TESCO STORES LIMITED

ANNUAL REPORT AND FINANCIAL STATEMENTS

FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

REGISTERED NUMBER: 00519500

TESCO STORES LIMITED

COMPANY INFORMATION

Directors	A C Morris I Nawaz J M Tarry K Murphy S A Rigby
Company secretary	Robert Welch
Registered number	00519500
Registered office	Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom
Independent auditor	Deloitte LLP 2 New Street Square, London EC4A 3BZ United Kingdom

TESCO STORES LIMITED

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

The Directors present their Strategic Report of Tesco Stores Limited (the "Company") for the 52 weeks ended 25 February 2023 ("the Report") (prior period: 52 weeks ended 26 February 2022 ("2022")).

Business review and principal activity

The principal activity of the Company is the operation of retail stores and associated activities with 2,809 (2022: 2,783) stores throughout England, Scotland, Wales and Northern Ireland.

This has been another significant year for Tesco, once again shaped by circumstances outside of its control. The business has demonstrated incredible resilience, as it stepped up to support customers, colleagues, suppliers and communities through the impact of rising cost pressures. At the same time, Tesco has made further progress towards achieving its strategic priorities and, in turn, has seen strong sales growth across the Group.

Tesco has invested in its value offer so it can help its customers save money on their weekly shop. Its strong customer focus has meant it is the only full-line grocer to grow UK market share in the past three years, (Kantar Grocers Total Till Roll 12 w/e 19 February 2023), and its brand net promoter score is the highest of the full-line grocers.

Tesco PLC (the "Group"), of which the Company forms part, has delivered strong sales performance in all segments, with Group sales increasing by 5.3% at constant rates. In the coming months, Tesco will continue to manage the impact of cost-of-living pressures and focus relentlessly on delivering value for its customers. Significant uncertainty in the economic environment remains, but Tesco is a strong business, with exceptional colleagues guided by the one purpose of serving its customers, communities and planet a little better every day.

Further detail is included on pages 2 to 47 of the Tesco PLC Annual Report and Financial Statements 2023, which do not form a part of this Report.

Results and dividends

By remaining customer-focused at all times, the Company has delivered a strong full-year performance, with revenue increasing 6% and operating profit reaching £642m. The key reason for a strong performance is due to the work done to win customers from competitors, with overall customer perception of the brand increasing across value and quality.

The results for the 52 weeks ended 25 February 2023 show a profit before tax of £565m (2022: £1,260m) and profit after tax of £341m (2022: £1,096m), with the key driver of the year-on year decrease being a £772m non-cash impairment charge on non-current assets (primarily property), mainly due to an increase in discount rates. The decrease also reflects the impact of lower year-year volumes, the ongoing investment in customers and colleagues and significant operating cost inflation.

The Company has net assets at the period end of £4,385m (2022: £8,220m). Turnover amounted to £47,481m (2022: £44,793m) with operating profit in the period of £642m (2022: £1,640m). The total comprehensive loss for the period of £2,196m (total comprehensive income for 2022: £4,190m) includes an actuarial (loss)/gain on the defined benefit pension scheme net of tax of £(2,599)m (2022: £3,038m) which is set out in Note 24.

The Company has paid an interim dividend of £nil (2022: £nil) and final dividend of £1,250m (2022: £1,500m) in respect of the 52 weeks ended 25 February 2023.

The Company has not paid any preference dividends in the period (2022: £nil). Refer to Note 20 for further disclosure.

Key performance indicators (KPIs)

The Company adopts the Group's six simple business performance indicators, namely:

1) Grow sales;
2) Deliver profit;
3) Improve operating cash flow;
4) Customers recommend us and come back time and again;
5) Colleagues recommend us as a great place to work and shop; and
6) Climate – reduce Scope 1 and 2 emissions by 60% by 2025.

The Group Chief Financial Officer (CFO), who is also a director of the Company, provides regular updates on progress against the KPI measures to the Group Executive Committee and the Group Board, whose members include the majority of the Company's Directors. The development, performance and position of the operations of the Group, which includes the Company, is discussed on page 14 of the Tesco PLC Annual Report and Financial Statements 2023, which does not form a part of this Report.

Future developments

The Company's future developments form a part of the Group's strategic priorities, which are discussed on pages 2 to 47 of the Tesco PLC Annual Report and Financial Statements 2023, which do not form a part of this Report.

The Company's performance is expected to continue throughout the next financial period, and it is anticipated that the current performance levels will be maintained.

Principal risks and uncertainties

The management of the business and the Company's ability to deliver against its priorities are subject to a number of risks. Management assesses risks on a continuous basis, taking into account the risk to Tesco, colleagues and the Company's operations, as well as the impact on society and the environment.

The most significant risks facing the UK business include: Cyber security, data privacy, climate change, pandemics, technology, political, regulatory and compliance, people, health and safety, product safety and food integrity, responsible sourcing, customer, competition and markets and security of supply This list does not include all risks. Additional risks, not presently known, or those considered to be less material, may also have adverse effects.

The Group has an established risk management process which is reviewed on a regular basis and covers all business units including the Company. This includes the maintenance of risk registers which details the risks, the risk movement and the relevant key controls and mitigating factors. These are reviewed on a regular basis by the Board, UK Leadership management and the Executive Committee. Further discussion of the Group approach to principal risks and uncertainties (including a detailed description of these risks) is provided on pages 38 to 45 of the Tesco PLC Annual Report and Financial Statements 2023, which do not a form part of this Report.

Business risk

At present, there continues to be a heightened level of macroeconomic uncertainty relating to cost and wage inflation, as well as energy supply issues, leading to rising prices, which is continuing to impact our customers' shopping behaviour disposable income, thereby changing the way they shop. This also results in an increase in operational costs for Tesco and its suppliers, which is further exacerbated by the war in Ukraine. The Board and UK Leadership believe that the short-term risks and impacts are understood, and Tesco has the right teams, governance mechanisms, customer offerings and strategies in place. However, the long-term impacts remain uncertain, and will continue to monitor the situation closely and respond accordingly.

