	-	-	15
Booker integration costs	(18)	(5)	(23)	-	-	4
Net impairment reversal of non-current assets	60	4	64	-	-	16
Total exceptional items	(209)	(77)	(286)	(8)	(151)	37
Amortisation of acquired intangibles:						
Amortisation of acquired intangible assets (Note 10)	-	(79)	(79)	-	-	15
Total exceptional items and amortisation of acquired intangibles*	(209)	(156)	(365)	(8)	(151)	52

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

Group cash flow statement

The table below shows the impact of exceptional items on the Group cash flow statement:

Amortisation of acquired intangibles does not affect the Group's cash flow.

	Cash flows from operating activities		Cash flows from investing activities		Cash flows from financing activities	
	52 weeks 2021 £m	53 weeks 2020 £m	52 weeks 2021 £m	53 weeks 2020 £m	52 weeks 2021 £m	53 weeks 2020 £m
Prior year restructuring and redundancy costs	(36)	(124)	-	-	-	-
Current year restructuring and redundancy costs	-	(53)	-	-	-	-
Property transactions	-	-	148	263	-	-
Settlement of claims for customer redress in Tesco Bank	(19)	(38)	-	-	-	-
Booker integration cash payments	(2)	(23)	-	-	-	-
Proceeds from sale of Tesco Bank's mortgage book	-	-	51	3,696	-	-
Acquisition of property joint venture (Note 33)	-	-	(52)	(36)	-	-
Proceeds from disposal of China associate	-	-	-	277	-	-
Corporate activity costs	-	-	-	(10)	-	-
Litigation costs	(93)	-	(2)	-	-	-
Disposal of Asia operations ^(a)	26	-	7,811	-	52	-
Additional pension contribution ^(b)	(2,500)	-	-	-	-	-
Costs and proceeds deposit associated with the sale of Poland	-	-	(3)	-	-	-
Special dividend ^(c)	-	-	-	-	(4,916)	-
ATM income ^(d)	90	-	-	-	-	-
Total continuing operations	(2,534)	(238)	7,953	4,190	(4,864)	-
Exceptional cash flows from discontinued operations	(15)	(25)	-	3	-	-
Disposal of Asia operations ^(a)	-	-	(713)	-	-	-
Total	(2,549)	(263)	7,240	4,193	(4,864)	-

(a) Other operating cash flows on disposal of the Group's Asia operations of £26m comprise of £30m advance payments received on sale of software licences due to be completed in the next financial year, offset by £(4)m of costs incurred related to the special dividend and share consolidation with respect to employee share schemes. Total disposal proceeds, net of associated disposal costs, cash disposed and repayment of intercompany loans were £7,098m, of which £7,811m is presented within continuing operations and £(713)m is presented within discontinued operations. The cash inflow from financing activities of £52m is with respect to the derivative fair value gain net of option premiums paid to economically hedge the foreign exchange risk on the USD disposal proceeds. Refer to Note 7 for further details.

(b) Subsequent to the disposal of the Group's Asia operations, the Group made a significant pension contribution of £2.5bn. Refer to Note 29 for further details.

(c) The Group paid a special dividend to shareholders on 26 February 2021. Refer to Notes 8 and 30 for further details.

(d) Amounts received in the year with respect to the Supreme Court ruling related to external facing ATMs in stores.

Note 5 Finance income and costs

	Notes	52 weeks 2021 £m	53 weeks 2020 ^(a) £m
Continuing operations			
Finance income			
Interest receivable and similar income		10	16
Finance income receivable on net investment in leases		5	4
Total finance income		15	20
Finance costs			
GBP MTNs and loans		(158)	(142)
EUR MTNs		(51)	(59)
USD bonds		(9)	(11)
Finance charges payable on lease liabilities		(446)	(486)
Other interest payable		(31)	(24)
Fair value remeasurements of financial instruments ^(b)		(214)	(246)
Total finance costs before exceptional items and net pension finance costs		(909)	(968)
Net pension finance costs	29	(43)	(71)
Total finance costs before exceptional items		(952)	(1,039)
Fair value remeasurement loss on derivative restructuring	4	-	(180)
Fair value remeasurement gain on Tesco Bank mortgage book disposal	4	-	29
Total finance costs		(952)	(1,190)
Net finance costs		(937)	(1,170)

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Fair value remeasurements of financial instruments included £(160)m (2020: £(65)m) relating to the premium paid on the repurchase of long-dated bonds.

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group income statement

	52 weeks 2021 £m	53 weeks 2020 ^(a) £m
Continuing operations		
Current tax (credit)/charge		
UK corporation tax	228	244
Overseas tax	60	75
Adjustments in respect of prior years	(110)	(41)
	178	278
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	(67)	29
Adjustments in respect of prior years	(19)	(17)
Change in tax rate	12	-
	(74)	12
Total income tax (credit)/charge	104	290

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

The Finance Act 2020 included legislation to maintain the main rate of UK corporation tax at 19%, rather than reducing it to 17% from 1 April 2020. The change to the main rate of corporation tax was substantively enacted by the balance sheet date and therefore included in these financial statements. Temporary differences have been remeasured using these enacted tax rates that are expected to apply when the liability is settled or the asset realised. The UK Budget announcements on 3 March 2021 included an increase to the UK's main corporation tax rate to 25%, which is due to be effective from 1 April 2023. These changes were not substantively enacted at the balance sheet date and hence have not been reflected in the measurement of deferred tax balances.

Reconciliation of effective tax charge

	52 weeks 2021 £m	53 weeks 2020 ^(a) £m
Continuing operations		
Profit/(loss) before tax	825	1,028
Tax credit/(charge) at 19.0% (2020: 19.0%)	(157)	(195)
Effect of:		
Non-qualifying depreciation	(33)	(30)
Expenses not deductible ^(b)	(40)	(55)
Unrecognised tax losses	-	(4)
Property items taxed on a different basis to accounting entries	4	(3)
Impairment of non-current assets	(22)	(37)
Banking surcharge tax	13	(11)
Differences in overseas taxation rates	10	7
Adjustments in respect of prior years ^(c)	129	58
Share of losses of joint ventures and associates	5	(2)
Change in tax rate	(12)	-
Irrecoverable withholding tax	(1)	(18)
Total income tax credit/(charge)	(104)	(290)
Effective tax rate	12.6%	28.2%

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Prior year included movements on uncertain tax positions.

(c) Prior year adjustments include tax credits of £106m in relation to uncertain tax positions and £(20)m in relation to rolled over gains and capital losses on property disposals classified as exceptional.

Reconciliation of effective tax charge on profit before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments

	52 weeks 2021 £m	53 weeks 2020 ^(a) £m
Continuing operations		
Profit/(loss) before tax before exceptional items and amortisation of acquired intangibles	904	1,552
Tax credit/(charge) at 19.0% (2020: 19.0%)	(172)	(295)
Effect of:		
Non-qualifying depreciation	(33)	(30)
Expenses not deductible ^(b)	(21)	(40)
Unrecognised tax losses	–	(2)
Impairment of non-current assets	1	–
Banking surcharge tax	13	(17)
Differences in overseas taxation rates	10	7
Adjustments in respect of prior years	(1)	53
Share of profits of joint ventures and associates	5	–
Change in tax rate	(1)	–
Irrecoverable withholding tax	(1)	(18)
Total income tax credit/(charge) before exceptional items and amortisation of acquired intangibles	(200)	(342)
Effective tax rate before exceptional items and amortisation of acquired intangibles	22.1%	22.0%
Tax charge on net pension finance costs and fair value remeasurements of financial instruments at 19.0% on £257m (2020: 19.0% on £317m)	(49)	(60)
Change in tax rate	–	2
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements^(c)	(249)	(400)
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements	21.4%	21.4%

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Prior year included movements on uncertain tax positions.

(c) Refer to page 209 for a reconciliation from Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measure.

Tax on items credited directly to the Group statement of changes in equity

	52 weeks 2021 £m	53 weeks 2020 £m
Continuing operations		
Current tax credit/(charge) on:		
Share-based payments	5	1
Deferred tax credit/(charge) on:		
Share-based payments	(11)	(3)
Total tax on items credited/(charged) to the Group statement of changes in equity	(6)	(2)

Tax relating to components of the Group statement of comprehensive income/(loss)

	52 weeks 2021 £m	53 weeks 2020 £m
Continuing operations		
Current tax credit/(charge) on:		
Pensions	176	–
Foreign exchange movements	–	1
Deferred tax credit/(charge) on:		
Pensions	67	71
Fair value of movement on financial assets at fair value through other comprehensive income	–	(1)
Fair value movements on cash flow hedges	9	(9)
Total tax on items credited/(charged) to Group statement of comprehensive income/(loss)	252	62

Notes to the Group financial statements continued

Note 6 Taxation continued

Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Group and movements thereon during the current and prior financial years 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:

	Property-related items ^(b) £m	Acquired intangibles £m	Post-employment benefits ^(c) £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial instruments £m	Total £m
At 23 February 2019 (restated^(a))	(207)	(114)	470	51	121	6	32	359
Discontinued operations	(1)	–	2	–	(2)	–	–	(1)
(Charge)/credit to the Group income statement	38	14	(33)	2	(26)	(2)	(5)	(12)
(Charge)/credit to the Group statement of changes in equity	–	–	–	(3)	–	–	–	(3)
(Charge)/credit to the Group statement of comprehensive income/(loss)	–	–	71	–	–	–	(10)	61
Disposals	1	–	–	–	–	–	–	1
Foreign exchange and other movements ^(d)	1	–	2	1	–	–	–	4
At 29 February 2020 (restated^(a))	(168)	(100)	512	51	93	4	17	409
Discontinued operations	14	–	(6)	(6)	(63)	–	–	(61)
(Charge)/credit to the Group income statement	32	2	9	(3)	40	(1)	(5)	74
(Charge)/credit to the Group statement of changes in equity	–	–	–	(11)	–	–	–	(11)
(Charge)/credit to the Group statement of comprehensive income/(loss)	–	–	67	–	–	–	9	76
Acquisitions	(2)	–	–	–	–	–	19	17
Foreign exchange and other movements ^(d)	(1)	–	–	–	(1)	–	2	–
At 27 February 2021^(e)	(125)	(98)	582	31	69	3	42	504

(a) Refer to Note 1 for further details regarding the prior year restatement.

(b) Property-related items include a deferred tax liability on rolled-over gains of £305m (2020: £291m), deferred tax assets on capital losses of £187m (2020: £166m) and deferred tax assets on IFRS 16 transitional adjustments of £267m (2020: £252m). The remaining balance relates to accelerated tax depreciation.

(c) The deferred tax asset on retirement benefits includes £364m of deferred tax relief from the additional contribution paid in the year and £218m deferred tax related to the pension deficit, see Note 29.

(d) The deferred tax charge for foreign exchange and other movements is a £nil charge (2020: £4m credit) relating to the retranslation of deferred tax balances at the balance sheet date.

(e) Remeasurement of temporary differences for the announced increase to the UK corporation tax rate, if enacted, is estimated to increase the opening deferred tax asset in the financial year ended 26 February 2022 by £60m.

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:

	2021 £m	2020 (restated*) £m
Deferred tax assets	552	449
Deferred tax liabilities	(48)	(40)
	504	409

* Refer to Note 1 for further details regarding the prior year restatement

No deferred tax liability is recognised on temporary differences of £4.4bn (2020 restated: £4.5bn) 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 27 February 2021 is estimated to be £5m (2020: £7m) 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.

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):

	2021 £m	2020 (restated*) £m
Deductible temporary differences	40	43
Tax losses	183	189
	223	232

* Refer to Note 1 for further details regarding the prior year restatement

As at 27 February 2021, the Group has unused trading tax losses from continuing operations of £623m (2020: £656m) available for offset against future profits. A deferred tax asset has been recognised in respect of £19m (2020: £25m) of such losses. No deferred tax asset has been recognised in respect of the remaining overseas tax losses of £604m (2020: £631m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £518m that will expire by 2024 (2020: £284m in 2023) and £37m that will expire between 2025 and 2041 (2020: £298m between 2024 and 2040). Other losses will be carried forward indefinitely.

Changes in tax law or its interpretation

The Group operates in a number of territories which leads to the Group's profits being subject to tax in many jurisdictions. The Group monitors income tax developments in these territories (which include the OECD Base Erosion and Profit Shifting (BEPS) initiative and European Union's state aid investigations) which could affect the Group's tax liabilities.

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

	2021 £m	2020 £m
Assets of the disposal group	404	-
Non-current assets classified as held for sale	201	285
Total assets of the disposal group and non-current assets classified as held for sale	605	285
Liabilities of the disposal group	(276)	-
Total net assets of the disposal group and non-current assets classified as held for sale	329	285

Assets and liabilities of the disposal group are with respect to the Group's operations in Poland.

The assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year.

Balance sheet of the disposal group

	Poland £m
Assets of the disposal group	
Goodwill and other intangible assets	3
Property, plant and equipment	214
Right of use assets	82
Inventories	58
Trade and other receivables	19
Cash and cash equivalents	28
Total assets of the disposal group	404
Liabilities of the disposal group	
Trade and other payables	(90)
Current tax liabilities	(1)
Lease liabilities	(134)
Borrowings	(35)
Provisions	(16)
Total liabilities of the disposal group	(276)
Total net assets of the disposal group	128

Discontinued operations

On 9 March 2020, the Group reached agreement on the terms of a proposed sale of its operations in Thailand and Malaysia, which were presented in the Group's former Asia segment. The transaction received shareholder approval on 14 May 2020, and the disposal completed on 18 December 2020. The results have been presented as discontinued operations.

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 transaction completed after the balance sheet date on 16 March 2021. The assets and liabilities related to the Group's Poland operation have been classified as a disposal group held for sale within the year. Further properties in Poland not included in the corporate sale also individually meet the criteria to be classified as held for sale, and therefore the Group's entire business in Poland has been presented as discontinued operations.

Notes to the Group financial statements continued

Note 7 Discontinued operations and assets classified as held for sale continued

Income statement of discontinued operations

	2021				2020			
	Thailand and Malaysia £m	Poland £m	Other £m	Total £m	Thailand and Malaysia £m	Poland £m	Other £m	Total £m
Revenue	3,932	974	–	4,906	5,218	1,451	–	6,669
Operating costs ^(a)	(3,492)	(982)	–	(4,474)	(4,773)	(1,462)	–	(6,235)
Operating profit, before exceptional items	440	(8)	–	432	445	(11)	–	434
Share of post-tax profits/(losses) of joint ventures and associates	9	–	–	9	26	–	–	26
Finance (costs)/income	(26)	(19)	–	(45)	(37)	(14)	–	(51)
Profit/(loss) before tax, before exceptional items	423	(27)	–	396	434	(25)	–	409
Taxation	(84)	(3)	–	(87)	(85)	(6)	–	(91)
Profit/(loss) after tax, before exceptional items	339	(30)	–	309	349	(31)	–	318
Exceptional items ^(b)	(3)	(56)	(88)	(147)	(11)	(111)	–	(122)
Tax on exceptional items ^(c)	–	–	–	–	1	–	38	39
Profit after tax on disposal of Thailand and Malaysia	5,264	–	–	5,264	–	–	–	–
Total profit/(loss) after tax of discontinued operations	5,600	(86)	(88)	5,426	339	(142)	38	235

(a) Operating costs include £(20)m depreciation and amortisation charges (2020: £(348)m).

(b) Exceptional items of £(147)m (2020: £(122)m) includes £(7)m (2020: £(43)m) of net restructuring and redundancy costs, £(43)m (2020: £(79)m) of net impairment loss on non-current assets, £5m fair value remeasurement of non-current assets classified as held for sale (2020: £nil), £(8)m loss (2020: £22m profit) on disposal of surplus properties, £(6)m of other corporate activity costs (2020: £(22)m) and £(88)m (2020: £nil) provision relating to claims from Homeplus (Korea) purchasers.

(c) There was no tax on exceptional items (2020: £39m credit) including £nil with respect to the release of withholding tax liability in relation to the formation of the Group's former Gain Land associate (2020: £38m credit).

The profit after tax on disposal of the Group's Thailand and Malaysia operations comprises the following:

	£m
Gross proceeds^(a)	7,938
Fair value gain on derivative contracts ^(b)	295
Proceeds inclusive of fair value gain on derivative contracts	8,233
Costs to sell ^(c)	(122)
Proceeds less costs to sell	8,111
Option premiums paid ^(d)	(243)
Proceeds less cost to sell and option premiums paid	7,868
Net book value of assets disposed	
Goodwill and other intangible assets	(288)
Property, plant and equipment	(2,452)
Right of use assets	(788)
Investment in joint ventures and associates	(149)
Deferred tax	(29)
Inventories	(377)
Trade and other receivables	(104)
Cash and cash equivalents ^(d)	(1,122)
Trade and other payables	966
Borrowings ^(d)	409
Lease liabilities	765
Current tax	1
Post-employment benefit obligations	34
Provisions	50
Net book value of assets disposed	(3,084)
Currency translation reserve recycled to income statement	413
Gain before tax on disposal of Thailand and Malaysia	5,197
Taxation ^(e)	67
Gain after tax on disposal of Thailand and Malaysia	5,264

(a) Gross proceeds of \$10,735m translated at the exchange rate at the date of the transaction of 1.35235 USD to £ Sterling.

(b) The fair value gain on derivative contracts of £295m and option premiums paid of £(243)m relate to derivative contracts entered into by the Group to economically hedge the foreign exchange risk on the USD disposal proceeds.

(c) Total costs associated with the sale of the business, share consolidation and special dividend amounted to £139m, of which £10m were expensed in the prior financial year. £122m have been charged within costs to sell. £3m of costs associated with the special dividend and share consolidation have been charged within equity as a cost of the special dividend and £4m relating to employee share schemes have been charged within exceptional operating profit of continuing operations. The £122m costs associated with the transaction incurred in the current financial year includes £8m of associated stamp duty and £55m paid to the minority shareholder of Tesco Malaysia in relation to certain rights attached to the shares, with the balance relating to advisor and associated transaction costs.

(d) Cash and cash equivalents include £(658)m of intercompany loans payable to Thailand and settled prior to completion. Borrowings of £409m are with respect to borrowings incurred by Malaysia with the funds subsequently used to repay intercompany loans due from Malaysia immediately prior to completion. Net intercompany loans repaid at completion £(249)m.

(e) Taxation includes £60m tax credit related to cost of hedging and a £7m tax credit recycled from equity.

The disposal of the operations in Thailand and Malaysia and use of proceeds has reduced Retail net debt by £525m, consisting of £765m 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 are presented £(2,474)m in operating cash flows, £7,098m in investing cash flows and £(4,864)m in financing cash flows.

Cash flow statement

	2021			2020		
	Thailand and Malaysia £m	Poland £m	Total £m	Thailand and Malaysia £m	Poland £m	Total £m
Net cash flows from operating activities	225	(38)	187	625	(62)	563
Net cash flows from investing activities	(811)	(9)	(820)	(118)	(5)	(123)
Net cash flows from financing activities	(42)	(15)	(57)	(50)	(17)	(67)
Net cash flows from discontinued operations	(628)	(62)	(690)	457	(84)	373

Note 8 Dividends

	2021		2020	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Paid prior financial year final dividend ^(a)	6.50	634	4.10	399
Paid interim dividend ^(b)	3.20	310	2.65	257
Paid special dividend ^(c)	50.93	4,948	-	-
Dividends paid to equity owners in the financial year	60.63	5,892	6.75	656
Proposed final dividend at financial year end	5.95	460	6.50	637

(a) Excludes £3m prior financial year final dividend waived (2020: £3m).

(b) Excludes £3m interim dividend waived (2020: £3m).

(c) Excludes £43m special dividend waived (2020: £nil).

The proposed final dividend was approved by the Board of Directors on 13 April 2021 and is subject to the approval of shareholders at the AGM. The proposed dividend has not been included as a liability as at 27 February 2021, in accordance with IAS 10 'Events after the reporting period'. It will be paid on 2 July 2021 to shareholders who are on the Register of members at close of business on 21 May 2021.

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 11 June 2021.

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. £nil (2020: £nil) of unclaimed dividends in relation to these shares have been adjusted for in retained earnings. Refer to Note 30 for further details.

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.

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 27 February 2021 there were 27 million (2020: 67 million) 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.

	2021			2020*		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations	728	-	728	738	-	738
Discontinued operations	5,415	-	5,415	233	-	233
Total	6,143	-	6,143	971	-	971
Weighted average number of shares (millions)	9,629	27	9,656	9,716	67	9,783
Earnings/(losses) per share (pence)						
Continuing operations	7.56	(0.02)	7.54	7.60	(0.06)	7.54
Discontinued operations	56.24	(0.16)	56.08	2.39	-	2.39
Total	63.80	(0.18)	63.62	9.99	(0.06)	9.93

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

Notes to the Group financial statements continued

Note 9 Earnings/(losses) per share and diluted earnings/(losses) per share continued

Diluted earnings/(losses) per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments

Notes	52 weeks 2021	53 weeks 2020 ^(a)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)	904	1,552
Add: Net pension finance costs (£m)	5 43	71
Add: Fair value remeasurements of financial instruments (£m)	5 214	246
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)^(b)	1,161	1,869
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) ^(c)	1,168	1,869
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m) ^(d)	(249)	(400)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	919	1,469
Basic weighted average number of shares (millions)	9,629	9,716
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)	9.54	15.12
Diluted weighted average number of shares (millions)	9,656	9,783
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)^{(b)(e)}	9.52	15.02

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Refer to page 209 for a reconciliation of prior year Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments and Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments shown above to the Group's 52-week alternative performance measures.

(c) Excludes loss before tax attributable to non-controlling interests of £(7)m (2020: £nil).

(d) Excludes tax charges on losses attributable to non-controlling interests of £nil (2020: £nil).

(e) Refer to page 210 for a reconciliation of the Group's APM Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation).

Note 10 Goodwill and other intangible assets

	Goodwill £m	Software ^(a) £m	Customer relationships £m	Other intangible assets £m	Total £m
Cost					
At 29 February 2020 (restated^(b))	5,477	1,868	715	458	8,518
Foreign currency translation	3	-	-	(1)	2
Additions	-	200	-	1	201
Acquired through business combinations ^(c)	1	-	3	1	5
Reclassification	-	49	-	(49)	-
Transfer to disposal group classified as held for sale	(762)	(86)	-	-	(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)	-	2	4
Charge for the year ^(d)	-	198	76	5	279
Impairment losses ^(e)	295	24	-	10	329
Reversal of impairment losses ^(e)	-	(9)	-	(7)	(16)
Reclassification	-	35	-	(35)	-
Transfer to disposal group classified as held for sale	(489)	(70)	-	-	(559)
Disposals	-	(194)	-	(7)	(201)
At 27 February 2021	448	1,305	224	299	2,276
Net carrying value					
At 27 February 2021	4,271	532	494	96	5,393
At 29 February 2020 (restated ^(b))	4,840	544	567	127	6,078

(a) Software includes £305m (2020: £341m) of internally generated development costs.

(b) Refer to Note 1 for further details regarding the prior year restatement.

(c) On the 7 March 2020, the Group acquired Best Food Logistics, refer to Note 33 for further details.

(d) Of the £81m (2020: £86m) amortisation of customer relationships and other intangible assets, £76m (2020: £79m) has been included within exceptional items and amortisation of acquired intangible assets. £75m (2020: £76m) of this balance arises from amortisation of intangible assets recognised upon the Booker acquisition and £1m relates to the amortisation of intangible assets recognised upon the acquisition of Best Food Logistics. Refer to Notes 4 and 33 for further details.

(e) Refer to Note 15.

	Goodwill £m	Software ^(a) £m	Customer relationships £m	Intangible assets £m	Total £m
Cost					
At 23 February 2019 (restated^(b))	5,509	1,840	715	447	8,511
Foreign currency translation	(5)	(2)	-	(1)	(8)
Additions	-	188	-	19	207
Reclassification	-	40	-	(5)	35
Disposals	(27)	(198)	-	(2)	(227)
At 29 February 2020 (restated^(b))	5,477	1,868	715	458	8,518
Accumulated amortisation and impairment losses					
At 23 February 2019	641	1,254	72	321	2,288
Foreign currency translation	(4)	(1)	-	-	(5)
Charge for the year ^(d)	-	281	76	10	367
Impairment losses ^(e)	-	15	-	12	27
Reversal of impairment losses ^(e)	-	(31)	-	(7)	(38)
Reclassification	-	2	-	(3)	(1)
Disposals	-	(196)	-	(2)	(198)
At 29 February 2020	637	1,324	148	331	2,440

(a)-(e) Refer to previous table for footnotes.

	Goodwill £m	Software £m	Customer relationships £m	Intangible assets £m	Total £m
Cost					
At 24 February 2018 (restated^(b))	2,417	3,166	-	392	5,975
Foreign currency translation	(6)	1	-	(1)	(6)
Additions	-	167	-	24	191
Acquired through business combinations	3,098	-	715	48	3,861
Reclassification	-	(140)	-	2	(138)
Disposals	-	(308)	-	(15)	(323)
Fully-amortised assets	-	(1,046)	-	(3)	(1,049)
At 23 February 2019 (restated^(b))	5,509	1,840	715	447	8,511
Accumulated amortisation and impairment losses					
At 24 February 2018	662	2,378	-	315	3,355
Foreign currency translation	(21)	-	-	(2)	(23)
Charge for the year	-	210	72	13	295
Impairment losses	-	15	-	27	42
Reversal of impairment losses	-	(2)	-	(24)	(26)
Disposals	-	(301)	-	(5)	(306)
Fully-amortised assets	-	(1,046)	-	(3)	(1,049)
23 February 2019	641	1,254	72	321	2,288

(b) Refer to Note 1 for further details regarding prior year restatement.

Notes to the Group financial statements continued

Note 11 Property, plant and equipment

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 29 February 2020	24,868	6,925	31,793
Foreign currency translation	(38)	(15)	(53)
Additions ^(b)	927	623	1,550
Acquired through business combinations	8	4	12
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	22,024	5,743	27,767
Accumulated depreciation and impairment losses			
At 29 February 2020	7,841	4,718	12,559
Foreign currency translation	(15)	(10)	(25)
Charge for the year	432	489	921
Impairment losses ^(c)	353	107	460
Reversal of impairment losses ^(c)	(515)	(43)	(558)
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	6,653	3,903	10,556
Net carrying value			
At 27 February 2021^(d)	15,371	1,840	17,211
At 29 February 2020	17,027	2,207	19,234
Construction in progress included above^(e)			
At 27 February 2021	77	210	287
At 29 February 2020	88	114	202

(a) Other assets consist of fixtures and fittings with a net carrying value of £1,345m (2020: £1,712m), office equipment with a net carrying value of £213m (2020: £245m) and motor vehicles with a net carrying value of £282m (2020: £250m).

(b) Includes £476m of land and buildings related to obtaining control of The Tesco Property (No. 2) Limited Partnership, which was impaired by £(32)m on acquisition (2020: £914m of land and buildings related to obtaining control of The Tesco Atrato Limited Partnership, which was impaired by £(287)m on acquisition). The £476m additions comprised £492m cost of acquisition offset by £16m of historical deferred profit. Refer to the breakdown of assets and liabilities acquired within Note 33.