There are two notable changes to Tesco's principal risks this year. Brand, reputation, and trust is no longer a standalone principal risk, but UK Leadership continue to monitor this as a component of the other principal risks. Furthermore, given the impact of the external macroeconomic and geopolitical situation on supply chains, security of supply has been elevated as a new principal risk.

Financial risk management

The principal financial risks faced by the Company relate to the availability of funds to meet business needs, fluctuations in interest and foreign exchange rates and credit risks relating to the risk of default by counterparties to financial transactions. Financial risk management for the Group, of which the Company forms a part, is discussed in Note 27 of the Tesco PLC Annual Report and Financial Statements 2023, which does not form a part of this Report.

The main risks associated with the Company's financial assets and liabilities are set out below.

Liquidity risk

The Company finances its operations by a combination of retained profits, disposals of assets, bank borrowings, leases and intra-Group borrowings. This includes access to an undrawn committed revolving credit facility and bilateral facilities of £2.5bn which can be used to meet liquidity risks as they arise.

Financial risk management (continued)

Interest rate risk

Our objective is to limit the impact to our Profit and Loss Account from rising interest rates. Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

Foreign exchange risk

Our principal objective is to reduce the effect of exchange rate volatility on the Profit and Loss Account. Currency exposures that could significantly impact the Profit and Loss Account are managed using forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges.

Credit risk

Our objective is to reduce the risk of loss arising from default by parties to financial transactions. The Company holds positions with an approved list of investment grade rated counterparties and these counterparties, and their credit ratings are routinely monitored.

Inflation risk

Our objective is to manage inflation risk via index-linked swaps, which are used to hedge the index-linked debt, where the principal is indexed to increase/decrease in line with RPI or LPI and lease liabilities, where rent payments are indexed to increase with inflation indices.

Commodity price risk

Our objective is to manage changes in commodity prices largely relating to diesel for own use. The Company uses forward derivative contracts to hedge future purchases of diesel for own use which are forecast to occur within a 12-month period.

Section 172(1) Statement

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. In doing this section 172 requires a director to have regard, amongst other matters, to the:

- likely consequences of any decisions in the long-term;
- interests of the company's employees;
- need to foster the company's business relationships with suppliers, customers and others;
- impact of the company's operations on the community and environment;
- desirability of the company maintaining a reputation for high standards of business conduct, and
- need to act fairly as between members of the company.

In discharging our section 172 duties we have regard to the factors set out above. We also have regard to other factors which we consider relevant to the decision being made. Those factors, for example, include the interests and views of our pension Trustees and beneficiaries of the Company's pension schemes and our relationship with non-government organisations. We acknowledge that every decision we make will not necessarily result in a positive outcome for all of our stakeholders. By considering the Company's purpose, vision and values together with its strategic priorities and having a process in place for decision-making, we do, however, aim to make sure that our decisions are consistent and predictable.

We delegate authority for day-to-day management of the Company to senior management in setting, approving and overseeing execution of the business strategy and related policies. We review matters relating to financial and operational performance; business strategy; key risks; stakeholder-related matters; health and safety; diversity and inclusivity; sustainability matters; governance; compliance; legal and regulatory matters over the course of the financial year. This is done through regular meetings and dialogue with senior management, the consideration of reports which are sent in advance of each Board meeting and through presentations to the Board.

Section 172(1) Statement (continued)

The Company's key stakeholders are its colleagues, customers, suppliers and shareholders. The Group's Code of Business Conduct defines the standards and behaviours expected of colleagues when interacting with our stakeholders. This is a fundamental part of the Company's culture and training which supports delivery of our Values and protects the reputation of the Company.

The views of and the impact of the Company's activities on those stakeholders are an important consideration for the Directors when making relevant decisions. While there are cases where the Board itself judges that it should engage directly with certain stakeholder groups or on certain issues, the size and spread of both our stakeholders and Tesco Group means that generally our stakeholder engagement best takes place at an operational or group level. We find that as well as being a more efficient and effective approach, this also helps us achieve a greater positive impact on environmental, social and other issues than by working alone as an individual company. For details on some of the engagement that takes place with the Company's stakeholders so as to encourage the directors to understand the issues to which they must have regard please see pages 26 to 27 of the Tesco PLC 2023 Annual Report.

During the period we received information to help us understand the interests and views of the Company's key stakeholders and other relevant factors when making decisions. This information was distributed in a range of different formats including in reports and presentations on our financial and operational performance, non-financial KPIs, risk, ESG matters and the outcomes of specific pieces of engagement (for example, the results of customer and supplier surveys and colleague forums). As a result of this we have had an overview of engagement with stakeholders and other relevant factors which allows us to understand the nature of the stakeholders' concerns and to comply with our section 172 duty to promote success of the Company.

Examples of how we have had regard to the matters set out in section 172(1)(a) - (f) when discharging our section 172 duty and the effect of that on decisions taken by us are set out below.

Board activity	Board Consideration
Financial and operational performance	Throughout the year, the Board has continued to track the financial and business impact of macroeconomic uncertainty relating to cost and wage inflation, as well as energy supply issues, leading to rising prices, which continue to impact customers' disposable income. These impacts also result in an increase in operational costs for the Company as well as its suppliers, which was further exacerbated by the war in Ukraine. The Board regularly reviewed the financial and operational position of the company to consider the strategic direction and long-term viability of the Company and ensure that future liabilities could be met. The Board reviewed the three-year Long-Term Plan and progress against the 2022/23 plan, together with updates on sales, profit and cash generation. A review of the 2023/2024 annual budget was undertaken. In addition, the Board approved the declaration of interim dividends and reviewed and approved the statutory accounts for the 2021/22 financial year.
Risk Management	The Board has oversight of the most significant risks facing the Company and the arrangements in place to mitigate these risks. The Board received regular updates from the Group Internal Audit team on matters relating to the Company. Brand, reputation and trust is no longer a standalone principal risk, but continues to be monitored as a component of the other Group principal risks. Furthermore, given the impact of the external macroeconomic and geopolitical situation on supply chains, security of supply was elevated as a new principal risk in the year. Any strategic decisions taken by the Company take into consideration the Group's Business Code of Conduct, brand and reputation.