(c) Refer to Note 15.

(d) Includes £2,099m (2020: £1,406m) of assets pledged as security for secured bonds (refer to Note 23) and £826m (2020: £478m) of property held as security in favour of the Tesco PLC Pension Scheme (refer to Note 29).

(e) Construction in progress does not include land.

	Land and buildings £m	Other ^(a) £m	Total £m
Cost			
At 23 February 2019	24,484	6,993	31,477
Foreign currency translation	(69)	(15)	(84)
Additions ^(b)	1,285	621	1,906
Reclassification	(24)	(28)	(52)
Classified as held for sale	(589)	(36)	(625)
Disposals	(219)	(610)	(829)
At 29 February 2020	24,868	6,925	31,793
Accumulated depreciation and impairment losses (restated)			
At 23 February 2019	7,523	4,768	12,291
Foreign currency translation	(23)	(11)	(34)
Charge for the year	525	613	1,138
Impairment losses ^(c)	611	111	722
Reversal of impairment losses ^(c)	(391)	(104)	(495)
Reclassification	41	(23)	18
Classified as held for sale	(298)	(34)	(332)
Disposals	(147)	(602)	(749)
At 29 February 2020	7,841	4,718	12,559
Net carrying value^(d)	17,027	2,207	19,234

(a)-(d) Refer to previous table for footnotes.

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. On 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. On 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 option is not exercised.

On 18 September 2020, the Group obtained control of The Tesco Property (No. 2) Limited Partnership, 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 and are eliminated on consolidation. Refer to Note 33 for further details.

Right of use assets

	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 ^(a)	230	–	230
Derecognition on acquisition of property joint venture (Note 33)	(130)	–	(130)
Transfer to disposal group classified as held for sale	(724)	(20)	(744)
Other movements ^(b)	190	(28)	162
Net carrying value at 27 February 2021	5,866	85	5,951

(a) Refer to Note 15.

(b) Other movements include lease terminations, modifications and reassessments, foreign exchange, reclassifications between asset classes and entering into finance subleases.

	Land and buildings £m	Other £m	Total £m
Net carrying value at 23 February 2019	7,561	152	7,713
Additions (including through business combinations)	146	58	204
Depreciation charge for the year	(584)	(67)	(651)
Impairment losses ^(a)	(267)	–	(267)
Reversal of impairment losses ^(a)	182	–	182
Derecognition on acquisition of property joint venture	(335)	–	(335)
Other movements ^(b)	31	(3)	28
Net carrying value at 29 February 2020	6,734	140	6,874

(a)-(b) Refer to footnotes in table above.

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:

	2021 £m	2020 £m
Current	575	598
Non-current	7,827	8,968
Total lease liabilities	8,402	9,566

	2021 £m	2020 £m
Maturity analysis – contractual undiscounted lease payments		
Within one year	969	1,081
Greater than one year but less than two years	939	1,018
Greater than two years but less than three years	912	996
Greater than three years but less than four years	867	993
Greater than four years but less than five years	841	951
Greater than five years but less than ten years	3,597	4,178
Greater than ten years but less than fifteen years	2,443	2,810
After fifteen years	1,959	2,596
Total undiscounted lease payments	12,527	14,623

A reconciliation of the Group's opening to closing lease liabilities balance is presented in Note 32.

Notes to the Group financial statements continued

Note 12 Leases continued

Amounts recognised in the Group income statement

	52 weeks 2021 £m	53 weeks 2020* £m
Continuing operations		
Interest on lease liabilities	446	486
Variable payment expenses not included in lease liabilities	1	1
Expenses relating to short-term leases	17	14
Expenses relating to leases of low value assets (excluding amounts already included in short-term leases above)	1	-

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

Amounts recognised in the Group cash flow statement

	52 weeks 2021 £m	53 weeks 2020 £m
Total cash outflow for leases*	1,109	1,175

* Includes £5m (2020: £5m) related to Tesco Bank.

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 £10.8bn (2020: £11.8bn).

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 75% (2020: 72%) of the Group's lease liabilities are subject to inflation-linked rentals and a further 15% (2020: 12%) 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 £36m (2020: £93m) 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

	52 weeks 2021 £m	53 weeks 2020 ^(a) £m
Continuing operations		
Finance lease – interest income ^(b)	5	4
Operating lease – rental income ^(c)	85	98

(a) Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

(b) Includes £5m (2020: £4m) of sublease interest income.

(c) Includes £22m (2020: £26m) of sublease rental income.

Finance lease payments receivable

The finance lease receivable (net investment in the lease) included in the Group balance sheet is £86m (2020: £48m).

Operating lease payments receivable maturity analysis

	2021 £m	2020 £m
Within one year	74	220
Greater than one year but less than two years	52	128
Greater than two years but less than three years	41	71
Greater than three years but less than four years	32	38
Greater than four years but less than five years	24	27
Greater than five years but less than ten years	70	83
Greater than ten years but less than fifteen years	38	44
After fifteen years	65	82
Total undiscounted operating lease payments receivable	396	693

Note 13 Investment property

	2021 £m	2020 £m
Cost		
At the beginning of the year	100	118
Foreign currency translation	1	(1)
Reclassification	(4)	(11)
Classified as held for sale	1	–
Disposals	(5)	(6)
At the end of the year	93	100
Accumulated depreciation and impairment losses		
At the beginning of the year	74	82
Foreign currency translation	1	(1)
Charge for the year	1	1
Impairment losses for the year*	2	5
Reversal of impairment losses for the year*	(2)	(4)
Reclassification	(2)	(4)
Classified as held for sale	1	–
Disposals	(1)	(5)
At the end of the year	74	74
Net carrying value at the end of the year	19	26
Rental income earned from investment properties under operating leases	7	11
Direct operating expenses incurred on rental-earning investment properties	–	(3)

* Refer to Note 15.

The estimated fair value of the Group's investment property is £0.1bn (2020: £0.2bn). 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 197 to 201 for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 27 February 2021.

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 27 February 2021 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.

Notes to the Group financial statements continued

Note 14 Group entities continued

Interests in joint ventures and associates

Principal joint ventures and associates

The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
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 Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco 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
Tesco Underwriting Limited	Joint venture	Insurance	49.9%	England	United Kingdom
Booker India Private 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 2020 to 27 February 2021. 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, and for Tesco Underwriting Limited, regulatory capital requirements.

Prior to the Group's sale of its 20% share in Gain Land Limited (Gain Land) on 28 February 2020, management applied judgement in determining that Gain Land was an associate of the Group. The Group had significant influence by virtue of holding 20% equity interest which presumed significant influence per IAS 28, together with having a contractual right to appoint two out of 10 directors, while taking into account that the remaining 80% interest was held by one other party.

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.

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 infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third-party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

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.

	UK property joint ventures		Gain Land Limited ^(d)	
	2021 £m	2020 £m	2021 £m	2020 £m
Summarised balance sheet				
Non-current assets ^(a)	2,916	3,242	-	-
Current assets (excluding cash and cash equivalents)	50	101	-	-
Cash and cash equivalents	27	28	-	-
Current liabilities ^(b)	(420)	(487)	-	-
Non-current liabilities ^(b)	(3,229)	(3,621)	-	-
Net assets/(liabilities)	(656)	(737)	-	-
Summarised income statement				
Revenue	250	258	-	8,551
Profit/(loss) after tax	-	-	-	(95)
Reconciliation to carrying amounts:				
Opening balance	-	-	-	263
Foreign currency translation	-	-	-	(4)
Share of profits/(losses) ^(c)	14	12	-	(19)
Dividends received from joint ventures and associates	(14)	(12)	-	-
Disposals ^(d)	-	-	-	(240)
Closing balance	-	-	-	-
Group's share in ownership	50%	50%	-	-
Group's share of net assets/(liabilities)	(328)	(369)	-	-
Goodwill	-	-	-	-
Deferred property profits offset against carrying amounts	(60)	(61)	-	-
Cumulative unrecognised losses ^(c)	205	205	-	-
Cumulative unrecognised hedge reserves ^(c)	183	225	-	-
Carrying amount	-	-	-	-

(a) The non-current asset balances of UK property joint ventures are reflected at historical depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the UK property joint ventures are £3,939m (2020: £4,338m).

(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £3,235m (2020: £3,616m) and derivative swap balances of £363m (2020: £452m) entered into to hedge the cash flow variability exposures of the joint ventures.

(c) The share of profit for the year for UK property joint ventures related to £14m dividends received from joint ventures with £nil carrying amounts. £2m of profit and £12m of decrease in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.

(d) The Group completed the sale of its 20% investment in Gain Land Limited on 28 February 2020 for a consideration of £277m.

As at 27 February 2021, the Group has £101m (2020: £106m) 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		Associates	
	2021 £m	2020 £m	2021 £m	2020 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	168	230	10	77
Group's share of profits/(losses) for the year*	1	2	11	(3)

* Comparatives have been restated to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

Note 15 Impairment of non-current assets

Impairment losses and reversals

An impairment of £295m was recognised on the goodwill associated with Tesco Bank (2020: £nil). This impairment arises due to an increase in the cost of equity used to discount cash flows and a reduction in cash flows arising from the economic impact of the pandemic. No other goodwill impairment losses were recognised by the Group (2020: £nil).

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. Impairment losses and reversals comparatives have been re-presented in order to show the Group's Thailand, Malaysia and Poland businesses as discontinued operations. There were no impairment losses or reversals in the year (2020: £nil) with respect to other non-current assets and investments in joint ventures and associates in Tesco Bank.

Notes to the Group financial statements continued

Note 15 Impairment of non-current assets continued

	UK & ROI		Central Europe		Total continuing operations		Discontinued operations		Total ^(a)	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
52 weeks ended 27 February 2021										
Group balance sheet										
Other intangible assets	(32)	9	(2)	7	(34)	16	–	–	(34)	16
Property, plant and equipment	(371)	497	(23)	38	(394)	535	(66)	23	(460)	558
Right of use assets	(209)	229	(16)	1	(225)	230	–	–	(225)	230
Investment property	(2)	2	–	–	(2)	2	–	–	(2)	2
Other non-current assets	(614)	737	(41)	46	(655)	783	(66)	23	(721)	806
Investments in joint ventures and associates	–	–	–	–	–	–	–	–	–	–
Total impairment (loss)/reversal	(614)	737	(41)	46	(655)	783	(66)	23	(721)	806
Group income statement										
Cost of sales – underlying	(2)	–	–	–	(2)	–	–	–	(2)	–
Cost of sales – exceptional	(564)	683	(41)	46	(605)	729	–	–	(605)	729
Administrative expenses – underlying	(48)	54	–	–	(48)	54	–	–	(48)	54
Administrative expenses – exceptional	–	–	–	–	–	–	–	–	–	–
Total impairment (loss)/reversal from continuing operations	(614)	737	(41)	46	(655)	783	–	–	(655)	783
Discontinued operations – underlying	–	–	–	–	–	–	–	–	–	–
Discontinued operations – exceptional	–	–	–	–	–	–	(66)	23	(66)	23
Total impairment (loss)/reversal	(614)	737	(41)	46	(655)	783	(66)	23	(721)	806

(a) Of the £85m other non-current assets net impairment reversal for the Group (2020: £302m loss), a net reversal of £81m (2020: £302m loss) has been classified within exceptional items, of which a net reversal of £119m (2020: £251m loss) related to the UK & ROI, a net reversal of £5m (2020: £28m reversal) related to Central Europe and a net loss of £43m (2020: £79m loss) related to discontinued operations.

	UK & ROI		Central Europe		Total continuing operations		Discontinued operations		Total ^{(a)(b)}	
	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m	Impairment loss £m	Impairment reversal £m
53 weeks ended 29 February 2020										
Group balance sheet										
Other intangible assets	(27)	36	–	–	(27)	36	–	2	(27)	38
Property, plant and equipment	(428)	272	(54)	67	(482)	339	(240)	156	(722)	495
Right of use assets	(242)	142	(2)	18	(244)	160	(23)	22	(267)	182
Investment property	(5)	–	–	2	(5)	2	–	2	(5)	4
Other non-current assets	(702)	450	(56)	87	(758)	537	(263)	182	(1,021)	719
Investments in joint ventures and associates	(47)	–	–	–	(47)	–	–	–	(47)	–
Total impairment (loss)/reversal	(749)	450	(56)	87	(805)	537	(263)	182	(1,068)	719
Group income statement										
Cost of sales – underlying	–	–	(5)	8	(5)	8	–	–	(5)	8
Cost of sales – exceptional	(658)	407	(51)	75	(709)	482	–	–	(709)	482
Administrative expenses – underlying	(44)	43	–	–	(44)	43	–	–	(44)	43
Administrative expenses – exceptional	(47)	–	–	4	(47)	4	–	–	(47)	4
Total impairment (loss)/reversal from continuing operations	(749)	450	(56)	87	(805)	537	–	–	(805)	537
Discontinued operations – underlying	–	–	–	–	–	–	(2)	–	(2)	–
Discontinued operations – exceptional	–	–	–	–	–	–	(261)	182	(261)	182
Total impairment (loss)/reversal	(749)	450	(56)	87	(805)	537	(263)	182	(1,068)	719

(a) Refer to previous table for footnote.

(b) Comparatives have been re-presented to present Thailand, Malaysia and Poland as discontinued operations. Refer to Note 7 for further details.

The net impairment reversal in UK & ROI includes an impairment loss of £32m in the UK in respect of the Group obtaining control of The Tesco Property (No. 2) Limited Partnership (2020: £287m impairment loss in the UK & ROI in respect of the Group obtaining control of The Tesco Atrato Limited Partnership). Refer to Note 33 for further details.

Immediately preceding their recognition as held for sale in H1 2020/21, an impairment review was carried out on the Group's Thailand, Malaysia and Poland operations. There were no significant changes in relation to the Malaysia and Thailand operations between the 2020 year end and reclassification as held for sale, and expected proceeds exceeded the carrying value, so no impairment was required. The Poland disposal involves both a corporate sale and the separate sale of the remaining property assets. Expected proceeds for the corporate sale exceeded the carrying value so no impairment was required. The recoverable amount of the remaining property assets is based on fair value less costs of disposal on an asset by asset basis, such that some assets are impaired while others have an impairment reversal. This results in a net impairment charge of £43m, recognised in discontinued operations – exceptional. See Note 7 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.

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 or disposal groups classified as held for sale.

At 27 February 2021	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total £m
Net carrying value				
Other intangible assets	959	32	131	1,122
Property, plant and equipment	15,379	1,767	65	17,211
Right of use assets	5,571	368	12	5,951
Investment property	18	1	–	19
Other non-current assets	21,927	2,168	208	24,303
Goodwill ^(a)	3,791	–	480	4,271
Investments in joint ventures and associates ^(b)	84	1	93	178
Net carrying value of non-current assets	25,802	2,169	781	28,752
Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:				
Value in use	2,555	152	–	2,707
Fair value less costs of disposal ^(c)	1,400	122	–	1,522
	3,955	274	–	4,229

(a) Goodwill of £4.271m (2020: £4.840m) consists of UK £3.789m (2020: £3.793m), ROI £2m (2020: £3m) and Tesco Bank £480m (2020: £775m) included within continuing operations and £nil (2020: Thailand £193m and Malaysia £76m) in discontinued operations.

(b) The carrying value of the Group's investments include: Trent Hypermarket Private Limited £53m (2020: £59m) and Tesco Underwriting Limited £93m (2020: £87m).

(c) Due to the individual nature of each property, fair values are classified as Level 3 within the fair value hierarchy.

At 29 February 2020 (restated ^(d))	UK & ROI £m	Central Europe £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Net carrying value						
Other intangible assets	1,055	25	139	1,219	19	1,238
Property, plant and equipment	14,612	1,824	61	16,497	2,737	19,234
Right of use assets	5,719	392	14	6,125	749	6,874
Investment property	23	2	–	25	1	26
Other non-current assets	21,409	2,243	214	23,866	3,506	27,372
Goodwill ^(a)	3,796	–	775	4,571	269	4,840
Investments in joint ventures and associates ^(b)	70	1	87	158	149	307
Net carrying value of non-current assets	25,275	2,244	1,076	28,595	3,924	32,519
Recoverable amount of impaired Other non-current assets for which an impairment loss has been recognised or reversed, supported by:						
Value in use	3,448	178	–	3,626	239	3,865
Fair value less costs of disposal ^(c)	2,105	126	–	2,231	352	2,583
	5,553	304	–	5,857	591	6,448

(a)-(c) Refer to previous table for footnotes.

(d) Refer to Note 1 for further details regarding the prior year restatement.

Notes to the Group financial statements continued

Note 15 Impairment of non-current assets continued

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. Refer to Note 1 for further details. 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 from the current financial year due to the evolution of the online channel that these centres support, rather than being allocated to the stores in their vicinity.

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.

In the current year, 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 Brexit, COVID-19, a macroeconomic downturn 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. In the current year the risks associated with Brexit and COVID-19 are reflected in the probability-weighted cash flow scenarios, and hence the discount rate is no longer adjusted for these risks.

Tesco Bank goodwill

Tesco Bank value in use is calculated by discounting equity cash flows, defined as the excess above the regulatory requirement. Tesco Bank applies an expected cash flow approach, using the internal three-year forecasts, approved by the Board, as well as stressed scenarios in line with those used to measure expected credit losses (refer to Note 25) to form a probability-weighted cash flow. 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, the impact on cash generated from operations from year one sales growth (incorporating sales and costs, as well as volumes and prices) 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		ROI		Tesco Bank	
	2021 %	2020 %	2021 %	2020 %	2021 %	2020 %
Pre-tax discount rates	5.9	8.0	5.4	8.1	12.8	9.7
Post-tax discount rates	4.8	6.6	4.7	7.1	10.4	7.2
Long-term growth rates	1.9	2.0	1.9	1.9	1.6	1.8

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		Central Europe	
	2021 %	2020 %	2021 %	2020 %
Pre-tax discount rates	5.4 – 5.9	8.0 – 8.1	5.5 – 8.3	7.0 – 9.3
Post-tax discount rates	4.7 – 4.8	6.6 – 7.1	4.4 – 7.6	5.5 – 8.3
Long-term growth rates	1.9	1.9 – 2.0	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, which has been impaired in the current year, neither a reasonably possible one percentage point increase in discount rates, a one percentage point decrease in year one sales growth nor a one percentage point decrease in long-term growth rates would indicate impairment (or further impairment) in any group of cash-generating units to which goodwill has been allocated.

The table below summarises the reasonably possible changes in key assumptions to which Tesco Bank goodwill is most sensitive and their impact on impairment in the current year:

Key assumption	Reasonably possible change	Impact on impairment	2021 £m
Cost of equity	Increase of 1.0%pt	Increase	(203)
Annual equity cash flows	Decrease of 5.0%	Increase	(107)
Long-term growth rates	Decrease of 0.5%pt	Increase	(27)

- (b) 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:

Key assumption	Reasonably possible change	Impact on impairment	2021 £m	2020 £m
Post-tax discount rates	Increase of 1.0%pt for each geographic region	Increase	(438)	(482)
	Decrease of 1.0%pt for each geographic region	Decrease	397	485
Year one sales growth	Increase of 1.0%pt for each geographic region	Decrease	55	61
	Decrease of 1.0%pt for each geographic region	Increase	(56)	(61)
Long-term growth rates	Increase of 1.0%pt for each geographic region	Decrease	304	445
	Decrease of 1.0%pt for each geographic region	Increase	(308)	(410)
Property fair values	Increase of 5.0% for each geographic region	Decrease	81	105
	Decrease of 5.0% for each geographic region	Increase	(80)	(105)

The probability applied to each cash flow scenario in the current year 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 60%. The impairment is not highly sensitive to the upside and climate change scenarios, assigned 5% and 4% weighted average probabilities respectively. 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.

Scenario	Weighted average probability	Reasonably possible change	Impact on impairment	2021 £m
Brexit	11%	Increase of 5.0%pt for each geographic region	Increase	(59)
		Decrease of 5.0%pt for each geographic region	Decrease	60
COVID-19	10%	Increase of 5.0%pt for each geographic region	Increase	(28)
		Decrease of 5.0%pt for each geographic region	Decrease	29
Macroeconomic downturn	10%	Increase of 5.0%pt for each geographic region	Increase	(80)
		Decrease of 5.0%pt for each geographic region	Decrease	81

Notes to the Group financial statements continued

Note 16 Investments in debt and equity instruments

Financial assets at fair value through other comprehensive income

	2021 £m	2020 £m
Investments in debt instruments ^(a)	–	1,058
Investments in equity instruments	14	10
Total financial assets at fair value through other comprehensive income	14	1,068
Of which:		
Current	3	202
Non-current	11	866
	14	1,068

Investment securities at amortised cost

	2021 £m	2020 £m
Investment securities at amortised cost ^(a)	928	–
Expected credit loss allowance ^(b)	(1)	–
	927	–
Of which:		
Current	175	–
Non-current	752	–
	927	–

(a) Refer to Note 1 for more information regarding the change in business model.

(b) Refer to Note 25 for allowance for expected credit losses disclosures.

On 1 March 2020, following a change in business model, the Group's £1.058m portfolio of debt investments measured at fair value through other comprehensive income was reclassified to investment securities at amortised cost (see Note 1) and the £3m cumulative loss relating to these assets, previously recognised in other comprehensive income, was adjusted against the carrying value of the assets. See Note 24 for the fair value of these assets as at 27 February 2021. A fair value gain of £8m would have been recognised in other comprehensive income in the current year had the financial assets not been reclassified.

Note 17 Inventories

	2021 £m	2020 £m
Goods held for resale	2,066	2,429
Development properties	3	4
	2,069	2,433

Goods held for resale are net of commercial income. Refer to Note 22.

Cost of inventories from continuing operations recognised as an expense for the 52 weeks ended 27 February 2021 was £42,482m (53 weeks ended 29 February 2020: £42,782m). Inventory losses and provisions recognised as an expense for the 52 weeks ended 27 February 2021 were £1,052m (53 weeks ended 29 February 2020: £1,121m).

Note 18 Trade and other receivables

	2021 £m	2020 £m
Trade receivables	424	495
Prepayments	207	192
Accrued income ^(a)	210	262
Other receivables	430	439
Amounts owed by joint ventures and associates (Note 31) ^(b)	162	174
Total trade and other receivables	1,433	1,562
Of which:		
Current	1,263	1,396
Non-current	170	166
	1,433	1,562

(a) Accrued income includes contract assets of £52m (2020: £60m) primarily related to insurance renewal income. The expected credit loss was immaterial as at 27 February 2021 (2020: immaterial).

(b) Expected credit losses on amounts owed by joint ventures and associates are not material.

Trade receivables include commercial income. Refer to Note 22. 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:

	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 27 February 2021					
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, net of 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)

	Not past due £m	Up to six months past due £m	Six to 12 months past due £m	Greater than 12 months past due £m	Total £m
At 29 February 2020					
Trade receivables	438	70	6	15	529
Other receivables	431	7	4	17	459
Trade and other receivables	869	77	10	32	988
Allowance for expected credit losses:					
At the beginning of the year	(5)	(11)	(14)	(29)	(59)
Foreign currency translation	-	1	-	-	1
Increase in allowance, net of recoveries, charged to the Group income statement	(2)	-	4	(3)	(1)
Amounts written off	-	1	2	2	5
At the end of the year	(7)	(9)	(8)	(30)	(54)

Note 19 Loans and advances to customers and banks

Tesco Bank has loans and advances to customers and banks, as follows:

	2021 £m	2020 £m
Loans and advances to customers	6,402	8,451
Loans and advances to banks	-	-
	6,402	8,451
Of which:		
Current	3,093	4,280
Non-current	3,309	4,171
	6,402	8,451

The maturity of these loans and advances is as follows:

	2021 £m	2020 £m
Repayable on demand or at short notice	3	4
Within three months	3,354	4,543
Greater than three months but less than one year	94	86
Greater than one year but less than five years	2,922	3,322
After five years	654	984
	7,027	8,939
Expected credit loss allowance for loans and advances to customers and banks	(625)	(488)
	6,402	8,451

At 27 February 2021, £3.0bn (2020: £3.5bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £nil (2020: £0.8bn).

At 27 February 2021, Delamare Cards MTN Issuer PLC had £1.8bn (2020: £2.0bn) notes in issue in relation to securitisation transactions, of which £nil (2020: £0.6bn) was externally issued. The Group owned £1.5bn (2020: £1.4bn) class A credit card-backed notes and £0.3bn (2020: £0.2bn) class D credit card-backed notes.

All of the £1.5bn (2020: £1.2bn) class A retained credit card-backed notes are held within a single collateral pool.

Fair value hedge adjustments

Fair value hedge adjustments amounting to £6.7m (2020: £9.7m) 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 25 for allowance for expected credit losses disclosures.

Notes to the Group financial statements continued

Note 20 Cash and cash equivalents and short-term investments

Cash and cash equivalents

	2021 £m	2020* £m
Cash at bank and in hand	2,495	3,980
Short-term deposits	15	157
Cash and cash equivalents in the Group balance sheet	2,510	4,137
Bank overdrafts	(532)	(1,106)
Cash and cash equivalents in the Group cash flow statement	1,978	3,031

Short-term investments

	2021 £m	2020 £m
Money market funds	1,011	1,076

* Refer to Note 1 for further details regarding the prior year restatement in relation to notional cash pooling arrangements.

Cash and cash equivalents includes £101m (2020: £35m) of restricted amounts mainly relating to the Group's pension schemes and employee benefit trusts.

Note 21 Trade and other payables

	2021 £m	2020 £m
Trade payables	5,131	5,579
Other taxation and social security	369	477
Other payables	1,653	1,793
Amounts payable to joint ventures and associates (Note 31)	23	26
Accruals	956	841
Contract liabilities	376	376
Total trade and other payables	8,508	9,092
Of which:		
Current	8,399	8,922
Non-current	109	170
	8,508	9,092

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 £572m (2020: £393m) 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.