TESCO STORES LIMITED

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

Section 172(1) Statement (continued)

Strategic reviews	The Company adopts the Group strategy. During the year the Directors took part in Executive Committee discussions to monitor progress against the Strategic Drivers. Detailed strategic reviews of specific parts of the business were conducted to help improve the customer experience. These detailed reviews highlighted stakeholder opportunities, for example: 2022/23 strategic priorities; growth opportunities; online and in-store experiences and the way the business interacts with customers; and better utilisation of technology. Innovation and technology updates were provided to the Board to provide insight into the technical capabilities, operational infrastructure and innovation to align with our strategic priorities, together with an overview of cyber security and market risks. These strategic updates help Directors understand stakeholder priorities, deliver the strategy and take the business forward.
Capital Expenditure and Financing arrangements	Throughout the year, the Board has reviewed cost saving initiatives, considered and approved a variety of capital expenditure in line with business plans, including investment in an insect farm. In addition, the Board has reviewed intragroup loan arrangements, external funding arrangements, and reviewed practices for paying suppliers. The Board considered a range of factors including the long-term viability of the Company, its expected cash flow and financing requirement, the ongoing need for strategic investment in our business, the impact on each of the Company's stakeholder groups and our brand and reputation.
Commercial agreements	Throughout the year, the Board reviewed and approved entry into material contracts taking into consideration our renewed strategy, the operational and financial benefits and risks. In reaching its final decision, the Board had regard to a number of factors including: the business case and financial returns; security of supply; improved pricing and quality of products; improved terms for suppliers; risk management; any impacts on colleagues, suppliers, customers, communities and the environment; and the long-term reputation of the Company.

TESCO STORES LIMITED

STRATEGIC REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

Section 172(1) Statement (continued)

Wider stakeholder engagement	Throughout the year, the Board reviewed initiatives relating to the workforce to ensure that colleagues feel recognised and rewarded for the work they do, where they have the opportunity to get on and where they are supported in their development as they move through their careers in the business. The Board are committed to providing an inclusive working environment and during the year has received updates on the progress of the diversity and inclusion initiatives; management succession and talent management, reward and benefits, feedback from national forums and workforce engagement forums, action plans following colleague engagement survey - Every Voice Matters and updates on the roll out of the colleague 'News and Views' platform. Further details on colleague engagement are set out in the Directors' Report on pages 7 and 8. The Board places great importance on helping the communities it serves. In support of the Group's Sustainability strategy, the Board reviewed initiatives undertaken to achieve its sustainability targets. The Board recognises that its customers and colleagues are facing a challenging time through the cost-of-living crisis. A key focus of the Board is to keep the cost of the weekly shop as affordable as possible, through a combination of Aldi Price Match, Low Everyday Prices and Clubcard Prices. Cost inflation remains significant and, despite these uncertainties, the Company's priorities are clear. The Board believes it has the right long-term strategy, and it will continue to balance the needs of all of its stakeholders. The Board receives regular updates on stakeholder engagement including customer insights. In addition, the Board received a number of governance updates including litigation matters, approval of Gender Pay Gap Reporting, payment practices reporting and adoption of the Group's modern slavery statement.

In accordance with requirements this section 172(1) statement will be published on the Tesco PLC website at www.tescoplc.com.

Approved by the Board of Directors on 21 July 2023 and signed on behalf of the Board by:

J. Nawaz

Imran Nawaz
Director
Tesco Stores Limited
Registered number: 00519500
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO STORES LIMITED

DIRECTOR'S REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

The Directors present their Report and the audited financial statements of Tesco Stores Limited (the "Company") for the 52 weeks ended 25 February 2023 (prior period: 52 weeks ended 26 February 2022 ("2022")).

Results and dividends

This is discussed in the Strategic Report on page 1.

Future developments

This is discussed in the Strategic Report on page 2.

Going concern

Although the Company remains in a net current liability position, the Directors consider that the Company has adequate resources to remain in operation for a period of at least 12 months from the date of signing the financial statements, whilst as detailed in the note on Liquidity Risk included in the Strategic Report, the Company also has access if needed to a revolving credit facility. Therefore, the Directors continue to adopt the going concern basis in preparing the financial statements. In undertaking their going concern assessment, the Directors have considered the impact of industry challenges and have concluded that there are no material uncertainties relating to going concern. For further details, please refer to the Tesco PLC Annual Report and Financial Statements 2023.

Events after the reporting period

Details of events after the reporting period can be found in Note 30 to the financial statements.

Existence of branches outside the United Kingdom

The Company has a branch in the Isle of Man.

Political donations

There were no political donations for the period (2022: £nil) and the Company did not incur any political expenditure (2022: £nil).

Financial risk management

This is discussed in the Strategic Report on page 2 to 3.

Employee engagement

We have continued to focus on ensuring that our employment policies are simple, helpful and trusted, so that our colleagues and managers are able to source the information they need quickly and easily.

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 launching our new performance improvement policy, helping managers and colleagues understand what performance is, how we measure it and the clear and simple process we follow to support colleagues to reach their expected level of performance.

We also launched a new colleague contract in our stores and customer fulfilment centres. Our colleagues will now have a set number of contracted hours which will be scheduled within their availability windows at least three weeks in advance of them working. Colleagues will have a primary department where they will be scheduled to work the majority of their shifts but may be scheduled to work in other areas for some of their working hours. This enables colleagues to be flexible with picking up extra hours and being fully trained across all areas of the store, leading to more interesting and varied jobs.

Our local and national colleague forums continue to give colleagues a voice in how the business is run. Such feedback helps us drive our business forward, as our colleagues are closest to our customers. To supplement these forums, we have also continued our Colleague Contribution Panels. These give our colleagues the opportunity to share their views directly with a Tesco PLC Non-executive Director, who then relays them to the Tesco PLC Board for discussion and action. The feedback and actions are also reviewed by the Company Board.

Employee engagement (continued)

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. This year we recognised menopause-related absence, ensuring this type of absence would not be included within absence review levels. This ensures we are supporting our colleagues during this stage, through friendly and supportive wellbeing conversations.

Our aim is to attract and retain a diverse range of applicants from all different backgrounds. All of our applicants and colleagues are treated fairly and we have a zero-tolerance approach, not only to harassment, but also to discrimination and bullying of any kind. This includes an expectation that our recruitment systems are accessible and managers give full and fair consideration to colleagues who have disabilities during recruitment and subsequently throughout their career with Tesco, including colleagues who may become disabled during their employment, where every endeavour will be made to retain colleagues through workplace adjustments.

We are also a proud Disability Confident Employer (Level 2) offering various activities and programmes to attract, develop and retain talented disabled colleagues. Our colleague network for people with disabilities provides support by connecting them with people who have similar interests and backgrounds and helps them reach their full potential. Through action-oriented colleague learning, we are focused on raising awareness of the importance of inclusion and developing a greater understanding of individual and collective responsibility. Supporting our commitment to change, targeted learning has been created for all colleagues, as well as specific modules for line managers, People and Resourcing teams, and our leadership teams.

Our colleague networks (Armed Forces, Disability, LGBTQ+, Parents & Carers, Race & Ethnicity and Women at Tesco) provide support in creating a diverse and inclusive culture where everyone is welcome.

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 Work Level 3 and above across all markets and countries are awarded shares through the annual bonus plan, which are deferred at Work Level 4 and above. Colleagues at Work Level 4 and above across all markets and countries are also awarded shares through the Performance Share Plan.

The Company had 241,340 employees on average during the 52 weeks ended 25 February 2023 (2022: 259,472).

Fostering of business relations

Details of the Company's engagement with its stakeholders is included in the section 172(1) statement on pages 3 to 6.

Statement of compliance with Tesco Governance Code

For the year ended 25 February 2023, under The Companies (Miscellaneous Reporting) Regulations 2018, the Company has applied the Tesco Governance Code (the 'Code') which can be found on the Tesco PLC website at www.tescoplc.com.

At Tesco Stores Limited, we are committed to maintaining high standards of corporate governance. Good corporate governance is about implementing the right systems and structures within the Company to facilitate effective management and sound business decision making. Due to the large scale of Tesco Group's operations and the variety of business activities carried on, the Code provides guidance on the minimum standard of governance principles that the Group's large UK incorporated companies should implement to achieve a high level of corporate governance, while supporting directors in compliance with their statutory duties.

During the period under review, the Company has complied with the Code. An overview of the how the Company has applied the Code is detailed below. This statement of compliance can be found at www.tescoplc.com.

TESCO STORES LIMITED

DIRECTOR'S REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

Statement of compliance with Tesco Governance Code (continued)

Culture and Purpose

The Tesco Group purpose is to serve our customers, communities and the planet a little better every day keeping customers at the heart of what we do, while also reflecting our responsibilities to the communities we serve and to society more broadly. Our purpose is underpinned by strong policies and procedures set out in the Tesco Code of Business Conduct. It sets out the ways we can make the right decisions for our stakeholders, using the Group values and leadership behaviours to ensure that through our conduct and decision-making we do the right thing for the business and deliver our strategic objectives. Our culture comes to life through our three values: No one tries harder for customers; We treat people how they want to be treated; and every little help makes a big difference.

The Company adopts the Group strategy and Directors have been part of the discussions to shape the strategy and new Strategic priorities: Magnetic value for customers; I love my Tesco Clubcard; Easily the most convenient; and Save to invest.

Board Effectiveness

The Board comprises five directors, with the necessary skills and experiences to fulfil the role and responsibilities of the Board. Directors keep under review the size and composition of the Board to ensure it has the appropriate balance of skills, knowledge and experience. Upon appointment, Directors receive induction training which covers not only details on the operations of the business but also, amongst other things, guidance on their statutory duties as a director to ensure they understand their role as a director and to whom they are accountable.

There is a schedule of matters reserved for its decision to ensure that the right decisions are being made in the right forum and that there is appropriate oversight of them. As is normal for a large business and as a subsidiary of a larger Group, the Company complies with the Group Delegation of the Authority, seeking permission to proceed where a significant business decision is required. However, the decision is ultimately taken by the Board with background papers provided to support any decisions setting out any benefits and risks, the financial implications and any relevant potential impact on stakeholders.

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. A Directors' and Officers' Liability Insurance policy is maintained for all Directors providing cover in respect of certain legal action brought against them.

The Board is supported by a Company Secretary who facilitates Board meetings including circulation of papers in advance of a meeting, producing minutes to record Board decisions, assist on a range of governance related matters and maintain corporate records.

Risk

When making decisions, the Board considers the relevant risks and ensures that mitigating steps are put in place where appropriate and possible. Any significant risks or concerns are highlighted to the Group Risk Team for consideration through the Group Risk management process. The latter is reviewed on a regular basis and covers all business units including the Company. This includes the maintenance of risk registers which detail the risks, the risk movement and the relevant key controls and mitigating factors. These are reviewed on a regular basis by the Board, UK leadership team and the Executive Committee which helps to further promote sufficient oversight and management of risk.

TESCO STORES LIMITED

DIRECTOR'S REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

Statement of compliance with Tesco Governance Code (continued)

Remuneration

The Tesco PLC Board has overall responsibility for reviewing remuneration and related policies across the Group ensuring they are appropriate, fair and support the Group's strategy, creating value for stakeholders. The Remuneration Committee of the Tesco PLC Board approves the Remuneration Policy for Executive Directors and senior managers, having regard to pay across the Group.

The Group is committed to rewarding colleagues with a total reward package that is competitive and provides them with choice and that they really value. The Board ensure that remuneration is paid in line with Group processes and 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.
- Sustainable: aligning reward to business strategy and performance.

Energy and Carbon reporting

The Company's Streamlined Energy and Carbon Reporting (SECR) disclosures form a part of the Group's SECR disclosures, which are discussed on page 105 of the Tesco PLC Annual Report and Financial Statements 2023, which does not form a part of this Report.

Directors

The following Directors served during the period and up to the date of signing these financial statements:

A C Morris
I Nawaz
J M Tarry
K Murphy
S A Rigby

None of the Directors had any disclosable interests in the Company during this period.