	2021 £m	2020 £m
Current assets		
Inventories	(24)	(55)
Trade and other receivables		
Trade/other receivables	90	138
Accrued income	125	157
Current liabilities		
Trade and other payables		
Trade payables	170	292
Accruals	(2)	(3)

Note 23 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	2021 £m	2020 ^(k) £m
Bank loans and overdrafts ^(a)	–	–	559	1,142
2.125% MTN	€296m	Nov 2020	–	255
1m USD LIBOR + 0.70% Tesco Bank Bond	\$350m	Nov 2020	–	273
5% Tesco Bank Retail Bond	£200m	Nov 2020	–	202
6.125% MTN	£417m	Feb 2022	417	416
LIBOR + 0.53% Tesco Bank Bond	£300m	Oct 2022	–	299
5% MTN ^(b)	£71m	Mar 2023	79	103
1.375% MTN	€750m	Oct 2023	662	660
2.5% MTN ^(b)	€473m	Jul 2024	415	653
2.5% MTN	£400m	May 2025	417	418
3.5% Tesco Bank Senior MREL Notes ^(h)	£250m	Jul 2025	251	250
3.322% LPI MTN ⁽ⁱ⁾	£354m	Nov 2025	364	358
0.875% MTN	€750m	May 2026	649	640
5.5457% Secured Bond ^{(c)(d)}	£289m	Feb 2029	275	303
6.067% Secured Bond ^(c)	£200m	Feb 2029	193	192
LIBOR + 1.2% Secured Bond ^(c)	£50m	Feb 2029	48	36
0.375% MTN	€750m	Jul 2029	625	–
6% MTN ^(b)	£38m	Dec 2029	45	58
2.75% MTN	£450m	Apr 2030	441	–
LIBOR + 1.17% Secured Bond ^{(f)(i)}	£187m	Jan 2032	184	–
LIBOR + 1.17% Secured Bond ^(f)	£108m	Jan 2032	100	–
5.5% MTN ^(b)	£67m	Jan 2033	80	133
1.982% RPI MTN ^(j)	£294m	Mar 2036	302	297
6.15% USD Bond ^(b)	\$355m	Nov 2037	333	555
6.0517% Secured Bond ^{(e)(g)}	£458m	Oct 2039	592	616
4.875% MTN ^(b)	£14m	Mar 2042	14	20
5.125% MTN ^(b)	€235m	Apr 2047	209	316
5.2% MTN ^(b)	£14m	Mar 2057	14	29
			7,268	8,224
Of which:				
Current			1,080	2,219
Non-current			6,188	6,005
			7,268	8,224

(a) Bank loans and overdrafts includes £532m (2020: £1,106m) of bank overdrafts £525m (2020: £979m) is held under a notional pooling arrangement which does not meet the criteria to be presented net of cash on the balance sheet. Refer to Note 20.

(b) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 5% MTN Mar 2023 £22m, 2.5% MTN Jul 2024 €277m, 6% MTN Dec 2029 £10m, 5.5% MTN Jan 2033 £42m, 6.15% USD Bond Nov 2037 \$170m, 4.875% MTN Mar 2042 £6m, 5.125% MTN Apr 2047 €121m and 5.2% MTN Mar 2057 £16m.

(c) The bonds are secured by a charge over the property, plant and equipment held within The Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £817m (29 February 2020: £794m).

(d) This is an amortising bond which matures in February 2029. £26m (29 February 2020: £22m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.

(e) This bond is secured by a charge over the property, plant and equipment held within The Tesco Atrato Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £837m (29 February 2020 £612m).

(f) These bonds are secured by a charge over the property, plant and equipment held within The Tesco Property (No. 2) Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £445m.

(g) This is an amortising bond which matures in October 2039. £14m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in October 2039.

(h) These notes are Tesco Bank MREL compliant senior debt and were issued on 25 July 2019. The scheduled redemption date is July 2024.

(i) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

(j) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

(k) Refer to Note 1 for further details regarding the prior year restatement.

(l) This is an amortising bond which matures in January 2032 £9m is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in January 2032.

Notes to the Group financial statements continued

Note 24 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 25.

At 27 February 2021	Notes	At amortised cost £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
Financial assets					
Cash and cash equivalents	20	2,496	14	-	2,510
Short-term investments	20	1,011	-	-	1,011
Trade receivables	18	424	-	-	424
Other receivables	18	430	-	-	430
Joint ventures and associates loan receivables	31	122	-	-	122
Loans and advances to customers – Tesco Bank	19	6,402	-	-	6,402
Investment securities at amortised cost	16	927	-	-	927
Financial assets at fair value through other comprehensive income	16	-	-	14	14
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)
Borrowings	23	(7,268)	-	-	(7,268)
Customer deposits – Tesco Bank	26	(5,738)	-	-	(5,738)
Deposits from banks – Tesco Bank	26	(600)	-	-	(600)
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)
		(28,792)	(1,007)	-	(29,799)
At 29 February 2020 (restated*)					
	Notes	At amortised cost £m	At fair value through profit or loss £m	At fair value through other comprehensive income £m	Total £m
Financial assets					
Cash and cash equivalents	20	4,111	26	-	4,137
Short-term investments	20	1,076	-	-	1,076
Trade receivables	18	495	-	-	495
Other receivables	18	439	-	-	439
Joint ventures and associates loan receivables	31	127	-	-	127
Loans and advances to customers – Tesco Bank	19	8,451	-	-	8,451
Investment securities at amortised cost	16	-	-	-	-
Financial assets at fair value through other comprehensive income	16	-	-	1,068	1,068
Derivative financial instruments:					
Interest rate swaps		-	47	-	47
Cross-currency swaps		-	497	-	497
Index-linked swaps		-	541	-	541
Forward contracts		-	61	-	61
		14,699	1,172	1,068	16,939
Financial liabilities					
Trade payables	21	(5,579)	-	-	(5,579)
Other payables	21	(1,793)	-	-	(1,793)
Borrowings	23	(8,224)	-	-	(8,224)
Customer deposits – Tesco Bank	26	(7,707)	-	-	(7,707)
Deposits from banks – Tesco Bank	26	(500)	-	-	(500)
Lease liabilities	12	(9,566)	-	-	(9,566)
Derivative financial instruments:					
Interest rate swaps		-	(70)	-	(70)
Cross-currency swaps		-	-	-	-
Index-linked swaps		-	(816)	-	(816)
Forward contracts		-	(62)	-	(62)
		(33,369)	(948)	-	(34,317)

* Refer to Note 1 for further details regarding the prior year restatement.

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 fair value of financial assets and liabilities measured at amortised cost is shown below. The table excludes cash and cash equivalents, short-term investments, trade receivables/payables, and other receivables/payables where the carrying values approximate fair value.

	2021		2020 (restated ^(a))	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Financial assets measured at amortised cost				
Loans and advances to customers – Tesco Bank (Level 3)	6,402	6,618	8,451	8,672
Investment securities at amortised cost (Level 1 & 2)	927	932	–	–
Joint ventures and associates loan receivables ^(b) (Level 2)	122	153	127	193
Financial liabilities measured at amortised cost				
Borrowings				
Amortised cost (Level 1 & 2)	(4,711)	(5,761)	(5,793)	(6,371)
Bonds in fair value hedge relationships (Level 1)	(2,557)	(2,658)	(2,431)	(2,432)
Customer deposits – Tesco Bank (Level 3)	(5,738)	(5,744)	(7,707)	(7,711)
Deposits from banks – Tesco Bank (Level 2)	(600)	(600)	(500)	(500)

(a) Refer to Note 1 for further details regarding the prior year restatement.

(b) Joint ventures and associates loan receivables carrying amounts of £122m (2020: £127m) are presented in the Group balance sheet net of deferred profits of £38m (2020: £54m) historically arising from the sale of property assets to joint ventures.

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).

At 27 February 2021	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets 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	–	42	–	42
Cross-currency swaps	–	298	–	298
Index-linked swaps	–	1,080	–	1,080
Forward contracts	–	42	–	42
Total assets	–	1,479	11	1,490
Liabilities				
Derivative financial instruments:				
Interest rate swaps	–	(162)	–	(162)
Cross-currency swaps	–	(38)	–	(38)
Index-linked swaps	–	(729)	–	(729)
Forward contracts	–	(78)	–	(78)
Total liabilities	–	(1,007)	–	(1,007)
Net assets/(liabilities)	–	472	11	483

Notes to the Group financial statements continued

Note 24 Financial instruments continued

At 29 February 2020	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Financial assets at fair value through other comprehensive income	1,058	–	10	1,068
Cash and cash equivalents at fair value through profit or loss	–	26	–	26
Derivative financial instruments:				
Interest rate swaps	–	47	–	47
Cross-currency swaps	–	497	–	497
Index-linked swaps	–	541	–	541
Forward contracts	–	61	–	61
Total assets	1,058	1,172	10	2,240
Liabilities				
Derivative financial instruments:				
Interest rate swaps	–	(70)	–	(70)
Cross-currency swaps	–	–	–	–
Index-linked swaps	–	(816)	–	(816)
Forward contracts	–	(62)	–	(62)
Total liabilities	–	(948)	–	(948)
Net assets/(liabilities)	1,058	224	10	1,292

The following table presents the changes in Level 3 instruments:

	2021 £m	2020 £m
At the beginning of the year	10	(1)
Gains/(losses) recognised in the Group statement of comprehensive income/(loss)	3	1
Disposal of financial instrument at fair value through profit or loss	(4)	6
Addition of financial asset at fair value through other comprehensive income	2	4
At the end of the year	11	10

During the financial year, there were no transfers (2020: no transfers) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2020: no transfers).

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 27 February 2021	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of financial assets/(liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		
				Financial instruments £m	Collateral £m	Net amount £m
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	(1,007)	–	(1,007)	234	42	(731)
Trade payables	(5,227)	96	(5,131)	–	–	(5,131)
Total liabilities	(6,234)	96	(6,138)	234	42	(5,862)

At 29 February 2020 (restated*)	Gross amounts of recognised financial assets/(liabilities) £m	Gross amounts of financial assets/(liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet		
				Financial instruments £m	Collateral £m	Net amount £m
Financial assets						
Derivative financial instruments	1,146	–	1,146	(168)	–	978
Trade receivables	735	(240)	495	–	–	495
Total assets	1,881	(240)	1,641	(168)	–	1,473
Financial liabilities						
Derivative financial instruments	(948)	–	(948)	168	45	(735)
Trade payables	(5,819)	240	(5,579)	–	–	(5,579)
Total liabilities	(6,767)	240	(6,527)	168	45	(6,314)

* Refer to Note 1 for further details regarding the prior year restatement.

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 25 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.

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods, where those purchases are denominated in a currency other than the functional currency of the purchasing company;
- net investment exposure that arises from changes in the value of net investments denominated in currencies other than Pound Sterling;
- loans to and from subsidiaries in currencies other than in the entity's functional currency; and
- debt issued in a currency other than Pound Sterling.

The foreign exchange risk for each of the above is managed via:

Transactional exposure

- 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

- 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.

Intercompany loan hedging

- the use of 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.

Foreign currency debt

- 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

The Group is exposed to interest rate risk principally via:

- 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 interest rate risk for each of the above is managed via:

- 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 27 February 2021, the percentage of interest-bearing debt at fixed rates was 67% (2020: 68%). The weighted average rate of interest paid on senior unsecured debt this financial year, excluding joint ventures and associates, was 3.07% (2020: 3.30%).

The Group has RPI-linked debt where the principal is indexed to increases in the RPI. RPI 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 debt is treated as fixed-rate debt. RPI-linked debt and LPI-linked debt are hedged for the effects of inflation until maturity.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

During 2021 and 2020, Group net debt was managed using derivative instruments to hedge interest rate risk.

	2021			2020 (restated*)		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	2,510	2,510	–	4,137	4,137
Loans and advances to customers – Tesco Bank	6,402	–	6,402	4,370	4,081	8,451
Investment securities at amortised cost	502	425	927	–	–	–
Short-term investments	–	1,011	1,011	–	1,076	1,076
Financial assets at fair value through other comprehensive income	14	–	14	659	409	1,068
Joint ventures and associates loan receivables	101	21	122	106	21	127
Lease liabilities	(8,402)	–	(8,402)	(9,566)	–	(9,566)
Bank and other borrowings	(6,102)	(1,166)	(7,268)	(6,260)	(1,964)	(8,224)
Customer deposits – Tesco Bank	(5,738)	–	(5,738)	(3,164)	(4,543)	(7,707)
Deposits from banks – Tesco Bank	–	(600)	(600)	(500)	–	(500)
Derivative effect:						
Interest rate swaps	(1,206)	1,206	–	(1,092)	1,092	–
Cross-currency swaps	(905)	905	–	410	(410)	–
Index-linked swaps	(299)	299	–	(294)	294	–
Total	(15,633)	4,611	(11,022)	(15,331)	4,193	(11,138)

* Refer to Note 1 for further details regarding the prior year restatement.

Commodity price risk

The Group is exposed to commodity price risk via:

- changes in commodity prices largely relating to diesel for own use.

The commodity price risk is managed via:

- 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.

Inflation risk

The Group is exposed to inflation risk in relation to its financial assets and liabilities via:

- index-linked debt, where the principal is indexed to increase/decrease in line with the RPI or LPI.
- lease liabilities where rent payments are indexed to increases/decreases in inflation indexes such as RPI.

The inflation risk is managed via:

- index-linked debt
 - index-linked swaps, which are used to hedge RPI-linked and LPI-linked debt for the effect of inflation until maturity.
- index-linked lease liabilities
 - index-linked swaps, which are used to hedge inflation-linked rent payments for the effect of inflation until maturity of the lease.

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 effect 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 contracts 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 is 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:

Gains/(losses) on net investment hedges	Nominal amount of the hedged item £m	Nominal amount of the hedging instrument £m	Movement on continuing hedges £m	Movement on discontinued hedges £m
At 23 February 2019	1,281	1,281	(42)	(976)
Change in value for calculating ineffectiveness	9	9	48	(89)
At 29 February 2020	1,290	1,290	6	(1,065)
Change in value for calculating ineffectiveness	10	10	(10)	-
Recycled to Group income statement			-	57
At 27 February 2021	1,300	1,300	(4)	(1,008)

Net investment hedge ineffectiveness was £nil (2020: £nil) during the year.

During the current financial year, the Group disposed of its Asia business resulting in a recycle to the income statement from the translation reserve of £57m (2020: £nil) relating to net investment hedging.

During the current financial year, currency movements decreased the net value, after the effects of hedging, of the Group's overseas assets by £68m (2020: 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

In the prior year, the Group early adopted the 'Interest Rate Benchmark Reform Phase 1' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16. This allowed the Group to continue hedge accounting for its benchmark interest rate exposures during the period of uncertainty from interest rate benchmark reforms.

In the current year, the Group has early adopted the 'Interest Rate Benchmark Reform Phase 2' amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4, and IFRS 16 and has applied this to hedging relationships where no uncertainty remains as IBOR based benchmarks have been replaced by risk-free benchmarks for a number of hedging relationships.

Both Phase 1 and Phase 2 are relevant to the Group because it applies hedge accounting to its interest rate benchmark exposures and modifications in response to the reform have been made to some but not all of the Group's derivative and non-derivative financial instruments.

Where new hedging arrangements have been entered into during the year these have been set up utilising risk-free rates.

During the year, the Group transitioned some of its exposures from IBOR based to risk-free rate indices. These included interest rate swaps and floating intercompany lending which were transitioned to Sterling Overnight Index Average (SONIA) based indices.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

None of the Group's current IBOR linked contracts include adequate and robust fall-back provisions for cessation of the referenced benchmark interest rate.

The Group continues to monitor the market and the output from various industry groups managing the transition to new benchmark interest rates, and will look to implement fall-back language for different instruments and IBORs when appropriate.

For the Group's derivatives, the International Swaps and Derivatives Association (ISDA) fall-back clauses were made available at the end of 2019 and the Group has entered discussions with its banks and other counterparties with the aim to implement this language into its ISDAs and other relevant agreements.

The Group's transition to alternative benchmark rates is managed by cross-functional teams, led by the Treasury teams in the Retail business and Tesco Bank, with the aim to complete this transition during the financial year ending 26 February 2022. There are a number of potential risks arising from the transition, however the Group does not envisage that these will materialise, as significant progress on the transition has been made with its banks and other counterparties.

The following table sets out the hedging relationships as at 27 February 2021, which include IBOR benchmarks and are yet to be transitioned to risk-free rate benchmarks.

Hedging instrument	Notional £m	Carrying value		Interest rate benchmark	Hedged item	Hedge relationship
		Asset £m	Liability £m			
Interest rate swaps	650	14	-	EURIBOR	MTN	Fair value hedge
Interest rate swaps	465	22	-	LIBOR	MTN	Fair value hedge
Interest rate swaps	346	-	(108)	LIBOR	Borrowing	Cash flow hedge
Cross-currency interest rate swaps	256	137	(3)	LIBOR	MTN	Not in formal hedge relationship
Investments in subordinated loans	21	21	-	LIBOR	-	Not in formal hedge relationship

Derivatives and hedging exposures

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	2021				2020			
	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	42	2,018	(54)	2,774	47	1,710	(51)	2,404
Cross-currency swaps	-	-	(35)	650	232	409	-	-
Cash flow hedges								
Interest rate swaps	-	-	(108)	346	-	-	(19)	50
Cross-currency swaps	-	-	-	-	265	1,477	-	-
Index-linked swaps	203	660	-	-	186	649	-	-
Forward contracts	37	1,118	(59)	1,468	38	1,133	(29)	954
Derivatives not in a formal hedge relationship								
Interest rate swaps	-	13	-	101	-	35	-	13
Cross-currency swaps	298	782	(3)	86	-	-	-	-
Index-linked swaps	877	3,209	(729)	4,982	355	3,025	(816)	5,130
Forward contracts	5	479	(19)	1,043	23	1,139	(33)	1,416
Total	1,462	8,279	(1,007)	11,450	1,146	9,577	(948)	9,967

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 non-dynamic hedging strategies.

Maturity profile	2021			2020		
	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)	1,384	2,156	602	953	1,910	607
– Average net interest rate (pay)/receive	0.32%	1.29%	0.59%	1.08%	0.84%	1.39%
Interest rate swaps – EUR						
– Notional amount (£m)	–	650	–	–	645	–
– Average net interest rate (pay)/receive	–	0.66%	–	–	0.63%	–
Interest rate/Foreign currency risk						
Cross-currency swaps (GBP:EUR)						
– Notional amount (£m)	–	–	650	–	–	–
– Average exchange rate	–	–	1.13	–	–	–
– Average net interest rate (pay)/receive	–	–	(0.77)%	–	–	–
Cross-currency swaps (GBP:USD)						
– Notional amount (£m)	–	–	–	–	–	409
– Average exchange rate	–	–	–	–	–	1.50
– Average net interest rate (pay)/receive	–	–	–	–	–	3.15%
Cash flow hedges						
Interest rate risk						
Index-linked swaps						
– Notional amount (£m)	–	360	300	–	–	649
– Average net interest rate (pay)/receive	–	(4.23)%	(4.21)%	–	–	(4.22)%
Interest rate swaps						
– Notional amount (£m)	–	–	346	–	–	50
– Average net interest rate (pay)/receive	–	–	(4.97)%	–	–	(4.23)%
Interest rate/Foreign currency risk						
Cross-currency swaps (GBP:USD) floating						
– Notional amount (£m)	–	–	–	272	–	–
– Average exchange rate	–	–	–	1.29	–	–
– Average net interest rate (pay)/receive	–	–	–	0.84%	–	–
Cross-currency swaps (GBP:EUR) fixed						
– Notional amount (£m)	–	–	–	254	645	306
– Average exchange rate	–	–	–	1.19	1.25	1.47
– Average net interest rate (pay)/receive	–	–	–	(0.87)%	(1.46)%	(0.32)%

At 27 February 2021, forward foreign currency contracts, designated as cash flow hedges, equivalent to £2.5bn were outstanding (2020: £2.1bn). These forward contracts are largely in relation to purchases of Euros (notional €1.0bn) (2020: notional €0.8bn) and US Dollars (notional \$1.3bn) (2020: notional \$0.9bn) with varying maturities up to August 2022.

For the above currencies the rates ranged from Euro/GBP 1.08 to 1.156 and USD/GBP from 1.222 to 1.416.

Forward commodity contracts hedging diesel purchases for own use as at 27 February 2021 had a GBP notional of £54m (2020: £69m) at a rate of £277 to £457 per tonne.

The notional and fair values of these contracts is shown on page 162.

The following table sets out the details of the hedged exposures covered by the Group's fair value hedges.

At 27 February 2021	Carrying amount		Accumulated amounts of fair value adjustments on hedged item		Changes in fair value for calculating hedge ineffectiveness £m	Residual hedge adjustments ^(a) £m
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Fair value hedges						
Interest rate risk						
Fixed-rate loans ^(b)	3,653	–	7	–	(3)	(3)
Fixed-rate savings ^(c)	–	(1,866)	–	–	–	–
Fixed-rate investment securities ^(b)	500	–	10	–	8	–
Fixed-rate bonds ^(d)	–	(2,926)	–	(95)	(59)	(97)

(a) Accumulated amount of fair value hedge adjustments remaining in the Group balance sheet for any hedged items that have ceased to be adjusted for hedging gains and losses.

(b) Classified as Loans and advances to customers and banks.

(c) Classified as Customer deposits and deposits from banks.

(d) Classified as Borrowings.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

At 29 February 2020	Carrying amount		Accumulated amounts of fair value adjustments on hedged item		Changes in fair value for calculating hedge ineffectiveness £m	Residual hedge adjustments ^(a) £m
	Assets £m	Liabilities £m	Assets £m	Liabilities £m		
Fair value hedges						
Interest rate risk						
Fixed-rate loans and mortgages ^(b)	4,416	-	10	-	12	6
Fixed-rate savings ^(c)	-	(3,003)	-	(1)	(1)	(1)
Fixed-rate investment securities ^(b)	650	-	2	-	7	-
Fixed-rate bonds ^(d)	-	(2,348)	-	(216)	140	(34)

(a)-(d) Refer to previous table for footnotes.

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.

At 27 February 2021	Hedging instrument	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Change in value of hedged item for calculating hedge ineffectiveness £m	Cumulative impact on hedging reserve and cost of hedging reserve*	
				Continuing hedges £m	Discontinued hedges £m
Interest rate risk					
Index-linked bonds	Index-linked swaps	1	(1)	71	-
Borrowings	Interest rate swaps	30	(30)	18	-
Foreign currency risk					
Trade payables	Forward contracts	(44)	44	(24)	-
Interest rate/Foreign currency risk					
MTNs	Cross-currency swaps	6	(6)	-	43

* Excludes deferred tax.

At 29 February 2020	Hedging instrument	Change in value of hedging instrument for calculating hedge ineffectiveness £m	Change in value of hedged item for calculating hedge ineffectiveness £m	Cumulative impact on hedging reserve and cost of hedging reserve*	
				Continuing hedges £m	Discontinued hedges £m
Interest rate risk					
Index-linked bonds	Index-linked swaps	22	(22)	69	-
Borrowings	Interest rate swaps	(2)	2	(4)	-
Foreign currency risk					
Trade payables	Forward contracts	55	(55)	8	-
Interest rate/Foreign currency risk					
MTNs	Cross-currency swaps	28	(28)	137	(44)

* Excludes deferred tax.

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:

	Line item in Group income statement that includes hedge ineffectiveness	2021	2020
		Hedge ineffectiveness recognised in profit or loss £m	Hedge ineffectiveness recognised in profit or loss £m
Cash flow hedges			
Net investment hedges			
Fair value hedges – interest rate risk			
Borrowings	Finance income/(costs)	(18)	(6)
Derivatives	Finance income/(costs)	-	-

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:

	2021			2020		
	Hedging reserve £m	Cost of hedging reserve £m	Line item	Hedging reserve £m	Cost of hedging reserve £m	Line item
Opening balance	154	(15)		118	(5)	
Interest rate risk						
<i>Index-linked swaps</i>						
- Net fair value gains/(losses)	16	-		1	-	
- Amount reclassified to Group income statement	(15)	-	Finance income/costs	(2)	-	Finance income/costs
<i>Interest rate swaps</i>						
- Net fair value gains/(losses)	30	-		(2)	-	
- Amount reclassified to Group income statement	(6)	-	Finance income/costs	(1)	-	Finance income/costs
Interest rate/Foreign currency risk						
<i>Cross-currency swaps</i>						
- Net fair value gains/(losses)	(4)	17		70	(12)	
- Amount reclassified to Group income statement	(65)	-	Finance income/costs	(4)	-	Finance income/costs
Foreign currency risk						
<i>Forward contracts</i>						
- Net fair value gains/(losses)	(3)	-		49	-	
- Amount reclassified to Inventories	(28)	-	Inventories	(64)	-	Inventories
Tax	11	(2)		(11)	2	
Closing balance	90	-		154	(15)	

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 27 February 2021. 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 from movements in interest rates or foreign exchange rates have an immaterial effect on the Group income statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of financial instruments designated as net investment hedges from 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 rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Using the above assumptions, the following table shows the quantitative effect on the Group income statement and 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:

	2021		2020	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2020: 1%)	(31)	31	39	(42)
10% appreciation of the Euro (2020: 10%)	(5)	(96)	1	(117)
10% appreciation of the US Dollar (2020: 10%)	3	97	5	78
25 basis points parallel upward shift in the forward inflation curve (2020: 25 basis points)	116	-	86	-

Notes to the Group financial statements continued

Note 25 Financial risk management continued

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) are minimal as Group policy dictates that all material income statement foreign exchange exposures are hedged.

During the current and prior financial year, 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 – Tesco Bank, loans and advances to banks – Tesco Bank, 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 – Tesco Bank, 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 – Tesco Bank, 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 31). The Group's maximum exposure to credit risk is £26.0bn (2020: £28.9bn).

The net counterparty exposure under derivative contracts is £1.2bn (2020: £1.0bn).

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 banks:

	2021 £m	2020 ^(a) £m
Cash and cash equivalents ^(b)	2,510	4,137
Short-term investments	1,011	1,076
Trade receivables	424	495
Other receivables	430	439
Joint venture and associate loan receivables	160	181
Loans and advances to customers – Tesco Bank	6,402	8,451
Investment securities at amortised cost	927	–
Financial assets at fair value through other comprehensive income	14	1,068
Derivative financial instruments:		
Interest rate swaps	42	47
Cross-currency swaps	298	497
Index-linked swaps	1,080	541
Forward contracts	42	61
Off balance sheet:		
Loan commitments	12,668	11,872
Maximum exposure to credit risk	26,008	28,865

(a) Refer to Note 1 for further details regarding the prior year restatement in relation to notional cash pooling arrangements.

(b) Cash balances with central banks of £1.6bn (2020: £2.6bn) are included within cash and cash equivalents.

Counterparty credit rating

The table below provides detail of financial assets by long-term credit rating of investment-grade rated counterparties:

Rating	2021					2020				
	AAA	AA	A	BBB	Total	AAA	AA	A	BBB	Total
Money market funds	955	–	56	–	1,011	1,076	–	–	–	1,076
Investment securities at amortised cost	560	65	302	–	927	–	–	–	–	–
Investment securities at fair value through other comprehensive income	–	5	–	–	5	525	248	274	14	1,061
Derivative financial assets										
Interest rate swaps	–	9	27	6	42	–	8	39	–	47
Cross-currency swaps	–	–	211	87	298	–	–	287	210	497
Index-linked swaps	–	–	613	467	1,080	–	–	95	446	541
Forward contracts	–	1	27	14	42	–	9	35	17	61

The low credit risk exemption has been applied to cash and cash equivalents, short-term investments, financial assets at fair value through other comprehensive income (FVOCI), financial assets at amortised cost and investment securities 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, debt instruments 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 £160m (2020: £181m) are presented net of loss allowances of £nil (2020: £2m) and deferred profits of £38m (2020: £54m) 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.

(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.