Director liabilities

The Tesco Group maintains directors' and officers' liability insurance which gives appropriate cover for any legal action brought against any of the Group's employees acting as statutory directors to its subsidiary companies. Indemnities have been granted to Tesco PLC directors, the Group General Counsel and Group Company Secretary, to the extent permitted by law, and a qualifying third-party indemnity provision (as defined in Section 234 of the Companies Act 2006) was in force during the year ended 25 February 2023 and remains in force up to the date of signing the financial statements.

Disclosure of information to auditor

Each Director who is a Director of the Company at the date of approval of these financial statements confirms that:

- so far as the Directors are aware, there is no relevant information of which the Company's auditor is unaware; and
- the Directors have taken all the steps that ought to have been taken as a Director to be 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.

TESCO STORES LIMITED

DIRECTOR'S REPORT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

Cautionary statement regarding forward-looking information

Where this document contains forward-looking statements, these are made by the Directors in good faith based on the information available to them at the time of their approval of this Report. These statements should be treated with caution due to the inherent risks and uncertainties underlying any such forward-looking information. A number of factors, including those in this document, could cause actual results to differ materially from those contained in any forward-looking statement.

Modern Slavery Act

As per section 54(1) of the Modern Slavery Act 2015, our Slavery and Human Trafficking Statement is reviewed and approved by the Board on an annual basis and published on the Tesco PLC website. The statement covers the activities of the Tesco PLC Group 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 own business.

Directors' Responsibilities Statement

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 period. Under that law the directors have elected to prepare the financial statements in accordance with United Kingdom Generally Accepted Accounting Practice (United Kingdom Accounting Standards and applicable law), including FRS 101 "Reduced Disclosure Framework".

Under the 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 these financial statements, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgments 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.

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.

Independent auditor

Deloitte LLP, having indicated its willingness to continue in office, will be deemed to be reappointed as auditor under section 487(2) of the Companies Act 2006.

Approved by the Board of Directors on 21 July 2023 and signed on behalf of the Board by:

Imran Nawaz
Director
Tesco Stores Limited
Registered number: 00519500
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO STORES LIMITED

Report on the audit of the financial statements

Opinion

In our opinion the financial statements of Tesco Stores Limited (the 'company'):

- give a true and fair view of the state of the company's affairs as at 25 February 2023 and of its profit for the year then ended;
- have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including Financial Reporting Standard 101 "Reduced Disclosure Framework"; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

We have audited the financial statements which comprise:

- The profit and loss account;
- the statement of comprehensive income;
- the balance sheet;
- the statement of changes in equity; and
- the related notes 1 to 30;

The financial reporting framework that has been applied in their preparation is applicable law and United Kingdom Accounting Standards, including Financial Reporting Standard 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 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, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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 company's ability to continue to adopt the going concern basis of accounting included:

- obtaining confirmation for the financing facilities including nature of facilities, repayment terms and covenants to ensure that these facilities remain available at year-end;
- assessing the reasonableness of the assumptions used in the Group's funding plan approved by the Board (which included the impact of global supply chain pressures and recessionary impact on customers' disposable income);
- testing the clerical accuracy used to prepare the forecasts including obtaining an understanding of relevant controls overs management's model;
- reviewing the liquidity forecast and undertaking sensitivities to assess whether there is sufficient headroom;
- challenging the assumptions used within the Company's going concern model;
- evaluating the historical accuracy of forecasts prepared by management;
- considering the mitigating factors identified by management in relation to their going concern analysis; and
- assessing the appropriateness of the Company'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 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.

Our responsibilities and the responsibilities of the Directors with respect to going concern are described in the relevant sections of this report.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO STORES LIMITED (continued)

Other information

The other information comprises the information included in the financial statements, other than the financial statements and our auditor's report thereon. The directors are responsible for the other information contained within the financial statements. 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 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 company or to cease operations, or have no realistic alternative but to do so.

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.

We considered the nature of the company's industry and its control environment, and reviewed the company's documentation of their policies and procedures relating to fraud and compliance with laws and regulations. We also enquired of management and the directors about their own identification and assessment of the risks of irregularities, including those that are specific to the company's business sector.

We obtained an understanding of the legal and regulatory frameworks that the company operates in, and identified the key laws and regulations that:

- Had a direct effect on the determination of material amounts and disclosures in the financial statements. These included the Groceries Supply Code of Practice (GSCOP), UK Companies Act, pensions legislation, tax legislation; and
- do not have a direct effect on the financial statements but compliance with which may be fundamental to the company's ability to operate or to avoid a material penalty. These include UK employment law, health and safety and food safety laws and regulations.

We discussed among the audit engagement team regarding the opportunities and incentives that may exist within the organisation for fraud and how and where fraud might occur in the financial statements.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO STORES LIMITED (continued)

Extent to which the audit was considered capable of detecting irregularities, including fraud (continued)

As a result of performing the above, we identified the greatest potential for fraud in the recognition of commercial income from buying arrangements with suppliers. Our specific procedures performed to address it are described below:

- obtaining an understanding of relevant controls that the company has established in relation to commercial income recognition;
- using data analytics to identify commercial income deals which exhibited characteristics of audit interest, such as those related to promotional space or cost price reconciliations, upon which we completed detailed audit testing
- testing whether amounts recognised were accurate and recorded in the correct period, by circularising a sample of suppliers to test whether the arrangements recorded were in accordance with the terms agreed in advance with the suppliers with regard to the nature, timing and amount of the promotions. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements;
- testing the year-end accrual for promotional deals to assess whether performance obligations have been fulfilled but amounts will be invoiced subsequent to year end;
- testing the mechanical accuracy of calculations in respect of relevant arrangements;
- holding discussions with certain suppliers to further understand relevant arrangements;
- holding discussions with members of the Company's buying personnel to further understand the buying processes;
- testing the completeness of commercial income by evaluating management's review and conclusions related to any commercial income deals that may have been missed and performing analytical procedures to identify deals where performance obligations have been fulfilled but invoicing could not occur due to pending final administrative procedures;
- testing commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables via balance sheet reconciliation procedures;
- reviewing the company's ongoing compliance with the GSCOP and additionally, reviewing the reporting and correspondence to the company'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 company's financial statements.

In common with all audits under ISAs (UK), we are also required to perform specific procedures to respond to the risk of management override. In addressing the risk of fraud through management override of controls, we tested the appropriateness of journal entries and other adjustments; assessed whether the judgements made in making accounting estimates are indicative of a potential bias; and evaluated the business rationale of any significant transactions that are unusual or outside the normal course of business.

In addition to the above, our procedures to respond to the risks identified included the following:

- reviewing financial statement disclosures by testing to supporting documentation to assess compliance with provisions of relevant laws and regulations described as having a direct effect on the financial statements;
- performing analytical procedures to identify any unusual or unexpected relationships that may indicate risks of material misstatement due to fraud;
- enquiring of management and in-house legal counsel concerning actual and potential litigation and claims, and instances of non-compliance with laws and regulations; and
- reading minutes of meetings of those charged with governance, reviewing internal audit reports and reviewing correspondence, if any, with HMRC and other relevant regulatory bodies.

We also communicated relevant identified laws and regulations and potential fraud risks to all engagement team members including internal specialists, and remained alert to any indications of fraud or noncompliance with laws and regulations throughout the audit.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF TESCO STORES LIMITED (continued)

Report on other legal and regulatory requirements

Opinions on other matters prescribed by 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 company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report or the Directors' report.

Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report in respect of the following matters if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements are not in agreement with the accounting records and returns; or
- certain disclosures of directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

We have nothing to report in respect of these matters.

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.

DocuSigned by:
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David White FCA (Senior Statutory Auditor)
For and on behalf of Deloitte LLP
Statutory Auditor
London, United Kingdom
21 July 2023

TESCO STORES LIMITED

PROFIT AND LOSS ACCOUNT FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

	Notes	52 weeks ended 25 February 2023	52 weeks ended 26 February 2022
		£m	£m
Revenue	4	**47,481**	44,793
Cost of sales		**(45,556)**	(41,929)
Gross profit		**1,925**	2,864
Administrative expenses		**(1,283)**	(1,224)
Operating profit	5	**642**	1,640
Impairment on investments	16	**(241)**	-
Interest receivable and similar income	8	**149**	15
Interest payable and similar costs	9	**(389)**	(428)
Dividend income		**404**	33
Profit before tax		**565**	1,260
Tax charge on profit	10	**(224)**	(164)
Profit for the financial period		**341**	1,096

There are no material differences between the profit before tax and the profit for the financial period stated above and their historical cost equivalents.

All operations are continuing for the financial period.

The notes on pages 22 to 61 form an integral part of the financial statements.

TESCO STORES LIMITED

STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

	Notes	**52 weeks ended 25 February 2023**	52 weeks ended 26 February 2022
		£m	£m
Profit for the financial period		**341**	1,096
Other comprehensive income:			
Items that cannot be reclassified to profit and loss account			
Actuarial (losses)/gain on defined benefit pension plan	24	**(3,465)**	3,932
Income tax credit/(charge) relating to items not reclassified	10	**866**	(894)
Items that may subsequently be reclassified to profit and loss account			
Cash flow hedges:			
Gain reclassified and reported in the profit and loss account		**-**	15
Change in fair value through other comprehensive income		**-**	54
Net fair value gains on inventory cash flow hedges		**59**	-
Income tax credit/(charge) relating to cash flow hedges	10	**3**	(13)
Other comprehensive (loss)/income for the financial period, net of tax		**(2,537)**	3,094
Total comprehensive (loss)/income for the financial period		**(2,196)**	4,190

The notes on pages 22 to 61 form an integral part of the financial statements.

TESCO STORES LIMITED

BALANCE SHEET AS AT 25 FEBRUARY 2023

	Notes	**25 February 2023**	26 February 2022
		£m	£m
Non-current assets			
Intangible assets	12	**551**	502
Tangible assets	13	**11,058**	10,206
Right of use assets	14	**4,765**	5,303
Investment properties	15	**9**	8
Investments	16	**-**	465
Debtors: amounts falling due after more than one year	19	**555**	558
Deferred tax assets	10	**332**	-
Post-employment benefit surplus	24	**-**	3,199
Derivative financial instruments	21	**1**	-
		17,271	20,241
Current assets			
Stocks	17	**1,522**	1,459
Debtors: amounts falling due within one year	18	**425**	1,028
Derivative financial instruments	21	**20**	20
Current tax assets	10	**68**	68
Cash and cash equivalents		**863**	632
		2,898	3,207
Assets classified as held for sale	11	**19**	3
		2,917	3,210
Current liabilities			
Creditors: amounts falling due within one year	20	**(7,964)**	(6,797)
Lease liabilities	14	**(460)**	(518)
Provisions for liabilities	22	**(206)**	(119)
Derivative financial instruments	21	**(26)**	(9)
		(8,656)	(7,443)
Net current liabilities		**(5,739)**	(4,233)
Total assets less current liabilities		**11,532**	16,008
Non-current liabilities			
Lease liabilities	14	**(6,686)**	(7,210)
Provisions for liabilities	22	**(126)**	(116)
Deferred tax liabilities	10	**-**	(308)
Derivative financial instruments	21	**(2)**	-
Post-employment benefit deficit	24	**(333)**	(154)
		(7,147)	(7,788)
Net assets		**4,385**	8,220
Capital and reserves			
Called up share capital	27	**1,325**	1,325
Share premium		**241**	241
Merger reserve	16	**-**	224
Cash flow hedge reserve		**(4)**	8
Profit and loss account		**2,823**	6,422
Total shareholders' funds		**4,385**	8,220

TESCO STORES LIMITED

BALANCE SHEET AS AT 25 FEBRUARY 2023 (continued)

The notes on pages 22 to 61 form an integral part of the financial statements.