Rating agency	2021			2020		
	Short-term rating	Long-term rating	Outlook	Short-term rating	Long-term rating	Outlook
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 £4.0bn was in issue at 27 February 2021 (2020: £4.0bn), plus £0.3bn equivalent of USD-denominated notes issued under 144A documentation (2020: £0.4bn).

Liquidity risk is continuously monitored by short-term and long-term cash flow forecasts.

During the year, the Group accessed the capital markets twice, issuing £450m (maturing in 2030) and €750m (maturing in 2029). The €750m issuance was the Group's first sustainability-linked bond. The bond includes a coupon step-up of 25 bps for the final three coupon payments, if science-based carbon reduction targets of 60% are not achieved compared to a 2015/16 baseline.

Borrowing facilities

The Group has the following undrawn committed facilities available at 27 February 2021, in respect of which all conditions precedent had been met as at that date:

	2021 £m	2020 £m
Expiring in less than one year	38	38
Expiring between one and two years	–	3,000
Expiring in more than two years	2,500	–
	2,538	3,038

Notes to the Group financial statements continued

Note 25 Financial risk management continued

During the year, a new three-year multicurrency £2.5bn revolving facility was established, replacing the existing £3bn committed facilities. The new facility is linked to three ESG targets and includes the use of risk-free rates rather than LIBOR.

The undrawn committed facilities include £nil (2020: £0.4bn) of bilateral facilities and a £2.5bn (2020: £2.6bn) syndicated revolving credit facility. All facilities incur commitment fees at market rates and would provide funding at floating rates. There were no withdrawals from the facilities during the year.

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 169.

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 27 February 2021	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,002)	(53)	(779)	(724)	(888)	(3,844)
Interest payments on borrowings	(199)	(172)	(170)	(151)	(134)	(905)
Customer deposits – Tesco Bank	(4,924)	(488)	(253)	(114)	(24)	–
Deposits from banks – Tesco Bank	(500)	–	(100)	–	–	–
Lease liabilities	(969)	(939)	(912)	(867)	(841)	(7,999)
Trade payables	(5,131)	–	–	–	–	–
Other payables	(1,543)	(23)	(3)	(1)	–	(83)
Derivative financial liabilities						
Net settled derivative contracts – receipts	69	51	32	26	4	19
Net settled derivative contracts – payments	(88)	(533)	(217)	(186)	(23)	(78)
Gross settled derivative contracts – receipts	2	2	2	1	1	2
Gross settled derivative contracts – payments	(7)	(8)	(10)	(11)	(12)	(61)
Total on balance sheet	(14,292)	(2,163)	(2,410)	(2,027)	(1,917)	(12,949)
Off balance sheet						
Contractual lending commitments	(12,668)	–	–	–	–	–
Total	(26,960)	(2,163)	(2,410)	(2,027)	(1,917)	(12,949)

At 29 February 2020 (restated*)	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	(2,120)	(467)	(53)	(795)	(956)	(3,776)
Interest payments on borrowings	(227)	(208)	(181)	(179)	(159)	(1,237)
Customer deposits – Tesco Bank	(6,426)	(797)	(233)	(187)	(115)	–
Deposits from banks – Tesco Bank	(3)	(1)	(501)	–	–	–
Lease liabilities	(1,081)	(1,018)	(996)	(993)	(951)	(9,584)
Trade payables	(5,409)	–	–	–	–	–
Other payables	(1,623)	(22)	(18)	(2)	(1)	(127)
Derivative financial liabilities						
Net settled derivative contracts – receipts	10	11	467	116	–	25
Net settled derivative contracts – payments	(717)	(42)	(470)	(148)	(160)	(18)
Gross settled derivative contracts – receipts	2,534	–	–	–	–	–
Gross settled derivative contracts – payments	(2,585)	–	–	–	–	–
Total on balance sheet	(17,647)	(2,544)	(1,985)	(2,188)	(2,342)	(14,717)
Off balance sheet						
Contractual lending commitments	(11,872)	–	–	–	–	–
Total	(29,519)	(2,544)	(1,985)	(2,188)	(2,342)	(14,717)

* Refer to Note 1 for further details regarding the prior year restatement.

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.

The Group cash flow statement includes net (investment in)/proceeds from sale of financial assets at fair value through other comprehensive income and amortised cost of £116m inflow (2020: £6m outflow) within cash flows generated from/(used in) investing activities. The gross cash flows are £201m inflow (2020: £774m inflow) and £85m outflow (2020: £780m outflow).

The Group cash flow statement includes net cash flows from derivative financial instruments of £580m outflow (2020: £17m outflow) within cash flows generated from/(used in) financing activities. The gross cash flows are £2,276m outflow (2020: £346m outflow) and £1,696m inflow (2020: £329m inflow).

(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.

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 £450m bond maturing in 2030 and undertook a liability management exercise by combining an issuance of a €750m bond maturing in 2029 with a debt buyback, the latter resulting in notionals of £0.6bn bought back across eight bonds.

Refer to Note 32 for the value of the Group's net debt (£12.0bn; 2020: £12.3bn), and the Group statement of changes in equity for the value of the Group's equity (£12.3bn; 2020: £13.4bn).

(e) Insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events. 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 covers 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.

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 use 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.

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.

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.

Notes to the Group financial statements continued

Note 25 Financial risk management continued

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:

	Stage 1	Stage 2			Total £m	Stage 3	Total
	£m	Not past due £m	<30 days past due £m	>30 days past due £m		£m	£m
27 February 2021							
Loans and advances to customers	5,749	981	25	25	1,031	242	7,022
Investment securities at FVOCI ^(a)	5	-	-	-	-	-	5
Investment securities at amortised cost ^(a)	928	-	-	-	-	-	928
Loan commitments – loans and advances to customers ^(b)	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 ^(b)	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%

(a) On 1 March 2020 the Group's portfolio of debt investment securities measured at FVOCI was reclassified to amortised cost following a change in business model.

(b) The loss allowance in respect of loan commitments is included within the total loss allowance for loans and advances to customers as above to the extent that it is below the gross carrying amount of loans and advances to customers. Where the loss allowance exceeds the gross carrying amount, any excess is included within the provisions.

	Stage 1	Stage 2			Total £m	Stage 3	Total
	£m	Not past due £m	<30 days past due £m	>30 days past due £m		£m	£m
29 February 2020							
Loans and advances to customers	7,688	869	52	32	953	289	8,930
Investment securities at FVOCI ^(a)	1,061	-	-	-	-	-	1,061
Investment securities at amortised cost ^(a)	-	-	-	-	-	-	-
Loan commitments – loans and advances to customers ^(b)	11,755	116	-	-	116	1	11,872
Total gross exposure	20,504	985	52	32	1,069	290	21,863
Loss allowance							
Loans and advances to customers ^(b)	83	178	21	20	219	186	488
Investment securities at FVOCI	-	-	-	-	-	-	-
Investment securities at amortised cost	-	-	-	-	-	-	-
Total loss allowance	83	178	21	20	219	186	488
Net exposure							
Loans and advances to customers	7,605	691	31	12	734	103	8,442
Investment securities at FVOCI	1,061	-	-	-	-	-	1,061
Investment securities at amortised cost	-	-	-	-	-	-	-
Total net exposure	8,666	691	31	12	734	103	9,503
Coverage							
Loans and advances to customers	1%	20%	40%	63%	23%	64%	5%

(a)-(b) Please refer to previous table for footnotes.

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, house price index 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.

27 February 2021	2021			
	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
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	20	(20)	–	–
Transfers from stage 2 to stage 1	(9)	9	–	–
Transfers to stage 3	2	42	(44)	–
Transfers from stage 3	(2)	(2)	4	–
Movements recognised in the Group income statement:				
Net remeasurement following transfer of stage	6	(36)	(72)	(102)
New financial assets originated	(25)	(5)	(2)	(32)
Financial assets derecognised during the current financial year	8	9	3	20
Changes in risk parameters and other movements	(56)	(134)	(83)	(273)
Other movements:				
Write-offs and asset disposals	–	3	227	230
Transfers to provisions for liabilities and charges	8	12	–	20
Reclassification of mortgage book balances to fair value through profit or loss	–	–	–	–
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
2020				
29 February 2020	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Gross exposure	7,688	953	289	8,930
Loan commitments	11,755	116	1	11,872
Total exposure	19,443	1,069	290	20,802
Allowance for expected credit losses				
At 23 February 2019	(84)	(229)	(172)	(485)
Transfers:				
Transfers from stage 1 to stage 2	11	(11)	–	–
Transfers from stage 2 to stage 1	(64)	64	–	–
Transfers to stage 3	3	50	(53)	–
Transfers from stage 3	(2)	(2)	4	–
Movements recognised in the Group income statement:				
Net remeasurement following transfer of stage	38	(23)	(93)	(78)
New financial assets originated	(27)	(21)	(10)	(58)
Financial assets derecognised during the current financial year	9	12	3	24
Changes in risk parameters and other movements	32	(63)	(60)	(91)
Other movements:				
Write-offs and asset disposals	–	3	195	198
Transfers to provisions for liabilities and charges	–	–	–	–
Reclassification of mortgage book balances to fair value through profit or loss	1	1	–	2
At 29 February 2020	(83)	(219)	(186)	(488)
Reconciliation to Group balance sheet				
Gross exposure	7,688	953	289	8,930
Allowance for expected credit losses	(83)	(219)	(186)	(488)
	7,605	734	103	8,442
Fair value adjustment				9
Carrying value at 29 February 2020				8,451

Notes to the Group financial statements continued

Note 25 Financial risk management continued

The 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 27 February 2021	12 month PD %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers:					
High quality	≤3.02	5,314	445	–	5,759
Satisfactory quality	>3.03 – 11.10	392	389	–	781
Low quality and below standard	≥11.11	43	197	–	240
Credit impaired	100	–	–	242	242
		5,749	1,031	242	7,022
At 29 February 2020	12 month PD %	Stage 1 £m	Stage 2 £m	Stage 3 £m	Total £m
Loans and advances to customers:					
High quality	≤3.02	6,609	37	–	6,646
Satisfactory quality	>3.03 – 11.10	1,037	485	–	1,522
Low quality and below standard	≥11.11	42	431	–	473
Credit impaired	100	–	–	289	289
		7,688	953	289	8,930

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 were £154m (2020: £140m).

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 payment are more than 30 days past due then a significant increase in credit risk has taken place. Tesco Bank has used the low credit risk exemption in respect of its portfolio of investment securities in both the current and prior year.

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 potential ramifications of the current COVID-19 pandemic. These scenarios include a Base scenario, an Upside scenario and two different Downside scenarios. As the economic outlook remains uncertain, the scenarios are based on the success of the COVID-19 vaccine rollout against emerging strains of the virus and, as the restrictions are lifted, the speed at which consumer and business confidence will support the recovery in GDP and the labour market. The Base scenario anticipates a delayed economic recovery, with consumer confidence remaining weak in the near term and unemployment peaking in Q3 2021. The Upside scenario involves a sharper economic recovery while Downside 1 scenario assumes a longer delay until the economy recovers. Downside 2 is a prolonged and sustained recession with a slow economic recovery thereafter. 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:

As at 27 February 2021 (5 year average)	Base 40%	Upside 30%	Downside 1 25%	Downside 2 5%	COVID-19 n/a
Bank of England base rate ^(a)	0.1%	0.2%	0.1%	0.1%	n/a
Gross domestic product ^(b)	2.6%	3.5%	2.2%	1.8%	n/a
Unemployment rate	5.5%	4.7%	6.7%	8.6%	n/a
Unemployment rate peak in year	5.8%	4.9%	7.4%	9.3%	n/a
As at 29 February 2020 (5 year average)	Base 40%	Upside 20%	Downside 1 30%	Downside 2 5%	COVID-19 5%
Bank of England base rate ^(a)	0.6%	0.2%	1.4%	2.3%	2.3%
Gross domestic product ^(b)	1.6%	2.0%	1.0%	0.7%	0.7%
Unemployment rate	3.9%	3.9%	5.3%	6.1%	6.1%
Unemployment rate peak in year	3.9%	3.9%	5.5%	6.3%	6.3%

(a) Simple average.

(b) Annual growth rates.

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 27 February 2021.

Key assumption	Reasonably possible change	Impact on the loss allowance	
		2021 £m	2020 £m
Closing ECL allowance		625	488
Macroeconomic factors (100% weighted)	Upside scenario	(66)	(41)
	Base scenario	(1)	(28)
	Downside scenario 1	57	40
	Downside scenario 2	117	103
Probability of default	Increase of 2.5%	8	11
	Decrease of 2.5%	(8)	(11)
Loss given default	Increase of 2.5%	10	12
	Decrease of 2.5%	(10)	(12)
Probability of default threshold (staging)	Increase of 20%	(7)	(17)
	Decrease of 20%	11	21
Expected lifetime (revolving credit facility)	Increase of 1 year	9	2
	Decrease of 1 year	(9)	(2)

COVID-19 has had a significant impact on the global 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. The extension of government support measures such as furlough has been unprecedented and this, coupled with the granting of payment holidays by Tesco Bank, have broken traditional modelled relationships between unemployment and default. Although projected levels of unemployment remain high, Tesco Bank is yet to see significant defaults emerge in its lending portfolio and, as such, COVID-19 specific adjustments to the modelled ECL provision to capture the estimated impact of the stress within the ECL provision have been recognised for an overall post-model adjustment of £214m which includes three management overlays. A first £129m adjustment is in respect of the beneficial modelling impact of lower consumer spending through the pandemic. An increase or decrease of 10% on the adjustment for lower drawn balances would not result in a material increase or decrease of this management overlay. A second £64m adjustment is to recognise the expected emergence of defaults once support measures such as furlough and the various temporary customer support measures Tesco Bank has put in place are removed and a third £21m adjustment is to recognise an increase in credit risk in respect of customers who sought an extension to their initial payment holiday.

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;
- 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; and
- for secured products, it may also be acceptable to allow the customer to clear the arrears over an extended period of time, provided the payments remain affordable.

	Gross loans and advances subject to forbearance programmes		Forbearance programmes as a proportion of total loans and advances by category		Proportion of forbearance programmes covered by allowance for expected credit losses	
	2021 £m	2020 £m	2021 %	2020 %	2021 %	2020 %
Credit cards – UK	119	108	4	3	50	50
Credit cards – Commercial	–	–	5	5	96	94
Loans	48	49	1	1	56	41

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. Insurance risk is defined as the risk accepted through the provision of insurance products in return for a premium. The timing and quantum of the risks are uncertain and determined by events outside the control of Tesco Bank. The key insurance risks within TU relate to underwriting risk and reserving risk. TU operates a separate framework to ensure that the TU insurance portfolio operates within agreed risk appetite. Tesco Bank closely monitors performance of the portfolio against specific thresholds and limits.

Notes to the Group financial statements continued

Note 26 Customer deposits and deposits from banks

	2021 £m	2020 £m
Customer deposits	5,738	7,707
Deposits from banks	600	500
	6,338	8,207
Of which:		
Current	5,321	6,377
Non-current	1,017	1,830
	6,338	8,207

Deposits from banks include balances of £500m (2020: £500m) drawn under the Bank of England's Term Funding Scheme (TFS) and £100m (2020: £nil) drawn under the Bank of England's Term Funding Scheme with additional incentives for small and medium-sized enterprises (TFSME).

Note 27 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 29 February 2020	156	64	72	292
Foreign currency translation	–	3	(6)	(3)
Acquired through business combinations	5	–	–	5
Reclassifications	–	(3)	38	35
Amount released in the year	(24)	(29)	–	(53)
Amount provided in the year	49	31	105	185
Amount utilised in the year	(4)	(60)	(25)	(89)
Transfer to disposal group classified as held for sale	(51)	(6)	(11)	(68)
Unwinding of discount	1	–	–	1
At 27 February 2021	132	–	173	305

The balances are analysed as follows:

	2021 £m	2020 £m
Current	186	155
Non-current	119	137
	305	292

Property provisions

Property provisions comprise onerous property provisions, including non-lease contracts related to unprofitable stores and vacant properties, remediation works, dilapidations provisions and asset retirement obligation provisions. Property provisions related to leased properties are expected to be utilised prior to the end of the leases. Refer to Note 12 for a maturity analysis of the Group's contractual undiscounted lease payments.

Restructuring provisions

Of the £2m net charge (£31m charge, £(29)m release) recognised in the year, £2m (2020: £43m) has been classified as an exceptional item within discontinued operations, and £nil (2020: £108m charge) has been classified within exceptional items as 'Net restructuring and redundancy costs' within continuing operations, of which £nil (2020: £95m) related to UK & ROI and £nil (2020: £13m) related to Tesco Bank. Refer to Notes 4 and 7 for further details. The restructuring provisions were fully utilised in the financial year to 27 February 2021.

Other provisions

Other provisions include a £88m (2020: £nil) provision relating to claims from Homeplus (Korea) purchasers. Refer to Note 7 for further details. Additional provisions included in other provisions are individually immaterial. The majority of provisions are expected to be utilised in the next financial year.

Note 28 Share-based payments

The Group income statement charge for the financial year recognised in respect of share-based payments is £69m (2020: £129m), which is made up of share option schemes and share bonus payments. Of this amount, £60m (2020: £113m) will be settled in equity and £9m (2020: £16m) in cash representing National Insurance contributions.

Share option schemes

The Company had nine 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. Full details of this plan can be found in the Directors' remuneration report.
- 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 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. 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.

Notes to the Group financial statements continued

Note 28 Share-based payments continued

The following tables reconcile the number of share options outstanding and the weighted average exercise price (WAEP):

For the 52 weeks ended 27 February 2021

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme ^(a)		Booker Group PLC Savings Related Share Option Plan		Booker Group PLC Performance Share Plan Scheme		Other Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
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	60,005,859	198.00	2,800,186	198.00	516,622	-	-	-	-	-	-	-
Forfeited	(18,268,028)	197.73	(808,107)	194.80	(3,675,500)	-	(271,569)	149.39	(2,257,156)	-	-	-
Exercised	(91,142,849)	151.29	(1,261,423)	153.20	(8,079,580)	-	(4,141,825)	151.10	(1,858,323)	-	-	-
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)		150.00 to 219.00		150.00 to 219.00		-		137.45 to 152.78		-		-
Weighted average remaining contractual life (years) ^(b)		2.86		2.78		5.18		0.42		-		-
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)		150.00 to 219.00		150.00 to 219.00		-		137.45 to 152.78		-		-
Weighted average remaining contractual life (years) ^(b)		0.42		0.42		5.18		0.42		-		-

(a) The special dividend and associated share consolidation had a neutral impact to the number of options.

(b) Contractual life represents the period from award to the scheme end date. Certain schemes may be exercised later than vesting date at the discretion of the individual.

Share options were exercised on a regular basis throughout the financial year. The average share price during the 52 weeks ended 27 February 2021 was 227.07p (2020: 237.69p).

For the 53 weeks ended 29 February 2020

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Nil cost Share Option Scheme		Booker Group PLC Savings Related Share Option Plan		Booker Group PLC Performance Share Plan Scheme		Other Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 23 February 2019	215,591,248	168.04	6,470,978	175.06	25,377,129	-	9,827,705	145.36	11,222,347	-	12,379,637	-
Granted	44,387,158	219.00	1,977,339	219.00	537,271	-	-	-	-	-	-	-
Forfeited	(23,512,462)	200.62	(1,062,090)	187.69	(5,502,793)	-	(766,057)	147.40	(2,870,980)	-	(12,379,637)	-
Exercised	(20,653,850)	167.18	(530,614)	180.60	(1,955,766)	-	(3,961,499)	137.46	(3,375,131)	-	-	-
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	-	-	-
Exercise price range (pence)		150.00 to 322.00		150.00 to 219.00		-		137.13 to 152.78		-		-
Weighted average remaining contractual life (years)		2.09		2.55		6.39		1.32		0.51		-
Exercisable at 29 February 2020	2,948,571	189.92	243,886	190.00	9,359,089	-	523,817	137.45	977,437	-	-	-
Exercise price range (pence)		150.00 to 322.00		190.00		-		137.45		-		-
Weighted average remaining contractual life (years)		0.41		0.42		5.60		0.42		-		-

* Other Schemes includes Approved Share Option Scheme (Approved), Unapproved Share Option Scheme (Unapproved), and International Executive Share Option Scheme (International). The WAEP for all other schemes at 29 February 2020 was 338.40p and all options were forfeited during the year.

The fair value of savings-related share options schemes are 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.

	2021 SAYE	2020 SAYE
Expected dividend yield (%)	4.90–5.05	3.70–4.28
Expected volatility (%)	23.00–25.60	22.60–28.09
Risk-free interest rate (%)	0.15–0.26	0.81–0.84
Expected life of option (years)	3 or 5	3 or 5
Weighted average fair value of options granted (pence)	27.13	38.56
Probability of forfeiture (%)	6–10	7–10
Share price (pence)	219.60	243.00
Weighted average exercise price (pence)	198.00	219.00

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 Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long Term Incentive Plan (2015). 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.

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 and share incentives awarded were:

	2021		2020	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Group Bonus Plan	15,502,105	246.70	11,496,310	237.80
Performance Share Plan	25,024,909	221.72	39,136,637	233.77

Note 29 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 £347m (2020: £329m) have been recognised in the Group income statement. This includes £132m (2020: £116m) of salaries paid as pension contributions.

Defined benefit schemes

The Group has a defined benefit pension deficit of £1,222m (2020: £3,085m), comprising a number of schemes. The most significant of these are for the Group's employees in the UK, which are closed to future accrual, and ROI. The defined benefit pension deficit in the UK represents 86% of the Group deficit (2020: 92%).

Guaranteed minimum pension

During the year, a further high court judgement was handed down regarding the Lloyds Banking Group's defined benefit pension schemes, which affects many schemes in the UK, including the Group's UK schemes. This ruling requires pension schemes to also consider the impact of guaranteed minimum pensions (GMPs) equalisation on individual transfer payments made since May 1990. In consultation with independent actuaries, the Group recognised the financial effect of this as a one-off £7m exceptional past service cost in the current year. This is presented as an exceptional item in the income statement (Note 4).

Notes to the Group financial statements continued

Note 29 Post-employment benefits continued

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; and
2. 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 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.

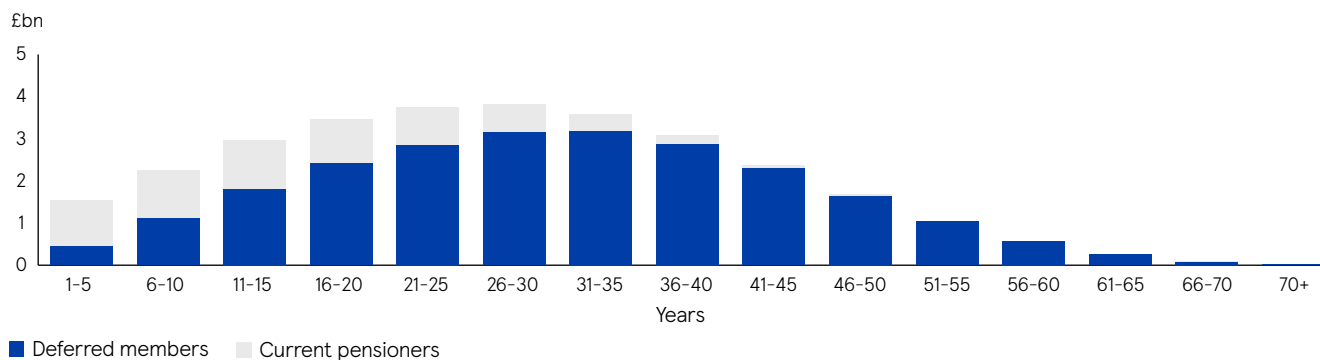
The most recent completed triennial actuarial assessment of the Scheme was performed as at 31 December 2019 using the projected unit credit method. After the £2.5bn contribution in relation to the Group's sale of its operations in Thailand and Malaysia, the funding position was a surplus of £570m. The 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 this triennial actuarial assessment it was agreed that no further pension deficit contributions would be required, with contributions being assessed at the next triennial review. The £2.5bn contribution has significantly reduced the prospect of having to make further pension deficit contributions in the future. The Group will continue to pay £25m per annum to meet expenses of the Scheme, including the Pension Protection Fund levy. Additionally, as part of the triennial review it was agreed that the market value of assets held as security in favour of the Scheme would increase to at least £775m (2020: £575m).

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. No contributions were required for the Budgens or Londis schemes.

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 or reductions to future contributions.



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 23 years.

Around 40% of the undiscounted benefits are due to be paid beyond 30 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 is shown below:

The liabilities held by the Scheme are broken down as follows:

Deferred members	78
Current pensioners	22

Risks

The Group bears a number of risks in relation to the Scheme, which are described below:

Risk	Description of risk	Mitigation
Investment	<p>The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase.</p> <p>If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Group.</p>	<p>The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.</p> <p>The Trustee and Group take a balanced approach to investment risk and have a long-term plan to significantly reduce the investment risk within the Scheme.</p>
Inflation	<p>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.</p> <p>If the Scheme's funding liability increases, this may require additional contributions to be made by the Group.</p>	<p>As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio.</p> <p>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.</p> <p>The Scheme's holdings are designed to hedge against inflation risk up to the value of the funded liabilities.</p> <p>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).</p>
Interest rate	<p>A decrease in corporate bond yields will increase the accounting deficit 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 to be made by the Group.</p>	<p>As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a LDI portfolio.</p> <p>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.</p> <p>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 Scheme holdings in corporate bonds.</p>
Life expectancy	<p>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.</p>	<p>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.</p> <p>The Trustee and Group regularly monitor the impact of changes in longevity on Scheme obligations.</p>

The operations and audit pensions committee was established to further strengthen the Group's Trustee governance and provide greater oversight and stronger internal control over the Group's risks. The Group pensions committee was also set up to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance and impacts of any regulatory changes.

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:

	2021 %	2020 %
Discount rate	2.0	1.9
Price inflation	2.9	2.8
Rate of increase in deferred pensions*	2.5	2.0
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.8	2.7
Benefits accrued after 1 June 2012	2.5	2.1

* In excess of any guaranteed minimum pension (GMP) element.

Notes to the Group financial statements continued

Note 29 Post-employment benefits continued

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 Government announced RPI reforms in 2019 and subsequently responded to a consultation in November 2020, with changes to align RPI with CPIH expected from 2030 onwards. 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% (2020: 0.25%), 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 0.43% lower than RPI (2020: 0.80%), 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 actuarial 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 2019, with a long-term improvement rate of 1.25% per annum.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

		Pensioner	Non-Pensioner
Male	Staff	90% of SAPS S3 Normal Heavy	97% of SAPS S3 Normal Heavy
	Senior Manager	95% of SAPS S3 Normal Light	104% of SAPS S3 Normal Light
Female	Staff	110% 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.