The financial statements on pages 17 to 61 were approved by the Board of Directors on 21 July 2023 and signed on its behalf by:

Imran Nawaz
Director
Tesco Stores Limited
Registered number: 00519500
Registered office: Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom

TESCO STORES LIMITED

STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

	Called up share capital [i]	Share premium	Merger reserve	Cash flow hedge reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 26 February 2022	**1,325**	**241**	**224**	**8**	**6,422**	**8,220**
Profit for the financial period	-	-	-	-	**341**	**341**
Tax relating to components of other comprehensive income	-	-	-	3	866	869
Other comprehensive loss for the financial period	-	-	-	59	(3,465)	(3,406)
Total comprehensive loss for the financial period	-	-	-	**62**	**(2,258)**	**(2,196)**
Inventory cash flow hedge movements						
(Gains)/losses transferred to the cost of inventory	-	-	-	(74)	-	(74)
Total inventory cash flow hedge movements	-	-	-	**(74)**	-	**(74)**
Transactions with owners						
Dividends	-	-	-	-	(1,250)	(1,250)
Reversal of merger reserve upon disposal of investments [iii]	-	-	(224)	-	-	(224)
Share-based payment transactions [ii]	-	-	-	-	**(91)**	**(91)**
At 25 February 2023	**1,325**	**241**	-	**(4)**	**2,823**	**4,385**

	Called up share capital [i]	Share premium	Merger reserve	Cash flow hedge reserve	Profit and loss account	Total
	£m	£m	£m	£m	£m	£m
At 27 February 2021	**1,325**	**241**	**224**	**(48)**	**3,730**	**5,472**
Profit for the financial period	-	-	-	-	1,096	1,096
Other comprehensive income for the financial period	-	-	-	56	3,038	3,094
Total comprehensive income for the financial period	-	-	-	**56**	**4,134**	**4,190**
Transactions with owners						
Dividends	-	-	-	-	(1,500)	(1,500)
Share-based payment transactions [ii]	-	-	-	-	58	58
At 26 February 2022	**1,325**	**241**	**224**	**8**	**6,422**	**8,220**

[i] See Note 27 for a breakdown of the Called up share capital.
[ii] See Note 23 for a breakdown of the total share-based payment charge.
[iii] See Note 16 for details on disposal transaction.

The notes on pages 22 to 61 form an integral part of the financial statements.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023

1. Authorisation of financial statements and statement of compliance with FRS 101

The financial statements of Tesco Stores Limited (the "Company") for the 52 weeks ended 25 February 2023 were approved by the Board of Directors on 21 July 2023 and the Balance Sheet was signed on the Board's behalf by Imran Nawaz.

These financial statements were prepared in accordance with Financial Reporting Standard 101 "Reduced Disclosure Framework" ("FRS 101"). As permitted by Schedule 1 to the Accounting Regulations, the presentation of the financial statements has been adapted to be in line with the presentation prescribed by IAS 1. The financial statements have been prepared under the historical cost convention and the Companies Act 2006, except for certain financial instruments, pension plan assets and share-based payments that have been measured at fair value. The Company has used a true and fair view override to the Companies Act 2006 in respect of the non-amortisation of goodwill (Note 3(e), "Significant accounting policies").

The Company has taken advantage of the exemption under Section 400 of the Companies Act 2006 not to prepare Group financial statements as it is a wholly owned subsidiary of Tesco PLC. The Company's results are included in the consolidated financial statements of Tesco PLC, which are available from Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

The Company's financial statements are presented in Pound Sterling (£), generally rounded to the nearest million, except when otherwise indicated.

2. General information

The Company is a private company limited by shares and is incorporated in the United Kingdom under the Companies Act 2006 and registered in England and Wales. The address of the registered office is given on page 6. The nature of the Company's operations and its principal activities are set out in the Strategic Report on page 1. The principal accounting policies are summarised below. They have all been applied consistently throughout the period and to the preceding period, unless otherwise stated.

3. Accounting policies

(a) Basis of preparation

In preparing these financial statements, the Company applies the recognition, measurement and disclosure requirements of International Financial Reporting Standards as adopted for use within the UK ("Adopted IFRSs"), but makes amendments where necessary in order to comply with Companies Act 2006 and has set out below where advantage of the FRS 101 disclosure exemptions has been taken. Following the UK's exit from the European Union the Company has early adopted the FRS 101 amendments 'UK exit from the European Union'.

The Company is a qualifying entity for the purposes of FRS 101. Note 26 gives details of the Company's parent and from where its consolidated financial statements prepared in accordance with IFRS may be obtained. The Company has taken advantage of the following disclosure exemptions under FRS 101:

- the requirement in paragraph 38 of IAS 1 'Presentation of Financial Statements' to present comparative information in respect of
  - (i) paragraph 79(a)(iv) of IAS 1;
  - (ii) paragraph 73(e) of IAS 16 Property, Plant and Equipment;
  - (iii) paragraph 118(e) of IAS 38 Intangible Assets; and
  - (iv) paragraphs 76 and 79(d) of IAS 40 Investment Property
- paragraph 17 and 18A of IAS 24 Related Party Disclosures;
- *the requirements of paragraphs 10(d), 10(f), 134-136 and 40A of IAS 1 Presentation of Financial* Statements;
- the requirements of IFRS 7 Financial Instruments: Disclosures;
- the requirements of paragraphs 91-99 of IFRS 13 Fair Value Measurement;
- the requirements of IAS 7 Statement of Cash Flows;
- the requirements of the second sentence of paragraph 110 and paragraph 113(a), 114, 115, 118, 119 (a) to (c), 120 to 127 and 129 of IFRS 15 Revenue from contracts with Customers;
- the requirements in IAS 24 Related Party Disclosures to disclose related party transactions entered into between two or more members of a group, provided that any subsidiary which is a party to the transaction is wholly owned by such a member; and
- the requirements of paragraphs 134(d)-134(f) and 135(c)-135(e) of IAS 36 Impairment of Assets.
- the requirements of paragraphs 30 and 31 of IAS 8 Accounting Policies, Changes in Accounting Estimates and Errors

3. Accounting policies (continued)

(b) Adoption of new IFRS standards and interpretation

The Company has not applied any new standards, interpretations or amendments which are effective in the current financial year. Hence there has been no impact in the financial statements.