		2021 Years	2020 Years
Retiring at the balance sheet date at age 65:	Male	20.7	22.0
	Female	22.2	23.8
Retiring at the balance sheet date +25 years at age 65:	Male	22.0	23.4
	Female	23.9	25.8

Sensitivity analysis of significant actuarial assumptions

The sensitivity of significant assumptions upon the Scheme defined benefit obligation are detailed below:

	2021		2020	
	Discount rate £m	Inflation rate £m	Discount rate £m	Inflation rate £m
Financial assumptions – Increase/(decrease) in UK defined benefit obligation				
Impact of 0.1% increase of the assumption	(460)	400	(460)	383
Impact of 0.1% decrease of the assumption	480	(380)	479	(383)
Impact of 1.0% increase of the assumption	(4,038)	4,318	(4,002)	4,289
Impact of 1.0% decrease of the assumption	5,577	(3,418)	5,572	(3,313)

	2021 £m	2020 £m
Mortality assumptions – Increase/(decrease) in UK defined benefit obligation		
Impact of 1 year increase in longevity	900	881
Impact of 1 year decrease in longevity	(920)	(881)

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 actuarial assessment of the ROI schemes as at 27 February 2021. At the financial year end, the IAS 19 deficit relating to ROI was £169m (2020: £206m).

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 27 February 2021 of £7m (2020: £8m) was determined in accordance with the advice of independent actuaries. During the current financial year, £nil (2020: £nil) has been charged to the Group income statement and £nil (2020: £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:

	2021				2020			
	Quoted £m	Unquoted £m	Total £m	%	Quoted £m	Unquoted £m	Total £m	%
Equities								
UK	89	–	89	1	255	–	255	2
Europe	889	–	889	4	746	–	746	4
Rest of the world	4,502	–	4,502	22	4,347	–	4,347	25
	5,480	–	5,480	27	5,348	–	5,348	31
Bonds								
Government	1,377	–	1,377	6	750	–	750	4
Corporates – investment grade	3,334	–	3,334	17	1,362	–	1,362	8
Corporates – non-investment grade	197	–	197	1	2	–	2	–
	4,908	–	4,908	24	2,114	–	2,114	12
Property								
UK	78	1,041	1,119	6	44	1,036	1,080	6
Rest of the world	6	440	446	2	7	475	482	3
	84	1,481	1,565	8	51	1,511	1,562	9
Alternative assets								
Hedge funds	1	312	313	2	2	304	306	2
Private equity	–	1,020	1,020	5	–	881	881	5
Other	210	1,288	1,498	7	225	1,043	1,268	7
	211	2,620	2,831	14	227	2,228	2,455	14
LDI portfolio	3,241	(493)	2,748	14	4,580	444	5,024	29
Cash	2,550	–	2,550	13	922	–	922	5
Total fair value of plan assets	16,474	3,608	20,082	100	13,242	4,183	17,425	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 £8,425m (2020: £8,115m) and associated repurchase agreements and swaps of £(5,677)m (2020: £(3,091)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 £222m (2020: £209m) relating to property used by the Group. Group property with net carrying value of £826m (2020: £478m) (Note 11) and a value to the Scheme of at least £775m (2020: £575m) is held as security in favour of the Scheme.

Notes to the Group financial statements continued

Note 29 Post-employment benefits continued

Movement in the Group pension deficit during the financial year

Including all movements of discontinued operations up to classification as held for sale^(a)

	Fair value of plan assets		Defined benefit obligation		Net defined benefit surplus/(deficit)	
	2021 £m	2020 £m	2021 £m	2020 £m	2021 £m	2020 ^(b) £m
Opening balance	17,425	15,054	(20,510)	(17,862)	(3,085)	(2,808)
Current service cost	-	-	(41)	(40)	(41)	(40)
Past service cost	-	-	(7)	(5)	(7)	(5)
Finance income/(cost)	341	409	(384)	(480)	(43)	(71)
Included in the Group income statement	341	409	(432)	(525)	(91)	(116)
Remeasurement gain/(loss):						
Financial assumptions gain/(loss)	-	-	(1,193)	(2,867)	(1,193)	(2,867)
Demographic assumptions gain/(loss)	-	-	18	182	18	182
Experience gain/(loss)	-	-	354	61	354	61
Return on plan assets excluding finance income	(136)	2,158	-	-	(136)	2,158
Foreign currency translation	1	(3)	(4)	5	(3)	2
Included in the Group statement of comprehensive income/(loss)	(135)	2,155	(825)	(2,619)	(960)	(464)
Member contributions	2	2	(2)	(2)	-	-
Employer contributions	34	36	-	-	34	36
Additional employer contributions	2,836	262	-	-	2,836	262
Benefits paid	(421)	(493)	436	498	15	5
Classified as held for sale	-	-	29	-	29	-
Other movements	2,451	(193)	463	496	2,914	303
Closing balance	20,082	17,425	(21,304)	(20,510)	(1,222)	(3,085)
Deferred tax asset					218	512
Deficit in schemes at the end of the year, net of deferred tax					(1,004)	(2,573)

(a) Movements in the year include £nil relating to discontinued operations up to classification as held for sale. After classification as held for sale post-employment benefit obligations movements within discontinued operations included £(1)m within the Group income statement, £(6)m remeasurement loss in the Group statement of comprehensive income/(loss) and £2m in other movements.

(b) Movements in the prior year in relation to discontinued operations included £(8)m within the Group income statement, £(3)m in the Group statement of comprehensive income/(loss) and £1m in other movements.

Note 30 Called-up share capital

	2021		2020	
	Number of Ordinary shares	£m	Number of Ordinary shares	£m
Allotted, called-up and fully paid:				
At the beginning of the year	9,793,496,561	490	9,793,496,561	490
Share consolidation (including shares issued*)	(2,061,788,741)	-	-	-
At the end of the year	7,731,707,820	490	9,793,496,561	490

* To effect the share consolidation, 11 additional Ordinary shares were issued so that the total Ordinary shares is exactly divisible by 19.

On 26 February 2021, the Group paid a special dividend of £4.9bn to shareholders in relation to the sale of its businesses in Thailand and Malaysia. In order to maintain the comparability of the Company's share price before and after the special dividend, 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. For more information on how these proceeds have been spent, please see our Little Helps Plan Report (available at www.tescopl.com/littlehelpsplan). During the current financial year, the Group received £nil (2020: £nil) proceeds from sale of untraced shares and £nil (2020: £nil) write-back of unclaimed dividends, which are reflected in share premium and retained earnings respectively.

As at 27 February 2021, the Directors were authorised to purchase up to a maximum in aggregate of 773.2 million (2020: 979.3 million) Ordinary shares until the conclusion of the 2021 AGM on 25 June 2021.

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 purchased

Own shares represent the shares of Tesco PLC that are held in Treasury or by the Employee Benefit Trust. Own shares are recorded at cost and are deducted from equity.

The own shares held represents the cost of 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 28). The number of Ordinary shares held by the Tesco International Employee Benefit Trust at 27 February 2021 was 58.4 million (2020: 87.6 million). This represents 0.76% of called-up share capital at the end of the year (2020: 0.89%).

No own shares held of Tesco PLC were cancelled during the financial years presented.

Note 31 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

	Joint ventures		Associates	
	2021 £m	2020 £m	2021 £m	2020 £m
Sales to related parties	479	491	-	-
Purchases from related parties	87	100	10	12
Dividends received	18	29	8	13
Injection of equity funding	14	-	-	12

Sales to related parties consist of service/management fees and loan interest.

Transactions between the Group and the Group's pension plans are disclosed in Note 29.

Balances

	Joint ventures		Associates	
	2021 £m	2020 £m	2021 £m	2020 £m
Amounts owed to related parties	23	26	-	-
Amounts owed by related parties	40	47	-	-
Lease liabilities payable to related parties	2,718	3,206	144	146
Loans to related parties (net of deferred profits)*	122	127	-	-

* Loans to related parties of £122m (2020: £127m) are presented net of deferred profits of £38m (2020: £54m), historically arising from the sale of property assets to joint ventures. Refer to Note 14 for further details. For loans to related parties, a 12-month expected credit loss (ECL) allowance is recorded on initial recognition. In the current and prior financial years, the ECL allowance was immaterial.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 (Regulations) apply. The 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:

	2021 £m	2020 £m
Salaries and short-term benefits	20	20
Pensions and cash in lieu of pensions	2	2
Share-based payments	20	16
Joining costs and loss of office costs	-	1
	42	39
Attributable to:		
The Board of Directors (including Non-executive Directors)	14	10
Executive Committee (members not on the Board of Directors)	28	29
	42	39

During the year, 6,403,309 (2020: 8,470,986) Performance Shares and 2,615,921 (2020: 1,539,924) 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 are the balances at the financial year end:

	Credit card, mortgage and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 27 February 2021	4	-	7	-
At 29 February 2020	6	-	13	1

Notes to the Group financial statements continued

Note 32 Analysis of changes in net debt

	At 29 February 2020 £m	Cash flows arising from financing activities £m	Non-cash movements							At 27 February 2021 £m
			Other cash flows £m	Fair value gains/(losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisitions and disposals ^(a) £m	Other £m	Discontinued operations £m	
Total Group										
Bank and other borrowings, excluding overdrafts	(7,118)	716	223	(41)	(2)	(226)	(288)	-	-	(6,736)
Lease liabilities	(9,566)	621	488	-	-	(488)	977	(568)	134	(8,402)
Net derivative financial instruments	198	580	18	(203)	-	(20)	(118)	-	-	455
Arising from financing activities	(16,486)	1,917	729	(244)	(2)	(734)	571	(568)	134	(14,683)
Cash and cash equivalents in the Group balance sheet	4,137	-	(1,607)	-	8	-	-	-	(28)	2,510
Overdrafts ^(b)	(1,106)	-	539	-	-	-	-	-	35	(532)
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	3,031	-	(1,068)	-	8	-	-	-	7	1,978
Short-term investments	1,076	-	(62)	-	(3)	-	-	-	-	1,011
Joint venture loans	127	-	2	-	-	2	(9)	-	-	122
Interest and other receivables	1	-	(12)	-	-	11	-	-	-	-
Net debt of the disposal group	-	-	-	-	-	-	-	-	(141)	(141)
Total Group	(12,251)	1,917	(411)	(244)	3	(721)	562	(568)	-	(11,713)
Tesco Bank										
Bank and other borrowings, excluding overdrafts	(1,260)	774	4	(1)	-	(4)	-	-	-	(487)
Lease liabilities	(33)	3	2	-	-	(2)	-	-	-	(30)
Net derivative financial instruments	(45)	-	-	3	-	-	-	-	-	(42)
Arising from financing activities	(1,338)	777	6	2	-	(6)	-	-	-	(559)
Cash and cash equivalents in the Group balance sheet	1,364	-	(584)	-	-	-	-	-	-	780
Overdrafts ^(b)	-	-	-	-	-	-	-	-	-	-
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,364	-	(584)	-	-	-	-	-	-	780
Joint venture loans	21	-	-	-	-	-	-	-	-	21
Tesco Bank	47	777	(578)	2	-	(6)	-	-	-	242
Retail										
Bank and other borrowings, excluding overdrafts	(5,858)	(58)	219	(40)	(2)	(222)	(288)	-	-	(6,249)
Lease liabilities	(9,533)	618	486	-	-	(486)	977	(568)	134	(8,372)
Net derivative financial instruments	243	580	18	(206)	-	(20)	(118)	-	-	497
Arising from financing activities	(15,148)	1,140	723	(246)	(2)	(728)	571	(568)	134	(14,124)
Cash and cash equivalents in the Group balance sheet	2,773	-	(1,023)	-	8	-	-	-	(28)	1,730
Overdrafts ^(b)	(1,106)	-	539	-	-	-	-	-	35	(532)
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,667	-	(484)	-	8	-	-	-	7	1,198
Short-term investments	1,076	-	(62)	-	(3)	-	-	-	-	1,011
Joint venture loans	106	-	2	-	-	2	(9)	-	-	101
Interest and other receivables	1	-	(12)	-	-	11	-	-	-	-
Net debt of the disposal group	-	-	-	-	-	-	-	-	(141)	(141)
Net debt	(12,298)	1,140	167	(246)	3	(715)	562	(568)	-	(11,955)

(a) Movements in Group net debt arising from the disposal of the Group's Thailand and Malaysia operations, the acquisition of The Tesco Property (No. 2) Limited Partnership and the acquisition of the trade and assets of Best Food Logistics. Refer to Notes 7 and 33 for further details.

(b) Overdraft balances are included within Bank and other borrowings in the Group balance sheet, and within Cash and cash equivalents in the Group cash flow statement. Refer to Note 20.

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.

	At 23 February 2019 £m	Cash flows arising from financing activities £m	Other cash flows £m	Non-cash movements					At 29 February 2020 £m
				Fair value gains/ (losses) £m	Foreign exchange £m	Interest income/ (charge) £m	Acquisition of joint venture ^(a) £m	Other £m	
Total Group									
Bank and other borrowings, excluding overdrafts	(6,794)	484	255	(192)	2	(251)	(622)	-	(7,118)
Lease liabilities	(10,505)	634	541	-	1	(541)	455	(151)	(9,566)
Net derivative financial instruments	591	17	7	(208)	-	14	(223)	-	198
Arising from financing activities	(16,708)	1,135	803	(400)	3	(778)	(390)	(151)	(16,486)
Cash and cash equivalents in the Group balance sheet	4,227	-	(48)	-	(42)	-	-	-	4,137
Overdrafts ^(b)	(1,660)	-	554	-	-	-	-	-	(1,106)
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	2,567	-	506	-	(42)	-	-	-	3,031
Short-term investments	390	-	687	-	(1)	-	-	-	1,076
Joint venture loans	133	-	(8)	-	-	2	-	-	127
Interest and other receivables	1	-	(18)	-	(1)	19	-	-	1
Total Group	(13,617)	1,135	1,970	(400)	(41)	(757)	(390)	(151)	(12,251)
Tesco Bank									
Bank and other borrowings, excluding overdrafts	(1,421)	160	5	1	-	(5)	-	-	(1,260)
Lease liabilities	(35)	2	3	-	-	(3)	-	-	(33)
Net derivative financial instruments	(29)	-	-	(16)	-	-	-	-	(45)
Arising from financing activities	(1,485)	162	8	(15)	-	(8)	-	-	(1,338)
Cash and cash equivalents in the Group balance sheet	1,043	-	321	-	-	-	-	-	1,364
Overdrafts ^(b)	-	-	-	-	-	-	-	-	-
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,043	-	321	-	-	-	-	-	1,364
Joint venture loans	29	-	(8)	-	-	-	-	-	21
Tesco Bank	(413)	162	321	(15)	-	(8)	-	-	47
Retail									
Bank and other borrowings, excluding overdrafts	(5,373)	324	250	(193)	2	(246)	(622)	-	(5,858)
Lease liabilities	(10,470)	632	538	-	1	(538)	455	(151)	(9,533)
Net derivative financial instruments	620	17	7	(192)	-	14	(223)	-	243
Arising from financing activities	(15,223)	973	795	(385)	3	(770)	(390)	(151)	(15,148)
Cash and cash equivalents in the Group balance sheet	3,184	-	(369)	-	(42)	-	-	-	2,773
Overdrafts ^(b)	(1,660)	-	554	-	-	-	-	-	(1,106)
Cash and cash equivalents (including overdrafts) in the Group cash flow statement	1,524	-	185	-	(42)	-	-	-	1,667
Short-term investments	390	-	687	-	(1)	-	-	-	1,076
Joint venture loans	104	-	-	-	-	2	-	-	106
Interest and other receivables	1	-	(18)	-	(1)	19	-	-	1
Net debt	(13,204)	973	1,649	(385)	(41)	(749)	(390)	(151)	(12,298)

(a) Movements in Group net debt arising from the acquisition of The Tesco Atrato Limited Partnership.

(b) Overdraft balances are included within Bank and other borrowings in the Group balance sheet, and within Cash and cash equivalents in the Group cash flow statement. Refer to Note 20.

Notes to the Group financial statements continued

Note 32 Analysis of changes in net debt continued

Reconciliation of net cash flow to movement in Net debt

	2021 £m	2020 £m
Net increase/(decrease) in cash and cash equivalents including overdrafts	(1,068)	506
Elimination of Tesco Bank movement in cash and cash equivalents including overdrafts	584	(321)
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(62)	687
Net increase/(decrease) in joint venture loans	2	-
Net (increase)/decrease in borrowings and lease liabilities	560	956
Net cash flows from derivative financial instruments	580	17
Net interest paid on components of Net debt	711	777
Change in Net debt resulting from cash flow	1,307	2,622
Retail net interest charge on components of Net debt	(715)	(749)
Retail fair value and foreign exchange movements	(243)	(426)
Retail other non-cash movements	(568)	(151)
Acquisition of property joint venture (Note 33)	(161)	(390)
Acquisition of Best Food Logistics (Note 33)	(42)	-
Disposal of the Asia business (Note 7)	765	-
(Increase)/decrease in Net debt	343	906
Opening Net debt	(12,298)	(13,204)
Closing Net debt*	(11,955)	(12,298)

* Refer to pages 210 to 211 for a reconciliation from Net debt (Retail net debt) shown above to the Group's 52-week alternative performance measure.

Note 33 Acquisitions

Acquisition of Best Food Logistics

On 7 March 2020, the Group acquired the trade and assets of Best Food Logistics (trading name of BFS Group Ltd), which has been accounted for as an acquisition of a business in accordance with IFRS 3 'Business Combinations'. Best Food Logistics provides a food supply chain and logistics services to national fast food and casual dining clients. The acquisition builds on the Group's expertise in wholesale operations in the UK market and will further enhance its foodservice offer to customers within procurement, warehousing and distribution solutions. The purchase consideration received by the Group of £15m was fully satisfied by cash. There is no deferred or contingent consideration.

The fair value of the assets and liabilities recognised as a result of the acquisition of Best Food Logistics are as follows:

	£m
Acquired intangible assets	4
Property, plant and equipment	12
Right of use assets	41
Inventories	27
Trade and other receivables	77
Trade and other payables	(128)
Lease liabilities	(42)
Deferred tax liabilities	(2)
Provisions	(5)
Total assets and liabilities acquired	(16)
Goodwill	1
Purchase consideration received	(15)

The goodwill is primarily attributable to synergies. None of the goodwill is expected to be deductible for tax purposes.

Acquired intangible assets comprise software of £1m and customer relationships of £3m, which are amortised over 3 years. The amortisation charge on the acquired intangibles is excluded from the Group's operating profit before exceptional items and amortisation of acquired intangibles.

The fair value of acquired trade and other receivables is £77m. The gross contractual amount for trade receivables due was £78m, of which £1m is expected to be uncollectable.

Best Food Logistics contributed revenues of £715m and net loss after tax of £14m to the Group from 7 March 2020 to 27 February 2021. The £14m loss includes £1m of amortisation expense on acquired intangible assets. If the acquisition had occurred on 1 March 2020, Group revenue and net loss after tax for the 52 weeks ended 27 February 2021 would not be materially different. Transaction costs of £nil have been included in Administrative expenses for the 52 weeks ended 27 February 2021 (53 weeks ended 29 February 2020: £2m).

Acquisition of property joint venture – The Tesco Property (No. 2) Limited Partnership

On 18 September 2020, the Group obtained control of The Tesco Property (No. 2) Limited Partnership (the partnership), previously accounted for as a joint venture, through the acquisition of the other partner's 50% interest for £54m. The partnership had bond and derivative liabilities, and owns 12 stores and two distribution centres, 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, which are eliminated on consolidation.

The table below sets out the values to the Group in respect of obtaining control of the partnership:

	Notes	£m
Property, plant and equipment	11	492
Cash and cash equivalents		2
Borrowings	32	(288)
Derivative liabilities	32	(118)
Joint venture partnership loans payable to the parent		(49)
Deferred tax asset		19
Total assets and liabilities acquired		58
Consideration paid in cash and cash equivalents		54
Joint venture loan receivable from the other former joint venture partner		(25)
Net consideration paid		29
Revaluation of the Group's original 50% investment		29
Total cost		58

The Group recognised the following gains and losses as an exceptional item within cost of sales on the Group income statement. The related tax charge of £23m has also been classified as an exceptional item. Refer to Note 4 for further details.

	Notes	£m
Revaluation of the Group's original 50% investment		29
Impairment of property, plant and equipment acquired	15	(32)
Derecognition of the Group's lease liabilities with the partnership	32	254
Derecognition of the Group's right of use assets with the partnership	12	(130)
Derecognition of dilapidation provisions and other consolidation adjustments on acquisition		13
Total exceptional gain within cost of sales		134
Taxation - exceptional	4	(23)
Total exceptional gain after taxation		111

Note 34 Commitments and contingencies

Capital commitments

At 27 February 2021, there were commitments for capital expenditure contracted for, but not incurred, of £203m (2020: £140m), principally relating to store development.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

In July and August 2020, the Group settled claims brought by two claimant groups against Tesco PLC for matters arising out of or in connection with the overstatement of profit announced in 2014. As a result of the settlement and associated legal costs, Tesco has taken a one-off charge in the amount of £93m. Two claimant law firms issued proceedings against the Group in September 2020 in respect of the same matters. The Group will vigorously defend any further proceedings. The merit, likely outcome and potential impact on the Group of any further litigation that might potentially be brought against the Group is subject to a number of significant uncertainties and, therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at 27 February 2021. There are substantial legal and factual defences to these claims and the Group will vigorously defend any further proceedings.

Prior to the disposal of its Korean operations (Homeplus), Tesco PLC provided guarantees in respect of 13 Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus' default. Entities controlled by MBK Partners and Canada Pension Plan Investment Board as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. At 27 February 2021, four guarantees remained outstanding. This liability decreases over time with all relevant leases expiring in the period between 2027 and 2031. The maximum potential liability under these outstanding guarantees is between KRW 110bn (£70m) and KRW 189bn (£121m). In the event that the guarantees are called, the potential economic outflow is estimated at KRW 73bn (£46m), with funds of KRW 32bn (£20m) placed in escrow to provide the payment mechanism for these guarantees. The net potential outflow to Tesco is therefore estimated at KRW 41bn (£26m). Additionally, Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made over and above the amounts in escrow.

Following the sale of Homeplus for £4.2bn in 2015, Tesco PLC has received claims from the purchasers relating to the sale of the business. In July 2015, an arbitral tribunal dismissed the majority of the claims. It made findings of liability in relation to the remaining claims but reserved its position in relation to quantum. The parties are in the process of making submissions on the damages that should be awarded in relation to the remaining claims. A provision in the amount of £88m has been recognised in the accounts.

Notes to the Group financial statements continued

Note 34 Commitments and contingencies continued

As previously reported, Tesco Stores Limited has received claims from current and former Tesco store colleagues alleging that their work is of equal value to that of colleagues working in Tesco's distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable. The claimants are seeking the differential between the pay terms looking back, and equivalence of pay terms moving forward. At present, the likely number of claims that may be received and the merit, likely outcome and potential impact on the Group of any such litigation is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure. There are substantial factual and legal defences to these claims and the Group intends to vigorously defend them.

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
Buttoncable Limited	5294246	T & S Stores Limited	1228935	Tesco PENL Limited	6479938
Buttoncase Limited	5298861	Tapesilver Limited	5205362	Tesco Red (3LP) Limited	10127765
Day and Nite Stores Limited	1746058	Tesco Aqua (GP) Limited	5721654	Tesco Red (GP) Limited	5721630
Dillons Newsagents Limited	140624	Tesco Brislington Limited	10701640	Tesco TLB Properties Limited	3159425
Dunnhumby Holding Limited	8071909	Tesco Family Dining Limited	8514605	The Tesco Aqua Limited Partnership	LP011520
Launchgrain Limited	5260856	Tesco Food Sourcing Limited	7502096	The Tesco Red Limited Partnership	LP011522
Oakwood Distribution Limited	5721635	Tesco Freetime Limited	4345023		
Spenn Hill Development Limited	4827219	Tesco Gateshead Property Limited	8312532		
Spenn Hill Management Limited	2460426	Tesco Mobile Communications Limited	4780729		
Spenn Hill Properties (Holdings) PLC	2412674	Tesco Mobile Services Limited	4780734		
Spenn Hill Regeneration Limited	6418300	Tesco PEG Limited	6480309		

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 27 February 2021 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.

Subject to and with effect from an amendment to the Companies Act of Ireland 2014 coming into force which permits Irish incorporated subsidiaries of an English incorporated company to avail of section 357, Tesco PLC has irrevocably guaranteed the liabilities and commitments of the following Irish subsidiary undertakings: Chirac Limited; Cirrus Finance (2009) Limited; Clondalkin Properties Limited; Commercial Investments Limited; Edson Investments Limited; Edson Properties Limited; Monread Developments Limited; Nabola Development Limited; Orpingford; Pharaway Properties Limited; R.J.D. Holdings; Tesco Ireland Holdings Limited; Tesco Ireland Limited; Tesco Ireland Pension Trustees Limited; Tesco Mobile Ireland Limited; Tesco Trustee Company of Ireland Limited; Thundridge; Wanze Properties (Dundalk) Limited; WSC Properties Limited.

Tesco Bank

At 27 February 2021, Tesco Bank had contractual lending commitments totalling £12.7bn (2020: £11.9bn). 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 35 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC (TPF), being the regulated entity at the balance sheet date:

	2021 £m	2020 £m
Common equity tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,443	1,567
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	-	-
Total tier 2 regulatory adjustments	(21)	(21)
Total regulatory capital	1,657	1,781

On 27 June 2013, the final Capital Requirements Directive IV (CRD IV) rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules, the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules are currently being phased in.

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Note 36 Events after the reporting period

During the year, the Board approved plans to dispose of the Group's operations in Poland. The disposal of the Group's corporate business in Poland completed after the balance sheet date on 16 March 2021. Refer to Notes 1 and 7 for details of the Group's operations in Poland classified as held for sale at the balance sheet date.

Tesco PLC – Parent Company balance sheet

	Notes	27 February 2021 £m	29 February 2020 £m
Non-current assets			
Investments	6	16,963	17,829
Receivables	7	259	1,043
Derivative financial instruments	10	1,536	1,167
		18,758	20,039
Current assets			
Receivables	7	1,514	547
Cash in hand		96	249
		1,610	796
Current liabilities			
Borrowings	9	(463)	(43)
Payables	8	(810)	(238)
		(1,273)	(281)
Net current assets/(liabilities)			
		337	515
Non-current liabilities			
Borrowings	9	(1,415)	(2,285)
Payables	8	(1,293)	(82)
Derivative financial instruments	10	(630)	(735)
		(3,338)	(3,102)
Net assets			
		15,757	17,452
Equity			
Share capital	13	490	490
Share premium		5,165	5,165
All other reserves		2,972	2,950
Retained earnings (including profit/(loss)) for the financial year of £4,250m (2020: £(21)m)		7,130	8,847
Total equity		15,757	17,452

The notes on pages 191 to 196 form part of these financial statements.



Ken Murphy
Alan Stewart
Directors

The Parent Company financial statements on pages 189 to 196 were approved and authorised for issue by the Directors on 13 April 2021.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

	All other reserves								Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserve £m	Cost of hedging reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	
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	-	-	-	20	(18)	-	-	-	2
Reclassified and reported in the Company income statement	-	-	-	-	(47)	-	-	-	(47)
Tax relating to components of other comprehensive income	-	-	-	(1)	6	-	-	-	5
Total other comprehensive income/(loss)	-	-	-	19	(59)	-	-	-	(40)
Total comprehensive income/(loss)	-	-	-	19	(59)	-	-	4,250	4,210
Transactions with owners									
Purchase of own shares	-	-	-	-	-	(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

	All other reserves								Total equity £m
	Share capital £m	Share premium £m	Capital redemption reserve £m	Cost of hedging reserve £m	Hedging reserve £m	Own shares held £m	Merger reserve £m	Retained earnings £m	
At 23 February 2019	490	5,165	16	(13)	95	(179)	3,050	9,468	18,092
Profit/(loss) for the year	-	-	-	-	-	-	-	(21)	(21)
Other comprehensive income/(loss)									
Gains/(losses) on cash flow hedges	-	-	-	(7)	92	-	-	-	85
Reclassified and reported in the Company income statement	-	-	-	-	(23)	-	-	-	(23)
Tax relating to components of other comprehensive income	-	-	-	1	(11)	-	-	-	(10)
Total other comprehensive income/(loss)	-	-	-	(6)	58	-	-	-	52
Total comprehensive income/(loss)	-	-	-	(6)	58	-	-	(21)	31
Transactions with owners									
Purchase of own shares	-	-	-	-	-	(221)	-	-	(221)
Share-based payments	-	-	-	-	-	150	-	56	206
Dividends	-	-	-	-	-	-	-	(656)	(656)
Total transactions with owners	-	-	-	-	-	(71)	-	(600)	(671)
At 29 February 2020	490	5,165	16	(19)	153	(250)	3,050	8,847	17,452

The Company has considered the profits available for distribution to shareholders. At 27 February 2021, the Company had retained earnings of £7.1bn, of which the unrealised profit elements are £1.6bn 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 £0.2bn, the Company had profits available for distribution of £4.6bn.

The notes on pages 191 to 196 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 27 February 2021 were approved by the Board of Directors on 13 April 2021 and the Company balance sheet was signed on the Board's behalf by Ken Murphy and Alan Stewart.

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 27 February 2021 (prior financial year 53 weeks to 29 February 2020).

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 in Treasury or by the Employee Benefit Trust. The Company adopts a 'look-through' approach which, in substance, accounts for the trust as an extension of the Company. Own shares are recorded at cost and are deducted from equity.

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.

Notes to the Parent Company financial statements continued

Note 2 Accounting policies continued

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 defined benefit pension schemes. The Company cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee benefits', the Company has accounted for the schemes as defined contribution schemes, with the schemes recognised in another Group company, Tesco Stores Limited, as per Group policy.

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 ongoing 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 apart from those involving estimates discussed below.

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:

Impairment of investment in Tesco Bank

The key source of estimation uncertainty is in relation to the Company's investment in Tesco Personal Finance Group PLC (Tesco Bank). The Company considers impairment of its investments in subsidiaries based on the value in use of the subsidiary. Value in use is calculated from cash flow projections based on the Group's three-year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. See Note 6.

New standards and amendments effective for the current financial year

- 'Definition of a business' amendment to IFRS 3, 'Business combinations' guidance has been applied when evaluating whether acquisitions in the period are asset acquisitions or business combinations.
- 'Interest rate benchmark reform' phase 2 amendments, which have been adopted early. Refer to Note 25 to the Group financial statements for the impact of IBOR Reform amendments on the Company.
- FRS 101 amendments 'UK exit from the European Union' have been early adopted.

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.

Note 5 Employment costs, including Directors' remuneration

	Notes	2021 £m	2020 £m
Wages and salaries		17	16
Social security costs		2	2
Pension costs	12	1	2
Share-based payment expense	11	4	7
Total		24	27

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 13 (2020: 13).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' remuneration report on pages 72 to 96.

Note 6 Investments

	2021 £m
Cost	
At 29 February 2020	20,686
Capital contributions	61
Return of capital contributions	(684)
At 27 February 2021	20,063
Accumulated impairment losses	
At 29 February 2020	(2,857)
Impairment	(243)
At 27 February 2021	(3,100)
Net carrying value	
At 27 February 2021	16,963
At 29 February 2020	17,829

The impairment losses of £243m includes the £234m impairment of its subsidiary holding company Cheshunt Holdings Guernsey Limited to a recoverable amount of £7m based on remaining net assets subsequent to a dividend payment, and £9m relating to immaterial impairments in various small holding companies.

The key source of estimation uncertainty is in relation to the Company's investment in Tesco Personal Finance PLC (Tesco Bank), for which no impairment was required. The impairment review for the Company's investments was performed using the same projections used in the impairment review performed in relation to the Group's goodwill. Details, including sensitivity analyses showing the impact of the reasonably possible changes in key assumptions upon the value in use of Tesco Bank, are disclosed in Note 15 in the Group financial statements.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 197 to 201.

Note 7 Receivables

	2021 £m	2020 £m
Amounts owed by Group undertakings*	1,737	1,530
Amounts owed by joint ventures and associates	-	24
Other receivables	36	36
Total receivables	1,773	1,590
Of which:		
Current	1,514	547
Non-current	259	1,043
	1,773	1,590

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship, with interest rates ranging from 0.7% to 8.3%, with maturities up to and including January 2032.

The expected credit loss on receivables is immaterial (2020: immaterial).

Notes to the Parent Company financial statements continued

Note 8 Payables

	2021 £m	2020 £m
Amounts owed to Group undertakings*	2,017	278
Other payables	60	11
Taxation and social security	4	4
Deferred tax liability	22	27
Total payables	2,103	320
Of which:		
Current	810	238
Non-current	1,293	82
	2,103	320

* Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship, with interest rates ranging from 0.6% to 1.1%, with maturities up to and including February 2051.

The deferred tax liability recognised by the Company, and the movements thereon, during the current financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 29 February 2020	(27)	–	(27)
Movement in other comprehensive income for the year	5	–	5
At 27 February 2021	(22)	–	(22)

Note 9 Borrowings

	Par value	Maturity	2021 £m	2020 £m
Bank loans and overdrafts			21	43
6.125% MTN	£417m	Feb 2022	417	416
5% MTN ^(a)	£93m	Mar 2023	79	103
3.322% LPI MTN ^(b)	£354m	Nov 2025	364	358
6% MTN ^(a)	£48m	Dec 2029	45	58
5.5% MTN ^(a)	£109m	Jan 2033	80	133
1.982% RPI MTN ^(c)	£294m	Mar 2036	302	297
6.15% USD Bond ^(a)	\$525m	Nov 2037	333	555
4.875% MTN ^(a)	£20m	Mar 2042	14	20
5.125% MTN ^(a)	€356m	Apr 2047	209	316
5.2% MTN ^(a)	£30m	Mar 2057	14	29
			1,878	2,328
Of which:				
Current			463	43
Non-current			1,415	2,285
			1,878	2,328

(a) During the year, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early, 5% MTN Mar 2023 £22m, 6% MTN Dec 2029 £10m, 5.5% MTN Jan 2033 £42m, 6.15% USD Bond Nov 2037 \$170m, 4.875% MTN Mar 2042 £6m, 5.125% MTN Apr 2047 €121m and 5.2% MTN Mar 2057 £16m.

(b) The 3.322% LPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.

(c) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Note 10 Derivative financial instruments

	2021				2020			
	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	9	65	–	–	10	65	–	–
Cross-currency swaps	–	–	–	–	228	409	–	–
Cash flow hedges								
Cross-currency swaps	–	–	–	–	208	306	–	–
Index-linked swaps	199	660	–	–	185	649	–	–
Derivatives not in a formal hedge relationship								
Cross-currency swaps	266	372	(3)	86	–	–	–	–
Index-linked swaps	1,062	4,006	(627)	3,964	536	3,339	(735)	4,461
Total	1,536	5,103	(630)	4,050	1,167	4,768	(735)	4,461

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 28 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 27 February 2021

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
Outstanding at 29 February 2020	19,148	188.00	10,633,867	–
Granted ^(a)	–	–	318,623	–
Forfeited	(9,574)	–	(1,587,596)	–
Exercised	–	–	(6,224,090)	–
Outstanding at 27 February 2021	9,574	188.00	3,140,804	–
Exercise price range (pence)	–	188.00	–	–
Weighted average remaining contractual life (years)	–	1.01	–	5.05
Exercisable at 27 February 2021	–	–	3,140,804	–
Exercise price range (pence)	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	5.05

(a) The special dividend and associated share consolidation had a neutral impact to the number of options.

For the 53 weeks ended 29 February 2020

	Savings-related Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP
Outstanding at 23 February 2019	19,148	188.00	12,743,733	–
Granted	–	–	295,554	–
Forfeited	–	–	(2,405,420)	–
Exercised	–	–	–	–
Outstanding at 29 February 2020	19,148	188.00	10,633,867	–
Exercise price range (pence)	–	188.00	–	–
Weighted average remaining contractual life (years)	–	2.01	–	6.15
Exercisable at 29 February 2020	–	–	6,454,736	–
Exercise price range (pence)	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	5.46

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 28 to the Group financial statements.

Notes to the Parent Company financial statements continued

Note 11 Share-based payments continued

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial year were:

	2021		2020	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Group Bonus Plan	777,044	246.7	506,768	244.1
Performance Share Plan	990,404	221.6	2,388,395	230.3

Note 12 Pensions

The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £1m (2020: £2m). Further disclosure relating to all schemes can be found in Note 29 to the Group financial statements.

Note 13 Called up share capital

Refer to Note 30 to the Group financial statements.

Note 14 Contingent liabilities

In addition to the contingent liabilities shown in Note 34 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £3,200m (2020: £2,589m). It has also guaranteed derivative agreements of Group undertakings with a gross liability of £790m (2020: £168m) 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.

The likelihood of the above items being called upon is considered remote.

Note 15 Events after the reporting period

During the year, the Board approved plans to dispose of the Group's operations in Poland. The disposal of the Group's corporate business in Poland completed after the balance sheet date on 16 March 2021. Refer to Note 36 of the Group financial statements for further details.

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 27 February 2021 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

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	-	Linnco Limited	8	£1.00 Ordinary	100
Alfred Preedy & Sons Limited	2	£1.00 Deferred £1.00 Ordinary	100 100	Londis (Holdings) Limited	8	£50.00 Ordinary	100
Armitage Finance Unlimited	1	£0.90 Ordinary	100	Londis Pension Trustees Limited	8	£1.00 Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	-	Makro Holding Limited	8	£1.00 Ordinary	100
Berry Lane Management Company Limited	1	Limited by Guarantee	-	Makro Properties Limited	8	£1.00 Ordinary	100
BF Limited	8	£1.00 Ordinary	100	Makro Self Service Wholesalers Limited	8	£1.00 Ordinary A	100
Bishop's Group Limited	8	£0.01 Ordinary	100			£1.00 Ordinary B	100
Booker Cash & Carry Limited	8	£1.00 Ordinary	100	Maldon Finance Limited	1	£1.00 Ordinary	100
Booker Direct Limited	8	£0.01 Ordinary	100			US\$1.00 A Preference	100
Booker Group Limited	8	£0.0000000055625 Ordinary	100			US\$0.50 B Preference	100
Booker Limited	8	£1.00 Ordinary	100			US\$0.25 C Preference	100
Booker Retail Partners (GB) Limited	8	£1.00 Ordinary	100	Munster Road Management Company Limited	1	Limited by Guarantee	-
Booker Retail Limited	8	£0.10 Ordinary	100	Murdoch Norton Limited	8	£0.05 Ordinary	100
Booker Pension Trustees Limited	8	Limited by Guarantee	-	Oakwood Distribution Limited	1	£1.00 Ordinary	100
Booker Wholesale Holdings Limited	8	£0.01 Ordinary A1	100	One Stop Community Stores Limited	2	£0.00001200004 Ordinary	100
Booker Unapproved Scheme Trustees Ltd	8	Limited by Guarantee	-	One Stop Convenience Stores Limited	2	£1.00 Ordinary	100
Bourne End Residential Management Company Limited	1	Limited by Guarantee	-	One Stop Stores Limited ^(a)	2	£1.00 Ordinary	100
Broughton Retail Park Nominee 1 Limited	1	£1.00 Ordinary	100	One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100
Broughton Retail Park Nominee 2 Limited	1	£1.00 Ordinary	100	Orpington (Station Road) Limited	1	£1.00 Ordinary	100
Broughton Retail Park Nominee 3 Limited	1	£1.00 Ordinary	100	Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	-
Broughton Retail Park Nominee 4 Limited	1	£1.00 Ordinary	100	Paper Chain (East Anglia) Limited	2	£1.00 Deferred US\$0.001 Ordinary	100 100
Budgen Holdings Limited	8	£1.00 Ordinary	100	PTLL Limited	1	£1.00 Ordinary	100
Budgens Pension Trustees No.2 Limited	8	£1.00 Ordinary	100	Ritter-Courivaud Limited	8	£0.10 Ordinary	100
Budgens Property Investments Limited	8	£1.00 Ordinary	100	Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100
Budgens Stores Limited	8	£1.00 Ordinary	100	Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100
Buttoncable Limited	1	£1.00 Ordinary	100	Spenn Hill Developments Limited	1	£1.00 Ordinary	100
Buttoncase Limited ^f	1	£1.00 Cumulative Redeemable Preference	100	Spenn Hill Management Limited ^(b)	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	Spenn Hill Properties (Holdings) plc ¹	1	£1.00 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	-	Spenn Hill Regeneration Limited	1	£1.00 Ordinary	100
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	-	Spenn Hill Residential No 1 Limited	1	£1.00 Ordinary	100
Comar Limited ^f	1	£1.00 Ordinary	100	Spenn Hill Residential No 2 Limited	1	£1.00 Ordinary	100
Day And Nite Stores Limited	2	£1.00 Cumulative Convertible Participating Preferred Ordinary	100	Station House Welling Management Limited	1	Limited by Guarantee	-
		£1.00 Cumulative Redeemable Preference	100	Statusfloat Limited	1	£1.00 Ordinary	100
		£1.00 Ordinary	100	T & S Stores Limited ^f	2	£0.05 Ordinary	100
Dillons Newsagents Limited*	2	£0.25 Non-Voting Ordinary	100	Tapesilver Limited ^f	1	£1.00 Ordinary	100
				Teesport (GP) Limited	1	£1.00 Ordinary	100
dunnhumby International Limited	4	£1.00 Ordinary	100	Tesco (Overseas) Limited ^f	1	£1.00 Ordinary	100
dunnhumby Limited	4	£3.59 Ordinary	100	Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100
dunnhumby Overseas Limited	4	£1.00 Ordinary	100	Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100
dunnhumby Trustees Limited	4	£1.00 Ordinary	100	Tesco Aqua (GP) Limited	1	£1.00 A Ordinary £1.00 B Ordinary	100 100
Giant Bidco Limited	8	£1.00 Ordinary	100			£1.00 Ordinary	100
Giant Booker Limited	8	£0.25 Ordinary	100	Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100
Giant Midco Limited	8	£1.00 Ordinary	100	Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100
Highams Green Management Company Limited	1	Limited by Guarantee	-	Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100
IRTH (15) Limited	8	£1.00 Ordinary	100	Tesco Atrato (ILP) Limited	1	£1.00 Ordinary	100
IRTH (19) Limited	8	US\$0.000000052383172 Ordinary	100	Tesco Atrato (GP) Limited	1	£1.00 A Ordinary £1.00 B Ordinary	100 100
Launchgrain Limited ^f	1	£1.00 Ordinary	100			£1.00 Ordinary	100
				Tesco Atrato (Nominee 1) Limited	1	£1.00 Ordinary	100
				Tesco Atrato (Nominee 2) Limited	1	£1.00 Ordinary	100
				Tesco Atrato (Nominee Holdco) Limited	1	£1.00 Ordinary	100
				Tesco Atrato Depot Propco Limited	1	£1.00 Ordinary	100

Related undertakings of the Tesco Group continued

Subsidiary undertakings incorporated in the United Kingdom continued

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Blue (3LP) Limited	1	£1.00 Ordinary	100	Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100
Tesco Blue (GP) Limited	1	£1.00 A Ordinary	100	Tesco Property Holdings Limited	1	£1.00 Ordinary	100
		£1.00 B Ordinary	100	Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee 1) Limited	1	£1.00 Ordinary	100	Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee 2) Limited	1	£1.00 Ordinary	100	Tesco Property Partner (GP) Limited ^f	1	£1.00 A Ordinary	100
Tesco Blue (Nominee Holdco) Limited	1	£1.00 Ordinary	100			£1.00 B Ordinary	100
Tesco Brislington Limited	1	£1.00 Ordinary	100	Tesco Property Partner (GP No.2) Limited	1	£1.00 A Ordinary	100
Tesco Corporate Treasury Services PLC ^g	1	£1.00 Ordinary	100			£1.00 B Ordinary	100
Tesco Depot Propco Limited	1	£1.00 Ordinary	100	Tesco Property Partner (No.1) Limited ^f	1	£1.00 Ordinary	100
Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100	Tesco Property Partner (No.2) Limited ^f	1	£1.00 Ordinary	100
Tesco Distribution Limited	1	£1.00 Ordinary	100	Tesco Red (3LP) Limited	1	£1.00 Ordinary	100
Tesco Dorney (ILP) Limited	1	£1.00 Ordinary	100	Tesco Red (GP) Limited	1	£1.00 Ordinary A	100
Tesco Employees' Share Scheme Trustees Limited ^{h(i)}	1	£1.00 Ordinary	100			£1.00 Ordinary B	100
Tesco Family Dining Limited	1	£1.00 Ordinary	100	Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Food Sourcing Limited	1	£1.00 Ordinary	100	Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Freetime Limited	1	£1.00 Ordinary	100	Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Fuchsia (3LP) Limited	1	£1.00 Ordinary	100	Tesco Sarum (ILP) Limited	1	£1.00 Ordinary	100
Tesco Gateshead Property Limited	1	£1.00 Ordinary	100	Tesco Seacroft Limited	1	£1.00 Ordinary	100
Tesco Holdings Limited ^f	1	£0.10 Ordinary	100	Tesco Secretaries Limited	1	£1.00 Ordinary	100
		£1.00 Preference	100	Tesco Services Limited	1	£1.00 Ordinary	100
Tesco International Services Limited ^f	1	£1.00 Ordinary	100	Tesco Stores Limited	1	£1.00 A Preference	100
Tesco Lagoon GP Limited	5	£1.00 Ordinary	100			£1.00 B Preference	100
Tesco Maintenance Limited	1	£1.00 Ordinary	100	Tesco TLB Finance Limited	1	£1.00 Ordinary	100
Tesco Mobile Communications Limited ^f	1	£1.00 Ordinary	100	Tesco TLB Properties Limited	1	£1.00 A Ordinary	100
Tesco Mobile Services Limited	1	£1.00 Ordinary	100			£1.00 B Ordinary	100
Tesco Navona (ILP) Limited	1	£1.00 Ordinary	100	The Big Food Group Limited	8	£0.10 Ordinary	100
Tesco Navona (GP) Limited	1	£1.00 Ordinary A	100	The Teesport Limited Partnership	1	Limited Partnership	100
		£1.00 Ordinary B	100	The Tesco Aqua Limited Partnership	1	Limited Partnership	100
Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100	The Tesco Atrato Limited Partnership	1	Limited Partnership	100
Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100	The Tesco Blue Limited Partnership	1	Limited Partnership	100
Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100	The Tesco Navona Limited Partnership	1	Limited Partnership	100
Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100	The Tesco Passaic Limited Partnership	1	Limited Partnership	100
Tesco Overseas Investments Limited ^f	1	£1.00 Ordinary	100	The Tesco Property Limited Partnership	1	Limited Partnership	100
Tesco Passaic (ILP) Limited	1	£1.00 Ordinary	100	The Tesco Property (No.2) Limited Partnership	17	Limited Partnership	100
Tesco Passaic (GP) Limited	1	£1.00 Ordinary A	100	The Tesco Red Limited Partnership	1	Limited Partnership	100
		£1.00 Ordinary B	100	TPI Fund Managers Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100	TPT Holdco No.1 Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100	Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100				
Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100				
Tesco PEG Limited	1	£0.01 Ordinary	100				
Tesco PENL Limited	1	£1.00 Ordinary	100				
Tesco Pension Investment Limited ^{g(i)}	1	£1.00 Ordinary	100				
Tesco Pension Trustees Limited ^f	1	£1.00 Ordinary	100				
Tesco Personal Finance Group PLC ^f	6	£0.10 A Ordinary	100				
		£0.10 B Ordinary	100				
		£0.10 C Ordinary	100				
Tesco Personal Finance PLC	6	£0.10 Ordinary	100				
Tesco Property (Nominees) (No.1) Limited	11	£1.00 Ordinary	100				
Tesco Property (Nominees) (No.2) Limited	11	£1.00 Ordinary	100				
Tesco Property (Nominees) Limited	11	£1.00 Ordinary	100				
Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100				
Tesco Property Finance 1 PLC	1	£1.00 Ordinary	100				
		£0.25 Ordinary	100				

International subsidiary undertakings

Name of undertaking	Registered address	Class of share held	% held by Group	Name of undertaking	Registered address	Class of share held	% held by Group
Agate Jewel sp. z.o.o. ^(e)	75	PLN 50 Ordinary	100	Monread Developments Limited	24	€0.001 Ordinary	100
Arena (Jersey) Management Limited†	33	£1.00 Ordinary	100	Nabola Development Limited	24	€1.25 A Ordinary	100
Amethyst Jewel sp. z.o.o.	75	PLN 50 Ordinary	100			€1.25 B Ordinary	100
Cheshunt Holdings Guernsey Limited†	27	£1.00 Ordinary	100	Onyx Jewel sp. z.o.o. ^(e)	75	PLN 50 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100	Opal Jewel sp. z.o.o.	75	PLN 50 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100	Orpingford Unlimited Company	24	€1.00 Ordinary	100
		€1.00 Ordinary	100	Parijude Limited	45	€1.00 Ordinary	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100	Pharaway Properties Limited	24	€1.00 Ordinary	100
Commercial Investments Limited	24	€1.25 Ordinary	100	Pearl Jewel sp. z.o.o.	75	PLN 50 Ordinary	100
Coral Jewel sp. z.o.o. ^(e)	75	PLN 50 Ordinary	100	R.J.D. Holdings Unlimited Company	24	€1.269738 Ordinary	100
Crest Ostrava a.s	16	CZK 100,000 Ordinary	100	Ruby Jewel sp. z.o.o. ^(e)	75	PLN 50 Ordinary	100
Diamond Jewel sp. z.o.o.	75	PLN 50 Ordinary	100	Sapphire Jewel sp. z.o.o. ^(e)	75	PLN 50 Ordinary	100
dunnhumby (Korea) Limited	66	KRW 5,000 Ordinary	100	Shopping Mall Chrudim s.r.o. ⁽ⁱ⁾	7	CZK 100,000 Ordinary	100
dunnhumby (Malaysia) Sdn Bhd	10	RM 1.00 Ordinary	100	Shopping Mall Ostrava s.r.o. ⁽ⁱ⁾	7	CZK 100,000 Ordinary	100
dunnhumby (Thailand) Limited	73	THB 1,000,000 Ordinary	100	Shopping Mall Karlovy Vary s.r.o. ⁽ⁱ⁾	7	CZK 100,000 Ordinary	100
dunnhumby Advertising (Shanghai) Co., Ltd	23	€130,000 Registered Capital	100	Shopping Mall Opava s.r.o. ⁽ⁱ⁾	7	CZK 100,000 Ordinary	100
dunnhumby Australia PTY Limited	65	AUD 100 Ordinary	100	Shopping Mall Ostrava s.r.o. ⁽ⁱ⁾	7	CZK 100,000 Ordinary	100
dunnhumby Brasil Consultora Ltda	77	BRL\$1.00 Ordinary	100	Sociomantic Labs Internet Hizmetleri Limited Şirketi	51	TRY 25.00 Ordinary	100
dunnhumby Canada Limited	59	CAD\$1.00 Ordinary	100	Tesco (Polska) Sp. z.o.o. ^(e)	42	PLN 500.00 Ordinary	100
dunnhumby Chile SpA	48	CLP 500,000 Ordinary	100	Tesco Akadémia Képzési és Fejlesztési Korlátolt Felelősségű Társaság	32	HUF 1.00 Business Share	100
dunnhumby Colombia S.A.S.	74	COP 2,000 Type A	100	Tesco Bengaluru Private Limited	41	INR 10.00 Ordinary	100
		COP 41.00 Type B	100	Tesco Capital No. 1 Limited†	28	£0.50 A Ordinary	100
		COP 1.00 Type C	100			£0.50 B Ordinary	100
dunnhumby Computer Information Technology and Consultancy Services LLC	18	TL 25.00 Ordinary	100			£0.01 Preference	-
dunnhumby Consulting Services India Private Limited	60	INR 10.00 Ordinary	100		Guaranteed Cumulative Fixed Rate Preference		100
dunnhumby Czech s.r.o.	16	CZK 200,000 Ordinary	100		£0.01 Preferred Ordinary		100
dunnhumby Denmark IvS	57	DKK 1.00 Ordinary	100		£1.00 Ordinary		100
dunnhumby Finland Oy	30	100 Kovellinum Oy	100	Tesco Chile Sourcing Limitada	22	CLP 1.00 Ordinary	100
dunnhumby France SAS	61	€2.00 Ordinary	100	Tesco Digital Ventures Pte Ltd	49	SGD 1.00 Ordinary	100
dunnhumby Germany GmbH	14	€1.00 Ordinary	100	Tesco Dystrybucja Sp. z.o.o. ^(e)	42	PLN 50.00 Ordinary	100
dunnhumby Hungary Kft	32	Registered capital HUF 3,000,000	100	Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100
dunnhumby Inc.	35	No par value	-	Tesco Franchise Stores SR s.r.o.	68	€1.00 Ordinary	100
dunnhumby Information Technology Consulting (Shanghai) Company Limited	62	Registered capital US\$140,000	100	Tesco-Global Stores Privately Held Company Limited	32	HUF 10.00 Common	100
dunnhumby Ireland Limited	67	€1.00 Ordinary	100	Tesco Holdings B.V.	40	€1.00 Ordinary	100
dunnhumby IT Services India Private Limited	36	INR 10.00 Ordinary	100	Tesco International Clothing Brand s.r.o.	58	€1.00 Ordinary	100
dunnhumby Italia Srl.	37	€1.00 Ordinary	100	Tesco International Franchising s.r.o.	58	€1.00 Ordinary	100
dunnhumby Japan K.K	38	JPY 10,000 Ordinary	100	Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100
dunnhumby Mexico S. de R.L. de C.V.	69	MXN 2,970 Ordinary A	100	Tesco Ireland Holdings Limited	24	€1.25 Ordinary	100
		MXN 30.00 Ordinary B	100	Tesco Ireland Limited	24	€1.25 Ordinary	100
dunnhumby Netherlands B.V.	70	€1.00 Ordinary	100	Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100
dunnhumby New Zealand	64	NZD 100.00 Ordinary	100	Tesco Joint Buying Service (Shanghai) Co., Limited	76	US\$1.00 Ordinary	100
dunnhumby Poland Sp. z.o.o.	42	PLN 50,000 Ordinary	100	Tesco Mobile Ireland Limited	24	€1.00 Ordinary	100
dunnhumby Russia LLC	79	RUB 1.00 Ordinary	100	Tesco Property (No.1) Limited	28	€1.00 Ordinary	100
dunnhumby Singapore Pte Ltd	19	SGD 1.00 Ordinary	100	Tesco Sourcing India Private Limited	80	INR 10.00 Ordinary	100
dunnhumby SARL	61	€100.00 Ordinary	100	Tesco Stores ČR a.s.	16	CZK 250 Ordinary	100
dunnhumby Serviços de Promoção Digital Ltda	77	R\$1.00 Ordinary	100	Tesco Stores SR, a.s.	58	€33,193.92 Ordinary	100
dunnhumby Slovakia s.r.o.	58	No shares in issue	-	Tesco Technology and Services Europe SP. Z.O.O.	75	PLN 50 Ordinary	100
dunnhumby Sp. z.o.o.	47	PLN 50.00 Ordinary	100	Tesco Trustee Company of Ireland Limited†	24	€1.25 Ordinary	100
dunnhumby Spain S.L	50	€1.00 Ordinary	100	TESCO Üzleti és Technológiai Szolgáltatások Zártkörűen Működő Részvénytársaság	25	HUF 1,000.00	100
dunnhumby South Africa (Pty) Ltd	43	No par value Ordinary	100	Thundridge Unlimited	24	€1.00 Ordinary	100
dunnhumby Ventures LLC	44	-	-	Topaz Jewel sp. z.o.o.	75	PLN 50 Ordinary	100
Edson Investments Limited	24	€2.00 Ordinary	100	Victoria BB Sp. z.o.o.	42	PLN 800.00 Ordinary	100
Edson Properties Limited	24	€1.00 Ordinary	100	Wanze Properties (Dundalk) Limited	24	€1.00 Ordinary	100
ELH Insurance Limited	71	£1.00 Ordinary	100	WSC Properties Limited	24	€0.0000005 Ordinary	100
Emerald Jewel sp. z.o.o.	75	PLN 50 Ordinary	100				
Epicier Limited	46	£1.00 Ordinary	100				
Genesis sp. z.o.o. ^(e)	42	PLN 500.00 Ordinary	100				
Jasper Sp. z.o.o. ^(e)	42	PLN 100.00 Ordinary	100				
Letňany Development land 2 s.r.o.	16	CZK 100,000 Ordinary	100				

Related undertakings of the Tesco Group continued

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Adminstore Limited	9	£0.00000000177758 A Ordinary	100
		£0.00000000177758 B Ordinary	100
		£0.00000000177758 C Ordinary	100
Cheshunt Finance Unlimited ^(h)	9	£0.000000001 Ordinary	100
Cheshunt Overseas LLP	3	Limited Liability Partnership	100
dunnhumby Advertising Limited	9	£0.001 Ordinary	100
dunnhumby Holding Limited	9	£1.00 Ordinary	100
Europa Foods Limited	9	£0.000000176 Ordinary	100
Fresh Food Trader Limited	9	£1.00 Ordinary	50
		£1.00 Preference	100
J.Smylie & Sons (IOM) Limited	72	£1.00 Ordinary	100
KSS Retail Limited	9	£0.000000851 Ordinary	100
M & W Limited	9	£0.000000582261 Ordinary	100
Motorcause Limited	9	£1.00 Ordinary	100
Reefknot Technology Limited	9	£1.00 Ordinary	100
Stewarts Supermarkets Limited ^(f)	9	£1.00 Ordinary	100
Tesco Aqua (FinCo1) Limited	9	£1.00 Ordinary	100
Tesco Blue (FinCo2) Limited	9	£1.00 Ordinary	100
Tesco FFC Limited	9	£0.01 Ordinary	100
Tesco International Internet Retailing Limited ^(f)	9	£0.0000013543 Ordinary	100
Tesco Overseas ULC	9	£0.00000025 A Ordinary	100
		£0.00000025 B Ordinary	100
		£0.00000025 C Ordinary	100
		£0.00000025 D Ordinary	100
		£0.00000025 E Ordinary	100
		£0.00000025 F Ordinary	100
		£0.00000025 G Ordinary	100
		£0.00000025 H Ordinary	100
		£0.00000025 J Ordinary	100
		£0.00000025 K Ordinary	100
		£0.00000025 L Ordinary	100
		£0.00000025 M Ordinary	100
		£0.00000025 N Ordinary	100
		£0.00000025 O Ordinary	100
		£0.00000025 P Ordinary	100

The following subsidiary undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Avantil Services Company Limited	39	£1.00 Ordinary	100
Booker Cyprus Limited	21	€1.00 Ordinary	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100
Saneyia Limited	21	€1.00 Ordinary	100
Sociomantic Labs Private Limited	78	INR 10.00 Ordinary	100
Tesco Global Employment Company Limited	34	THB 100.00 Ordinary	100
Tesco Capital No.2 Limited	9	£0.01 Floating Rate Redeemable Preference	100
		£1.00 Ordinary	100
Tesco Vin Plus S.A.	52	€1.60 Ordinary	100

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Broadfields Management Limited	12	£0.10 Ordinary	35.3
Clarepharm Limited ^(g)	13	£0.10 Ordinary	26.5
Shire Park Limited	15	£1.00 Ordinary	48.57
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Coral (Nominee) Limited	1	£1.00 Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Dorney (Nominee 2) Limited	1	£1.00 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Dorney (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Jade (GP) Limited	29	£1.00 A Ordinary	30
		£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
		£0.90 B Ordinary	100
Tesco Property (Sparta Nominees) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.3) Limited	1	£1.00 Ordinary	100
Tesco Property (Nominees) (No.4) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP No.2) Limited	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Sarum (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Underwriting Limited	31	£1.00 Ordinary	49.9
The Tesco Coral Limited Partnership	1	Limited Partnership	50
The Tesco Dorney Limited Partnership	1	Limited Partnership	50
The Tesco Property (No.2) Limited Partnership	17	Limited Partnership	50
The Tesco Sarum Limited Partnership	1	Limited Partnership	50

The following associated undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Arena Unit Trust	33	-	50
Booker India Limited	54	INR 1.00 Ordinary	49
Booker Satnam Wholesale Limited	54	INR 1.00 Ordinary	49
China Wisdom dunnhumby Limited	53	RMB 264,000 Ordinary	50
China Wisdom dunnhumby (Shanghai) Limited	63	RMB 264,000,000 Registered Capital	50
dunnhumby Mitsui Bussan Customer Science Co., Ltd	55	JPY 1,000 Ordinary	50
dunnhumby Norge A.S.	56	NOK 1,000 Ordinary	50
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51.9
Tesco Mobile ČR s.r.o.	16	CZK 100,000 Ordinary	50
Tesco Mobile Slovakia s.r.o.	81	€1.00 Ordinary	50
Trent Hypermarket Private Limited	26	INR 10.00 Equity	50

Consolidated structured entities

Name of undertaking	Registered address	Nature of business
Delamare Cards Holdco Limited	47	Securitisation entity
Delamare Cards MTN Issuer plc	47	Securitisation entity
Delamare Cards Receivables Trustee Limited	47	Securitisation entity
Delamare Cards Funding 1 Limited	47	Securitisation entity
Delamare Cards Funding 2 Limited	47	Securitisation entity
Delamare Finance PLC	11	Securitisation entity
Delamare Group Holdings Limited	11	Securitisation entity

* Undertaking where other share classes are held by a third party

† Interest held directly by Tesco PLC

(a) 95% held by Tesco PLC.

(b) 66.6% held by Tesco PLC.

(c) 50% held by Tesco PLC.

(d) Shares held by Tesco Pension Trustees Limited (TPTL), the corporate trustee of the Tesco PLC Pension Scheme (the Scheme). On behalf of the Scheme, TPTL holds a 50% shareholding in three property joint ventures with Tesco, and is the sole shareholder of TPT Holdco No.1 Limited and Tesco Pension Investment Limited.

(e) Placed into liquidation on 01/03/2021.

(f) Interest sold on 02/03/2021.

(g) Sold on 16/03/2021.

(h) Dissolved on 21/03/2021.

(i) Incorporated on 06/04/2021.

Registered office addresses

1	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom	61	48 rue Cambon, 75001, Paris, France
2	Apex Road, Brownhills, Walsall, West Midlands, WS8 7HU, United Kingdom	62	Room 1001, Enterprise Development Tower, No. 398, Jiangsu Road Changning District, Shanghai 200050, People's Republic of China
3	KPMG LLP, 15 Canada Square, London, E14 5GL, United Kingdom	63	Room 501-4, No.398 Jiangsu Road, Shanghai, People's Republic of China
4	184 Shepherds Bush Road, London, W6 7NL, United Kingdom	64	RSM New Zealand, Level 2, 60 Highbrook Drive, Auckland, 2013, New Zealand
5	C/O Morton Fraser LLP, 5th Floor, Quartermile Two, 2 Lister Square, Edinburgh, Scotland, EH3 9GL, United Kingdom	65	Level 21, 55 Collins Street, Melbourne, VIC 3000, Australia
6	2 South Gyle Crescent, Edinburgh, EH12 9FQ, United Kingdom	66	10 Gukjegeumyung-ro, Yeongdeungpo-gu, Seoul, Korea (07326)
7	Vršovická 1527/68b, Vršovice, 100 00 Prague 10, Czech Republic	67	Floor 3, 2 Harbour Square, Crofton Road, Dun Laoghaire, Dublin, Ireland
8	Equity House, Irthingborough Road, Wellingborough, Northamptonshire, NN8 1LT, United Kingdom	68	Veterná 7310/40, 917 01 Trnava, Slovakia
9	Ernst & Young LLP, 1 More London Place, London, SE1 2AF, United Kingdom	69	Av President Masarik No. 111, Piso 1, Colina Polance V Seccion Delegacion Miguel Hidalgo, C.P. 11560, Mexico
10	Suite 13.03, 13th Floor, Menara Tan & Tan, 207 Jalan Tun Razak, 50400 Kuala Lumpur, Malaysia	70	Regus Amsterdam Sloterdijk Teleport Towers, Kingsfordweg 151, 1043 GR Amsterdam
11	1 Bartholomew Lane, London, England, EC2N 2AX, United Kingdom	71	Dorey Court, Admiral Park, St. Peter Port, GY1 4AT, Guernsey
12	2 Paris Parklands, Railton Road, Guildford, Surrey, GU2 9JX, United Kingdom	72	PO Box 237, Peregrine House, Peel Road, Douglas, Isle of Man, IM99 1SU
13	Thompson Jenner, 28 Alexandra Terrace, Exmouth, Devon, EX8 1BD, United Kingdom	73	No. 319 Chamchuri Square Building, 16th Fl, Unit 01, Phayathi Road Pathumwan sub District, Bangkok 10330, Thailand
14	Ritterstraße 6, 10969 Berlin, Germany	74	Calle 32 b sur #48-100, Envigado, Antioquia, Colombia
15	Riverside House, 3 Place Farm, Wheathampstead, St. Albans, AL4 8SB, United Kingdom	75	ul. Połczyńska 121/125, 01-377 Warsaw, Poland
16	1527/68b, Vršovicka, Praha 10, City of Prague, 100 00, Czech Republic	76	Unit 01, 02, 06, 07, 08, 09, Floor 17, No. 610 Xujiahui Road, Huangpu District, Shanghai, People's Republic of China
17	PO Box 87 22 Grenville Street, St Helier, Jersey	77	Av. Brigadeiro Luis Antônio, 3530, 5º Andar, 01402-001 São Paulo, Brazil
18	Yeni Havaalani Caddesi, No. 40 Cigli, Izmir, 35610 Turkey	78	c/o Vaish Associates, 106, Peninsula Centre, Dr. S. S. Rao Road, Parel Mumbai - 400012, Maharashtra, India
19	50 Raffles Place, #19-00 Singapore Land Tower, Singapore 048623	79	125047, Moscow, 1st Tverskaya-Yamskaya Street, 23, building 1, floor 5, premise V, room 5, Russia
20	31st Floor AIA Kowloon Tower Landmark East, 100 How Ming Street, Kowloon, Hong Kong	80	5th Floor, Unit 401, Tower B, The Millenia, No. 1&2 Murphy Road Ulsoor, Bangalore, 560 008, India
21	5 Esperidon Street, 4th floor, 2001 Strovolos, Nicosia, Cyprus	81	Einsteinova 24, Bratislava 851 01, Slovakia
22	Avenida Santa Maria 5888, Piso 2 Zona A, Oficina 4, Vitacura, Santiago, 7660268, Chile		
23	Eco City Centro, 901-12 office, 9 / F 1788 West Nanjing Road, Jingan District, Shanghai, People's Republic of China		
24	Gresham House, Marine Road, Dun Laoghaire, Co. Dublin, Ireland		
25	II38, Budapest, Váci út, 187, Hungary		
26	Taj Building, 2nd Floor, 210, Dr D.N. Road, Fort, Mumbai, 400001, India		
27	PO Box 25, Regency Court, Glatigny Esplanade, St. Peter Port, Guernsey, GY1 3AP		
28	Level 1, IFC1 Esplanade, St Helier, Jersey, JE2 3BX		
29	20 Churchill Place, Canary Wharf, London, E14 5HJ, United Kingdom		
30	c/o RSM Finland Oy, Ratamestarinkatu 7 B, 00520, Helsinki, Finland		
31	Ageas House Hampshire Corporate Park, Templars Way, Eastleigh, Hampshire, SO53 3YA, United Kingdom		
32	H-2040 Budaörs, Kinizsi, ÚT 1-3, Hungary		
33	47 Esplanade, St Helier, Jersey, JE1 0BD		
34	629/1 Nawamintr Road, Nuanchan, Buengkoom, Bangkok, 10230, Thailand		
35	c/o The Corporation Trust Company, 1209 Orange Street, Corporation Trust Center, Wilmington, DE 19801, USA		
36	S-22 Greater Kailash, Part 1, Lower Ground Floor, New Delhi 110048, India		
37	Carrera 48 no. 32B sur - 139, Envigado, Italy		
38	9th Floor, Shiroyama Trust Tower, 3-1, Toranomon 4-chome, Minato-ku, Tokyo, Japan		
39	38/39 Fitzwilliam Square, Dublin 2, Ireland		
40	Willemsparkweg 150 hs, 1071 HS, Amsterdam, The Netherlands		
41	81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India		
42	56 Kapelenka St, 30-347, Krakow, Poland		
43	3rd Floor, 54 Melrose Boulevard, Melrose Arch, Gauteng, 2196, South Africa		
44	c/o FBT Ohio, Inc., 3300 Great American Tower, 301 East Fourth Street, Cincinnati, OH 45202, USA		
45	Windward 1, Regatta Office Park, PO Box 897, Grand Cayman KY1 - 1103, Cayman Islands		
46	Beauport House, L'Avenue de la Commune, Jersey, JE3 7BY		
47	6th Floor, 125 London Wall, London, EC2Y 5AS, United Kingdom		
48	Av. El Golf 40, 7th floor, Las Condes, Santiago de Chile, Chile		
49	163 Tras Street, #03-01, Lian Huat Building, 079024, Singapore		
50	Paseo de General Martinez Campos, Campos nº 9 1º izquierda, 28010 Madrid, Spain		
51	Istiklal Caddesi Beyoglu Is Merkezi No: 187/5 Galatasaray, Istanbul, Turkey		
52	Centre de Commerces et de Loisirs, Cite Europe, 62231 Coquelles, France		
53	Suite 1106-8, 11/F., Tai Yau Building, No 181 Johnston Road, Wanchai, Hong Kong		
54	Unit 607, 6th floor, Trade Centre, Bandra Kurla Complex, Bandra East, Mumbai, 400051, Maharashtra, India		
55	1-2-3 Marunouchi, Chiyoda-ku, Tokyo, Japan		
56	Rosenkrantzgate 16, Oslo, 0160, Norway		
57	c/o Lundgrens Advokatpartnerselskab Tuborg Boulevard 12 2900 Hellerup, Denmark		
58	Cesta na Senec 2, Bratislava, 821 04, Slovakia		
59	1400-340 Albert St, Ottawa ON K1R 0A5, Canada		
60	4th Fl, Tower B, Paras Twin Towers, DLF Golf Course Road, Sector 54, Gurgaon, Haryana-HR, 122002, India		

Supplementary information (unaudited)

Total sales performance at actual rates (exc. VAT, exc. fuel) for continuing operations*

	1Q 2020/21	2Q 2020/21	3Q 2020/21	4Q 2020/21	1H 2020/21	2H 2020/21	FY 2020/21
UK & ROI	9.4%	7.8%	8.7%	9.4%	8.6%	9.1%	8.8%
UK	9.1%	6.3%	7.2%	9.3%	7.7%	8.3%	8.0%
ROI	23.0%	9.6%	15.3%	19.8%	16.3%	17.5%	16.9%
Booker	6.1%	15.7%	15.1%	5.9%	11.0%	10.6%	10.5%
Central Europe	0.8%	(8.9)%	(0.7)%	0.8%	(4.3)%	0.1%	(2.1)%
Tesco Bank	(26.5)%	(35.9)%	(28.5)%	(33.6)%	(31.4)%	(31.0)%	(31.2)%
Group	7.9%	5.4%	7.2%	7.9%	6.6%	7.5%	7.1%

Total sales performance at constant rates (exc. VAT, exc. fuel) for continuing operations*

	1Q 2020/21	2Q 2020/21	3Q 2020/21	4Q 2020/21	1H 2020/21	2H 2020/21	FY 2020/21
UK & ROI	9.2%	7.8%	8.5%	9.1%	8.5%	8.8%	8.6%
UK	9.1%	6.3%	7.2%	9.3%	7.7%	8.3%	8.0%
ROI	19.7%	9.4%	11.7%	14.0%	14.5%	12.9%	13.7%
Booker	6.1%	15.7%	15.1%	5.9%	11.0%	10.6%	10.5%
Central Europe	3.3%	(5.7)%	0.7%	(0.5)%	(1.5)%	0.1%	(0.6)%
Tesco Bank	(26.5)%	(35.9)%	(28.5)%	(33.6)%	(31.4)%	(31.0)%	(31.2)%
Group	8.0%	5.6%	7.1%	7.5%	6.8%	7.3%	7.0%

* In order to ensure the best comparability year-on-year, sales growth in 2H is reported as sales for 26 weeks ending 27 February 2021 against sales for 26 weeks ending 29 February 2020.

Like-for-like sales performance (exc. VAT, exc. fuel) for continuing operations

	1Q 2020/21	2Q 2020/21	3Q 2020/21	4Q 2020/21	1H 2020/21	2H 2020/21	FY 2020/21
UK & ROI	8.2%	6.2%	6.1%	6.9%	7.2%	6.5%	6.8%
UK	8.7%	6.4%	6.7%	8.8%	7.6%	7.8%	7.7%
ROI	20.5%	10.6%	11.8%	13.3%	15.5%	12.6%	14.0%
Booker	0.6%	3.7%	0.1%	(8.3)%	2.2%	(4.0)%	(0.8)%
Central Europe	3.9%	(5.3)%	0.9%	(0.6)%	(0.9)%	0.1%	(0.4)%
Tesco Bank	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Group	7.9%	5.2%	5.7%	6.3%	6.5%	6.0%	6.3%

Country detail – Retail

	Revenue (exc. VAT, inc. fuel)		Average exchange rate	Closing exchange rate
	Local currency (m)	£m		
UK	43,750	43,750	1.0	1.0
ROI	2,998	2,684	1.1	1.2
Booker	6,736	6,736	1.0	1.0
Czech Republic	41,339	1,391	29.7	30.2
Hungary	545,409	1,376	396.4	417.9
Slovakia	1,357	1,215	1.1	1.2

UK sales area by size of store

Store size (sq. ft.)	27 February 2021			29 February 2020		
	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0-3,000	2,534	5.5	14.2%	2,508	5.4	14.0%
3,001-20,000	282	3.0	7.8%	284	3.0	7.8%
20,001-40,000	285	8.2	21.2%	284	8.2	21.3%
40,001-60,000	182	8.8	22.8%	182	8.8	22.9%
60,001-80,000	120	8.4	21.8%	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*	3,456	38.6	100.0%	3,431	38.5	100.0%

* Excludes Booker and franchise stores.

Group space summary

Actual Group space – store numbers^(a)

	2019/20 year end	Openings	Closures/ disposals	Net gain/ (reduction) ^(b)	2020/21 year end	Repurposing/ extensions ^(c)
Large	796	1	(2)	(1)	795	–
Convenience	1,920	20	(2)	18	1,938	–
Dotcom only	6	–	–	–	6	–
Total Tesco	2,722	21	(4)	17	2,739	–
One Stop ^(d)	697	8	–	8	705	–
Booker	196	–	(2)	(2)	194	–
Jack's	12	–	–	–	12	–
UK ^(d)	3,627	29	(6)	23	3,650	–
ROI	150	1	–	1	151	1
UK & ROI^(d)	3,777	30	(6)	24	3,801	1
Czech Republic ^(d)	186	1	(4)	(3)	183	(1)
Hungary	202	–	(1)	(1)	201	–
Slovakia ^(d)	150	3	–	3	153	(3)
Central Europe^(d)	538	4	(5)	(1)	537	(4)
Group^(d)	4,315	34	(11)	23	4,338	(3)
UK (One Stop)	191	35	(19)	16	207	–
Czech Republic	107	20	(4)	16	123	–
Slovakia	–	5	–	5	5	–
Franchise stores	298	60	(23)	37	335	–

Actual Group space – '000 sq. ft.^(a)

	2019/20 year end	Openings	Closures/ disposals	Repurposing/ extensions ^(c)	Net gain/ (reduction)	2020/21 year end
Large	31,336	20	(17)	–	3	31,339
Convenience	5,204	44	(4)	–	40	5,244
Dotcom only	716	–	–	–	–	716
Total Tesco	37,256	64	(21)	–	43	37,299
One Stop ^{(d)(e)}	1,139	15	–	(4)	11	1,150
Booker	8,376	–	(92)	–	(92)	8,284
Jack's	119	–	–	–	–	119
UK ^(d)	46,890	79	(113)	(4)	(38)	46,852
ROI	3,274	56	–	5	61	3,335
UK & ROI^(d)	50,164	135	(113)	1	23	50,187
Czech Republic ^(d)	4,289	14	(19)	(18)	(23)	4,266
Hungary	6,000	–	(3)	–	(3)	5,997
Slovakia ^(d)	3,180	16	–	(45)	(29)	3,151
Central Europe^(d)	13,469	30	(22)	(63)	(55)	13,414
Group^(d)	63,633	165	(135)	(62)	(32)	63,601
UK (One Stop)	237	44	(25)	–	19	256
Czech Republic	101	19	(2)	–	17	118
Slovakia	–	5	–	–	5	5
Franchise stores	338	68	(27)	–	41	379

(a) Continuing operations.

(b) The net gain/(reduction) reflects the number of store openings less the number of store closures/disposals.

(c) Repurposing of retail selling space.

(d) Excludes franchise stores.

(e) Prior year restatement included within repurposing/extensions

Supplementary information (unaudited) continued

Group space forecast to 26 February 2022 – '000 sq. ft. ^(a)

	2020/21 year end	Openings	Closures/ disposals	Repurposing/ extensions	Net gain/ (reduction)	2021/22 year end
Large	31,339	56	–	–	56	31,395
Convenience	5,244	92	(7)	–	85	5,329
Dotcom only	716	–	–	–	–	716
Total Tesco	37,299	148	(7)	–	141	37,440
One Stop ^(b)	1,150	–	–	–	–	1,150
Booker	8,284	–	–	–	–	8,284
Jack's	119	12	–	–	12	131
UK ^(b)	46,852	160	(7)	–	153	47,005
ROI	3,335	–	–	29	29	3,364
UK & ROI^(b)	50,187	160	(7)	29	182	50,369
Czech Republic ^(b)	4,266	86	–	(41)	45	4,311
Hungary	5,997	–	(15)	(151)	(166)	5,831
Slovakia ^(b)	3,151	57	–	(6)	51	3,202
Central Europe^(b)	13,414	143	(15)	(198)	(70)	13,344
Group^(b)	63,601	303	(22)	(169)	112	63,713
UK (One Stop)	256	–	–	–	–	256
Czech Republic	118	29	–	–	29	147
Slovakia	5	16	–	–	16	21
Franchise stores	379	45	–	–	45	424

(a) Continuing operations.

(b) Excludes franchise stores.

Tesco Bank income statement

	2021 ^(a) £m	2020 ^(a) £m
Revenue		
Interest receivable and similar income	542	733
Fees and commissions receivable	193	335
	735	1,068
Direct costs		
Interest payable	(83)	(166)
Fees and commissions payable	(17)	(25)
	(100)	(191)
Gross profit	635	877
Other expenses		
Staff costs	(176)	(164)
Premises and equipment	(75)	(72)
Other administrative expenses	(142)	(191)
Depreciation and amortisation	(57)	(78)
Impairment loss on financial assets	(360)	(179)
Operating profit before exceptional items	(175)	193
Exceptional items ^(b)	(295)	(119)
Operating profit	(470)	74
Net finance costs: movements on derivatives and hedge accounting	(2)	(11)
Net finance costs: interest	(7)	23
Share of profit/(loss) of joint venture	16	10
Profit for the year	(463)	96

(a) These results are for the 12 months ended 27 February 2021 and the previous period represents the 12 months ended 29 February 2020.

(b) Exceptional items in 2021 comprise of a goodwill impairment charge of £(295)m (2020: Payment Protection Insurance provision charge £(45)m, restructuring costs £(13)m, accelerated amortisation and costs related to the sale of the mortgage book and Personal Current Account £(61)m).

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 measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid users in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes.

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 Free cash flow and Retail free cash flow to be from continuing operations. Redefining Free cash flow and Retail free cash flow to exclude the cash flows

of the Group's discontinued operations ensures consistency with the Group's Retail operating cash flow APM, and is a more appropriate measure of the ongoing cash generation of the Group.

The Directors and management have added Retail sales as a new APM, which is defined as Group sales excluding Tesco Bank sales and sales made at petrol filling stations. This metric is used to demonstrate the underlying performance in the Group's core Retail businesses and removes the volatilities associated with the movement in fuel prices.

The Directors and management have added Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (adjusted for share consolidation) as a new APM. This is defined as profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements 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 and to reflect the full impact of the share consolidation as if it had taken place at the start of the previous financial year. This metric is used to demonstrate the underlying earnings per share of the Group's continuing operations, and removes any distortion from the sale of our businesses in Thailand and Malaysia as the earnings from discontinued operations are excluded, but the weighted average share base used in the statutory IAS 33 denominator does not yet reflect the full impact of the share consolidation and special dividend. To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33 includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Income statement			
Revenue measures			
Group sales	Revenue	- Exclude sales made at petrol filling stations	- Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core Retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	- Consistent with accounting policy	- 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	No direct equivalent	- Consistent with accounting policy	- 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.
Retail sales	Revenue	- Exclude Tesco Bank sales - Exclude sales made at petrol filling stations	- Group sales excluding Tesco Bank sales to demonstrate the Group's underlying performance in the core Retail businesses.

Glossary – Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Profit measures			
Operating profit before exceptional items and amortisation of acquired intangibles	Operating profit*	<ul style="list-style-type: none"> – Exceptional items – Amortisation of acquired intangibles 	<ul style="list-style-type: none"> – Operating profit before exceptional items and amortisation of acquired intangibles is the headline measure of the Group's performance, and is based on operating profit from continuing operations before the impact of exceptional items and amortisation of intangible assets acquired in business combinations. Exceptional items relate to certain cost or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of similar type, in aggregate, are excluded by virtue of their size and nature in order to reflect management's view of the underlying performance of the Group. This is a key management incentive metric.
Retail operating profit	Operating profit*	<ul style="list-style-type: none"> – Tesco Bank operating profit – Retail exceptional items – Retail amortisation of acquired intangibles 	<ul style="list-style-type: none"> – Retail operating profit is a measure of the Group's operating profit from continuing operations from the Retail business excluding Tesco Bank. It is based on Retail operating profit before exceptional items and amortisation of acquired intangibles.
Operating margin	No direct equivalent	<ul style="list-style-type: none"> – Consistent with accounting policy 	<ul style="list-style-type: none"> – Operating margin is calculated as operating profit before exceptional items and amortisation of acquired intangibles divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Retail earnings before exceptional items, interest, tax, depreciation and amortisation (Retail EBITDA)	Operating profit*	<ul style="list-style-type: none"> – Exceptional items – Depreciation and amortisation – Tesco Bank earnings before exceptional items, interest, tax, depreciation and amortisation – Discontinued operations 	<ul style="list-style-type: none"> – This measure is based on Retail operating profit from continuing operations. It excludes Retail exceptional items, depreciation and amortisation and is used to derive the Total indebtedness ratio and Fixed charge cover APMs.
Profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Profit before tax	<ul style="list-style-type: none"> – Exceptional items – Amortisation of acquired intangibles – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – This measure excludes exceptional items and amortisation of acquired intangibles, net finance costs of the defined benefit pension deficit and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments	Finance costs	<ul style="list-style-type: none"> – Exceptional items – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments is the net finance costs adjusted for non-recurring one-off items, net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Diluted earnings per share	<ul style="list-style-type: none"> – Exceptional items – Amortisation of acquired intangibles – Discontinued operations – Net pension finance costs – Fair value remeasurements of financial instruments 	<ul style="list-style-type: none"> – This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements 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. – It excludes net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises.

* Operating profit is presented on the Group income statement. It is not defined per IFRS, however, is a generally accepted profit measure.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (adjusted for share consolidation)	Diluted earnings per share	<ul style="list-style-type: none"> - Exceptional items - Amortisation of acquired intangibles - Discontinued operations - Net pension finance costs - Fair value remeasurements of financial instruments - Weighted average number of diluted shares 	<ul style="list-style-type: none"> - This relates to profit after tax before exceptional items and amortisation of acquired intangibles from continuing operations, net pension finance costs and fair value remeasurements 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 and to reflect the full impact of the share consolidation as if it had taken place at the start of the previous financial year. This metric is used to demonstrate the underlying earnings per share of the Group's continuing operations, and removes any distortion from the sale of our businesses in Thailand and Malaysia as the earnings from discontinued operations are excluded, but the weighted average share base used in the statutory IAS 33 denominator does not yet reflect the full impact of the share consolidation and special dividend. To aid comparability, this new APM, which is presented on a basis other than in accordance with IAS 33, includes the full impact of the share consolidation as if it had taken place at the start of the previous financial year. - It excludes net pension finance costs and fair value remeasurements of financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Also included in these items are fair value remeasurements of financial instruments resulting from liability management exercises. This is a key management incentive metric.
Tax measures			
Effective tax rate before exceptional items and amortisation of acquired intangibles	Effective tax rate	<ul style="list-style-type: none"> - Exceptional items and their tax impact - Amortisation of acquired intangibles and their tax impact 	<ul style="list-style-type: none"> - Effective tax rate before exceptional items and amortisation of acquired intangibles is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles from continuing operations divided by profit before tax before exceptional items and amortisation of acquired intangibles from continuing operations. This provides an indication of the ongoing tax rate across the Group.
Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments	Effective tax rate	<ul style="list-style-type: none"> - Exceptional items and their tax impact - Amortisation of acquired intangibles and their tax impact - Net pension finance costs and their tax impact - Fair value remeasurements of financial instruments and their tax impact 	<ul style="list-style-type: none"> - Effective tax rate before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and amortisation of acquired intangibles items, net pension finance costs and fair value remeasurements from continuing operations divided by the profit before tax before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements from continuing operations.
Balance sheet measures			
Net debt	Borrowings less cash and related hedges	<ul style="list-style-type: none"> - Net debt from Tesco Bank 	<ul style="list-style-type: none"> - 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.
Total indebtedness	Borrowings less cash and related hedges	<ul style="list-style-type: none"> - Consistent with accounting policy 	<ul style="list-style-type: none"> - Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) to provide an overall view of the Group's obligations. 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	<ul style="list-style-type: none"> - Consistent with accounting policy 	<ul style="list-style-type: none"> - 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	<ul style="list-style-type: none"> - Consistent with accounting policy 	<ul style="list-style-type: none"> - 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, exceptional items, 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.

Glossary – Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Definition and purpose
Cash flow measures			
Retail operating cash flow	Cash generated from operating activities	<ul style="list-style-type: none"> - Tesco Bank operating cash flow - Discontinued operations 	<ul style="list-style-type: none"> - 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. This is a key management incentive metric.
Free cash flow	Cash generated from operating activities	<ul style="list-style-type: none"> - Net cash generated from/ (used in) investing activities, and the market purchase of shares issued in relation to share schemes - Repayment of obligations under leases - Investing cash flows that increase/decrease items within Group net debt - Cash flows from major corporate acquisitions and disposals 	<ul style="list-style-type: none"> - Free cash flow includes all cash flows from continuing operations from operating and investing activities, the market purchase of shares net of proceeds from shares issued in relation to share schemes, and repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Group net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders.
Retail free cash flow	Cash generated from operating activities	<ul style="list-style-type: none"> - Tesco Bank operating cash flow - Retail net cash generated from/(used in) investing activities, and the market purchase of shares issued in relation to share schemes - Repayment of obligations under leases - Investing cash flows that increase/decrease items within Net debt - Cash flows from major corporate acquisitions and disposals 	<ul style="list-style-type: none"> - Retail free cash flow includes all cash flows from continuing operations 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 the repayment of obligations under leases. The following items are excluded: investing cash flows that increase/decrease items within Net debt, and cash flows from major corporate acquisitions and disposals. This measure reflects the cash available to shareholders. This is a key management incentive metric.

As detailed in the basis of consolidation, refer to Note 1, for the UK & ROI, the prior year results are for the 53 weeks ended 29 February 2020. For all other operations, the prior year results are for the calendar year ended 29 February 2020.

In order to provide comparability with the current year results for the 52 weeks ended 27 February 2021, the tables below present the Group's prior year statutory results on a 53-week basis to 29 February 2020, adjusted to remove the results of week 53 for the UK & ROI to also separately present the APMs on a 52-week basis to 22 February 2020. In determining the week 53 adjustment for the UK & ROI, revenue, sales and cost of goods sold represent the actual trading performance in that week, with overhead expenses allocated proportionally to week 53 based on the reported results for the 53 weeks to 29 February 2020. No week 53 adjustments are required with respect to the Group's operations in Central Europe, Asia or Tesco Bank, which report on a calendar year basis.

The prior year results on a 53-week basis to 29 February 2020 and APMs on a 52-week basis to 22 February 2020 have been restated to present Thailand, Malaysia and Poland as discontinued operations. See Note 7 for further details.

APMs: Reconciliation of income statement measures

UK & ROI	Notes	APM 2021 £m	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m
Continuing operations					
Group sales	2	48,848	45,752	(843)	44,909
Revenue	2	53,170	52,898	(983)	51,915
Operating profit before exceptional items and amortisation of acquired intangibles	2	1,866	2,202	(46)	2,156
Operating margin	2	3.5%	4.2%	-	4.2%
Growth in sales at actual rates		8.8%	2.0%	(1.9)%	0.1%
Growth in sales at constant rates		8.6%	2.1%	(1.9)%	0.2%
Total Group					
Continuing operations					
Group sales	2	53,445	50,788	(843)	49,945
Revenue	2	57,887	58,091	(983)	57,108
Operating profit before exceptional items and amortisation of acquired intangibles	2	1,815	2,571	(46)	2,525
Operating margin	2	3.1%	4.4%	-	4.4%
Growth in sales at actual rates		7.1%	1.4%	(1.8)%	(0.4)%
Growth in sales at constant rates		7.0%	1.7%	(1.8)%	(0.1)%
Operating profit before exceptional items and amortisation of acquired intangibles (£m)					
Share of post-tax profits/(losses) of joint ventures and associates before exceptional items and amortisation of acquired intangibles (£m)		26	-	-	-
Net finance costs before exceptional items and amortisation of acquired intangibles (£m)	5	(937)	(1,019)	27	(992)
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles (£m)		904	1,552	(19)	1,533
Add: Net pension finance costs (£m)	5	43	71	-	71
Add: Fair value remeasurements of financial instruments (£m)	5	214	246	(18)	228
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (£m)		1,161	1,869	(37)	1,832
Total income tax credit/(charge) before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)	9	(249)	(400)	7	(393)
Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (%)		21.4%	21.4%	0.1%	21.5%
Profit before tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	1,168	1,869	(37)	1,832
Taxation on profit from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)	9	(249)	(400)	7	(393)
Profit after tax from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments attributable to the owners of the parent (£m)		919	1,469	(30)	1,439
Basic weighted average number of shares (millions)					
Basic earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)	9	9,629	9,716	-	9,716
		9.54	15.12	(0.31)	14.81
Diluted weighted average number of shares (millions)					
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments (pence)	9	9,656	9,783	-	9,783
		9.52	15.02	(0.31)	14.71

Glossary – Alternative performance measures continued

Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation)

	Notes	APM 2021	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis
Weighted average number of diluted shares					
Diluted weighted average number of shares (millions)		9,656	9,783	–	9,783
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)	(2,045)	–	(2,045)
Adjusted diluted weighted average number of shares (adjusted for share consolidation) (millions)		7,700	7,738	–	7,738
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (pence)		9.52	15.02	(0.31)	14.71
Adjustment to reflect the post-consolidation share base as if it had been in place from the start of the previous financial year (pence)		2.42	3.96	(0.07)	3.89
Diluted earnings per share from continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements (adjusted for share consolidation) (pence)		11.94	18.98	(0.38)	18.60

Retail EBITDA

	Notes	APM 2021 £m	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m
Operating profit before exceptional items and amortisation of acquired intangibles	2	1,815	2,571	(46)	2,525
Add/(less): Tesco Bank operating loss/(profit) before exceptional items	2	175	(193)	–	(193)
Retail operating profit	2	1,990	2,378	(46)	2,332
Add: Depreciation and amortisation (excluding amortisation of acquired intangibles)	2	1,671	1,730	(29)	1,701
Less: Tesco Bank depreciation and amortisation	2	(57)	(141)	–	(141)
Retail EBITDA		3,604	3,967	(75)	3,892

APMs: Reconciliation of balance sheet measures

Total indebtedness ratio

	Notes	APM 2021	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis
Net debt (£m)^{(a)(b)}	32	11,955	12,298	(197)	12,101
Add: Defined benefit pension deficit, net of deferred tax (£m) ^(a)	29	1,004	2,573	–	2,573
Total indebtedness (£m)^(a)		12,959	14,871	(197)	14,674
Retail EBITDA (£m)		3,604	3,967	(75)	3,892
Total indebtedness ratio		3.6	3.7	0.1	3.8

(a) Net debt, Total indebtedness and the defined benefit pension deficit, net of deferred tax on a 52-week basis are as at 22 February 2020.

(b) Free cash outflow in week 53 of £197m has been deducted from Net debt as at 29 February 2020 to determine the Group's 52-week Total indebtedness ratio.

Fixed charge cover

	Notes	APM 2021	2020 As reported on a 53-week basis	Exclude week 53	APM 2020 52-week basis
Net finance costs (£m)	5	937	1,170	(27)	1,143
Less: Net pension finance costs (£m)	5	(43)	(71)	-	(71)
Less: Exceptional fair value remeasurement loss on derivative restructuring (£m)	5	-	(180)	-	(180)
Add: Exceptional fair value remeasurement gain on Tesco Bank mortgage book disposal (£m)	5	-	29	-	29
Add: Fair value remeasurements of financial instruments (£m)	5	(214)	(246)	18	(228)
Total finance costs before exceptional items, net pension finance costs and fair value remeasurements of financial instruments (£m)		680	702	(9)	693
Add: Capitalised interest (£m)	5	-	-	-	-
Less: Finance charges payable on lease liabilities (£m)	5	(446)	(486)	6	(480)
Net finance cost, excluding net pension finance costs, exceptional items, capitalised interest, fair value remeasurements of financial instruments and finance charges payable on lease liabilities (£m)		234	216	(3)	213
Add: Retail total lease liability payments (£m)	12	1,104	1,170	-	1,170
Less: Retail discontinued operations total lease liability payments (£m)		(99)	(122)	-	(122)
		1,239	1,264	(3)	1,261
Retail EBITDA (£m)		3,604	3,967	(75)	3,892
Fixed charge cover		2.9	3.1	-	3.1

APMs: Reconciliation of cash flow measures

	Notes	APM 2021 £m	2020 As reported on a 53-week basis £m	Exclude week 53 £m	APM 2020 52-week basis £m
Retail cash flows generated from operations excluding working capital	2	723	3,633	(63)	3,570
Retail (increase)/decrease in working capital	2	439	(53)	240	187
Retail operating cash flow	2	1,162	3,580	177	3,757
Retail interest and corporation tax paid ^(a)	2	(841)	(958)	27	(931)
Retail cash generated from/(used in) operating activities	2	321	2,622	204	2,826
Retail cash generated from/(used in) investing activities	2	6,890	(1,102)	(7)	(1,109)
Retail own shares purchased	2	(66)	(149)	-	(149)
Retail repayments of obligations under leases	2	(561)	(565)	-	(565)
Less: Retail cash inflow from major disposal ^(b)	2	(5,337)	-	-	-
Less: Retail increase/(decrease) in loans to joint ventures and associates	2	2	-	-	-
Less: Retail net investments in/(proceeds from sale of) short-term investments	2	(62)	687	-	687
Retail free cash flow	2	1,187	1,493	197	1,690
Tesco Bank free cash flow	2	192	476	-	476
Free cash flow		1,379	1,969	197	2,166

(a) Retail interest paid in week 53 amounted to £27m.

(b) Retail cash flow from major disposal of £5,337m principally comprises the £7.8bn proceeds on disposal of the Group's Asia operations, excluding cash disposed and intercompany loan repayments, less the £2.5bn additional pension contribution. Refer to Notes 4 and 7 for further details.

Glossary – Alternative performance measures continued

Other

Capital expenditure (Capex)

The additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

Capital employed

Net assets plus net debt plus dividend creditor less net assets of the disposal group and non-current assets classified as held for sale.

CPI

CPI refers to consumer price index.

Enterprise value

This is calculated as market capitalisation plus net debt.

EURIBOR

Euro Interbank Offered Rate.

ESG

Environmental, social and governance.

FTE

FTE refers to full-time equivalents.

LIBOR

London Inter-Bank Offered Rate.

LPI

LPI refers to limited price inflation.

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

MTN refers to 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 on capital employed (ROCE)

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

Return

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

RPI

RPI refers to the 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 2021, these statistics represent the comparatives from the following years' financial statements, except statistics for 2018 which have been restated for IFRS 15 'Revenue from contracts with customers' and statistics for 2019 which have been restated for IFRS 16 'Leases'. In addition, 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.

During the 2018 financial year, the Group reassessed its reportable segments and determined that the retailing and associated activities previously disclosed within the International segment should be disaggregated into the Central Europe and Asia segments. 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.

	2017	2018	2019	2020 (restated) ^{(a)(b)(c)(d)}	2021 ^{(a)(b)(c)}
Financial statistics (£m)					
Sales^e					
UK & ROI	37,692	38,656	44,883	45,752	48,848
Central Europe	5,977	6,343	6,030	3,968	3,862
Asia	5,186	4,947	4,873	-	-
Tesco Bank	1,012	1,047	1,097	1,068	735
Group sales^(f)	49,867	50,993	56,883	50,788	53,445
Revenue					
UK & ROI	43,524	44,914	51,643	52,898	53,170
Central Europe	6,195	6,585	6,298	4,125	3,982
Asia	5,186	4,947	4,873	-	-
Tesco Bank	1,012	1,047	1,097	1,068	735
Group revenue	55,917	57,493	63,911	58,091	57,887
Operating profit/(loss) before exceptional items and amortisation of acquired intangibles^{(f)(g)}					
UK & ROI	803	1,059	1,868	2,202	1,866
Central Europe	58	119	221	176	124
Asia	262	299	319	-	-
Tesco Bank	157	169	199	193	(175)
Group operating profit/(loss) before exceptional items and amortisation of acquired intangibles^{(f)(g)}	1,280	1,646	2,607	2,571	1,815
Operating profit margin before exceptional items and amortisation of acquired intangibles^h					
	2.3%	2.9%	4.1%	4.4%	3.1%
Operating profit/(loss)					
UK & ROI	519	1,205	1,949	1,923	2,079
Central Europe	190	212	279	209	127
Asia	231	277	252	-	-
Tesco Bank	77	145	169	74	(470)
Group operating profit/(loss)	1,017	1,839	2,649	2,206	1,736
Share of post-tax profits/(losses) of joint ventures and associates	(107)	(6)	32	(8)	26
Net finance costs	(765)	(533)	(1,064)	(1,170)	(937)
Profit/(loss) before tax	145	1,300	1,617	1,028	825
Taxation	(87)	(306)	(347)	(290)	(104)
Profit/(loss) for the year from continuing operations	58	994	1,270	738	721
Discontinued operations	(112)	216	-	235	5,426
Profit/(loss) for the year	(54)	1,210	1,270	973	6,147
Attributable to:					
Owners of the parent	(40)	1,208	1,272	971	6,143
Non-controlling interests	(14)	2	(2)	2	4
Profit before tax, exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments^{(f)(g)}	781	1,284	1,806	1,869	1,161
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations	0.81p	12.11p	13.04p	7.54p	7.54p
Diluted earnings per share – continuing operations before exceptional items and amortisation of acquired intangibles, net pension finance costs and fair value remeasurements of financial instruments ^{(f)(g)}	7.30p	11.90p	14.01p	15.02p	9.52p
Diluted EPS before exceptional and other items (adjusted for share consolidation) ^{(f)(g)(h)}	-	-	-	18.98p	11.94p
Dividend per share ^(e)	-	3.00p	5.77p	9.15p	9.15p
Cash generated from retail operating activities (£m) ^h	2,278	2,773	3,637	3,580	1,162
Free cash flow (£m) ^h	1,288	1,388	889	1,493	1,187
Return on capital employed (ROCE) ^(f)	8.1%	11.0%	7.9%	6.1%	6.2%
Total shareholder return ^(f)	(7.5)%	8.7%	10.2%	5.2%	2.6%
Net debt (£m) ^{(f)(g)}	3,729	2,625	13,204	12,298	11,955
Discounted operating lease commitments – continuing operations	7,440	6,931	-	-	-
Pension deficit, net of deferred tax – Group (£m)	5,504	2,728	2,338	2,573	1,004
Total indebtedness (£m)^{(f)(g)}	16,673	12,284	15,542	14,871	12,959
Enterprise value (£m) ^(f)	19,262	19,452	35,024	34,676	29,336
Group retail statistics					
Number of stores ^(h)	6,809	7,033	6,993	4,613	4,673
Total sales area ('000 sq. ft.) ^(h)	89,041	92,983	91,298	63,971	63,980
Average employees	464,520	448,988	464,505	354,451	367,321
Average full-time equivalent employees (FTE)	342,770	327,916	321,490	243,031	242,911
UK & ROI retail statistics					
Number of stores ^(h)	3,739	3,952	3,961	3,968	4,008
Total sales area ('000 sq. ft.) ^(h)	43,610	42,032	50,521	50,401	50,443
Average full-time equivalent employees (FTE)	218,522	210,312	223,542	210,771	214,470
Revenue (exc. fuel) (per FTE – £)	172,486	183,804	200,781	217,070	227,761
Weekly revenue (exc. fuel) (per sq. ft. – £)	16.31	17.36	18.65	17.11	18.63

Δ 2020 APM reconciliations in Glossary section on pages 164 to 169. (a) Prepared on an IFRS 15 basis. (b) Prepared on an IFRS 9 basis. (c) Prepared on an IFRS 16 basis. (d) 53 weeks. (e) Dividend per share relating to the interim and proposed final dividend. (f) See Glossary for definitions. (g) Diluted EPS before exceptional and other items (adjusted for share consolidation) is provided to aid comparability, as the sale of our businesses in Thailand and Malaysia, and the share consolidation and special dividend which followed, distort our financial result in the year. As such, this metric is presented on a basis other than in accordance with IAS 33 and captures the full impact of the share consolidation as if it had taken place at the start of the 2019/20 financial year. Please see page 210 for a reconciliation to diluted adjusted EPS. (h) Including franchise stores.

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 the environmental impact of our business and to reduce costs. 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)

A copy of the Notice of Meeting can be found on our website at www.tescopl.com/investors.

Dividend

An interim dividend of 3.20 pence per Ordinary share was paid on 27 November 2020 and a special dividend of 50.93 pence per Ordinary share was paid on 26 February 2021. Shareholders will be asked to approve a final dividend of 5.95 pence per Ordinary share for the year ended 27 February 2021 at this year's AGM. If approved, this will be paid on 2 July 2021 to all shareholders on the Register of Members at the close of business on 21 May 2021.

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 consolidation

In order to maintain the comparability of the Company's share price before and after the special dividend, a share consolidation was approved at a General Meeting held on 11 February 2021. Shareholders received 15 new Ordinary shares of 6 1/4 pence each for every existing 19 Ordinary shares of 5 pence each. For more information please visit the Shareholder meetings archive page on our website.

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.

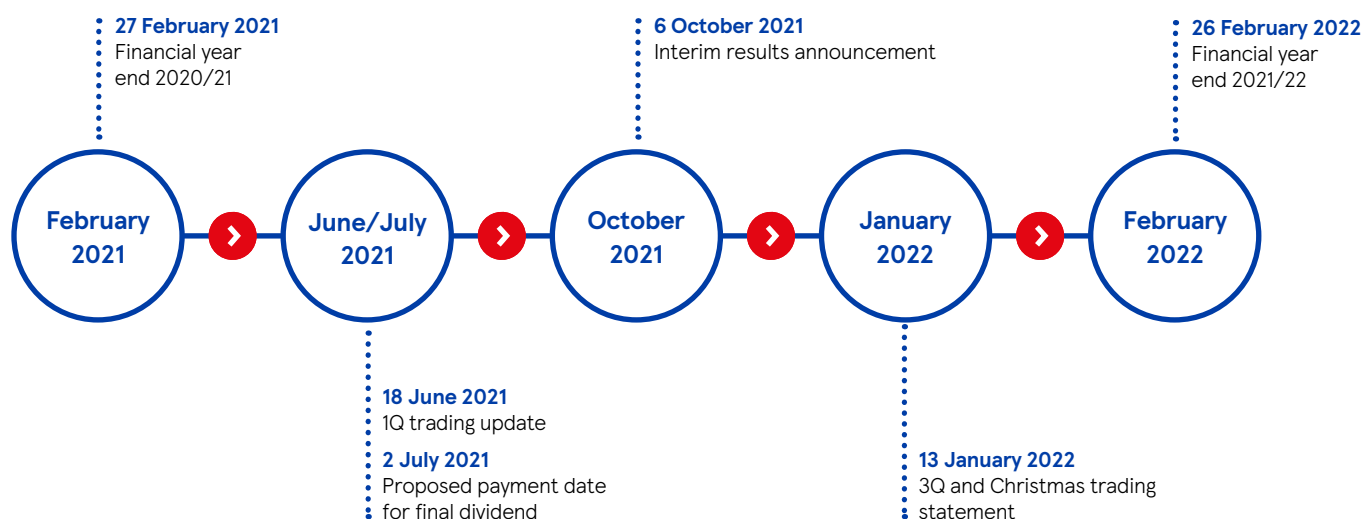
For further information please visit www.shareview.co.uk/dealing or call 0345 603 7037, lines open between 8.00am and 4.30pm, Monday to Friday (excluding UK public holidays).

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 2021/22



Please note that these dates are provisional and subject to change.

American Depositary Receipts (ADRs)

The Company has a sponsored Level 1 ADR programme for which J.P. Morgan Chase Bank N.A. acts as depository. 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 1992

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 27 February 2021, the Company had 7,731,707,820 shares in issue (29 February 2020: 9,793,496,561) and 230,018 registered holders of Ordinary shares (29 February 2020: 239,600). Shareholdings are analysed below:

Range of shareholding	Number of holdings	% of issued share capital
1 – 500	151,992	0.23%
501 – 1,000	21,645	0.20%
1,001 – 5,000	40,597	1.21%
Over 5,001	15,784	98.36%
Total	230,018	100%

Breakdown of holders with over 5,000 shares

Range of shareholding	Number of holdings	% of issued share capital
5,001 – 10,000	8,530	0.77%
10,001 – 50,000	5,722	1.35%
50,001 – 100,000	359	0.33%
100,001 – 500,000	502	1.55%
500,001 – 1,000,000	179	1.64%
1,000,001 – 5,000,000	302	9.09%
5,000,001+	190	83.61%
Total	15,784	98.36%

Category of shareholders

	Number of holdings	% of total registered holders	Number of Ordinary shares	% of issued share capital
Private	225,140	97.88%	385,574,100	4.99%
Institutional and corporate	4,878	2.12%	7,346,133,720	95.01%

Shareholder information continued

Useful contacts

Tesco PLC registered office:

Tesco House
Shire Park
Kestrel Way
Welwyn Garden City
AL7 1GA

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(Outside UK) +44 (0) 121 415 7053

Calls are charged at national rates.

Calls from a mobile device may incur network extras.

Website www.equiniti.co.uk

Group Company Secretary

Robert Welch

Corporate brokers

Barclays Bank PLC
Citigroup Global Markets Limited

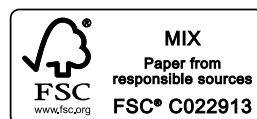
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