(c) Going concern

Although the Company remains in a net current liability position, the Directors consider that the Company has adequate resources to remain in operation for a period of at least 12 months from the date of signing the financial statements, whilst as detailed in the note on Liquidity Risk included in the Strategic Report, the Company also has access if needed to a revolving credit facility. Therefore, they continue to adopt the going concern basis in preparing the financial statements. In undertaking their going concern assessment, the Directors have considered the impact of industry challenges, and have concluded that there are no material uncertainties relating to going concern. For further details, please refer to the Tesco PLC Annual Report and Financial Statements 2023.

(d) Judgements and sources of estimation uncertainty

The preparation of 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.

Critical accounting judgements

Critical accounting judgements, apart from those involving estimations, that are applied in the preparation of the 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 14 for additional disclosures relating to leases.

Key sources of estimation and 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 amounts of assets and liabilities within the next financial period, are described below. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Company. Such changes are reflected in the assumptions when they occur.

3. Accounting policies (continued)

(d) Judgements and sources of estimation uncertainty (continued)

Key sources of estimation and uncertainty (continued)

Impairment of non-financial assets

The Company treats each store as a separate cash-generating unit for impairment testing. 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 Company'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 average growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate. Key estimates are disclosed in Note 12 and 13 and key sensitivities are disclosed in Note 13.

Stocks provisions

A stock provision is booked for cases where the realisable value from sale of the stock is estimated to be lower than the inventory carrying value. Management has estimated the inventory provisioning percentage for different product categories based on various factors, including the expected sales profiles of the items, the prevailing sales prices, the items' seasonality pattern and expected losses associated with slow-moving stock items. Refer to Note 17 for the disclosures.

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 24.

Other significant estimates

Commercial income

The Company 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, the Company estimates the probability that it will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

The Company 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 stocks which are held by the Company at period ends, the income is included within the cost of those stocks and recognised in cost of sales upon sale of those stocks.

Management views that the cost of stocks sold (which is inclusive of commercial income) provides a consistent and complete measure of the Profit and Loss Account impact of the overall supplier relationships.

Clubcard points breakage

Clubcard points breakage is the proportion of points that are not expected to be redeemed by customers. Management estimates breakage based on historical experience of customer redemptions, adjusted for any factors which may impact future redemption rates such as scheme changes or expected future trends in customer behaviour. Changes in breakage estimates would change the Clubcard contract liability (deferred revenue) on balance sheet and the timing of revenue recognised in relation to Clubcard points.

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 Company'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 Company does not recognise contingent liabilities but discloses them. Refer to Note 29 for the disclosures.

3. Accounting policies (continued)

(e) Significant accounting policies

Foreign currency translation

The Company's financial statements are presented in Pound Sterling (£), which is also the Company's functional currency.

Transactions and balances

Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At the 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. Exchange differences are recognised in the Profit and Loss Account in the period in which they arise, apart from exchange differences on transactions entered into to hedge certain foreign currency risks.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the acquisition-date fair value of the consideration transferred and the amount recognised for the non-controlling interest over the net identifiable amounts of the assets acquired and the liabilities assumed in exchange for the business combination.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Where goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Company law (in particular paragraph 22 to the Regulations) requires goodwill to be written off over a finite period. Non-amortisation of goodwill, in accordance with International Financial Reporting Standards, is a departure from the requirements of company law for the overriding purpose of giving a true and fair view. If this departure from company law had not been made, the profit for the financial year would have been reduced by amortisation of goodwill. However, the amount of amortisation cannot reasonably be quantified other than by reference to an arbitrary assumed period for amortisation.

Intangible assets

Cloud software licence agreements

Licence agreements to use cloud software are treated as service contracts and expensed in the Profit and Loss Account, unless the Company has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor. In such cases the licence agreement is capitalised as software within intangible assets. Costs to configure or customise a cloud software licence are expensed alongside the related service contract in the Profit and Loss Account, unless they create a separately identifiable resource controlled by the Group, in which case they are capitalised.

Software and other intangible assets

Intangible assets, such as software 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 3 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.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Tangible fixed assets

Tangible fixed assets are carried at cost less accumulated depreciation and any recognised impairment in value. Tangible fixed assets are depreciated on a straight-line basis to their residual value over its anticipated useful economic life.

The following useful lives of fixed assets were applied by the Company and are consistent with the prior period:

- Freehold buildings - 10 to 40 years;
- Plant, equipment, fixtures and fittings and motor vehicles - 3 to 10 years; and
- Freehold land is not depreciated.

Impairment of non-financial assets

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

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

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in the Profit and Loss Account.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of the recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined if no impairment loss had been recognised for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognised immediately as a credit to the Profit and Loss Account. Goodwill impairments are not subsequently reversed.

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 tangible fixed assets.

Investments

Investments in subsidiaries and associates are held at historical cost less any applicable provision for impairment.

Non-current assets classified as held for sale

Non-current assets 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.

Provision for liabilities

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 Company believes that the unavoidable costs of meeting or exiting the contract exceed the economic benefits expected to be received under the contract.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Leases

Whether a contract is, or contains a lease is assessed 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.

Company 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 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 Company is reasonably certain to exercise; penalties for early termination if the lease term reflects the company exercising a break option; and payments in an optional renewal period if the Company 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 Company's assessment of whether it is reasonably certain to exercise a purchase or extension option or not exercise a 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 profit and loss account, as are variable payments dependent on performance or usage, 'out of contract' payments and non-lease service components.

Property buybacks are viewed as the modification of a lease to include a purchase option, followed by the immediate exercise of that purchase option. Applying lease modification accounting to property buybacks results in the lease liability being settled and the right of use asset forming part of the cost of the property, plant and equipment acquired, and no gain or loss being recognised in the Profit and Loss Account from the property buyback.

Company 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 Company is an intermediate lessor, the sub lease 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 Company'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 Company'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 Company 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 tangible 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.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Financial instruments

Financial assets and financial liabilities are recognised in the Balance Sheet when the Company becomes a party to the contractual provisions of the instrument. Financial assets are classified as either fair value through profit and loss, fair value through other comprehensive income, or amortised cost. Classification and subsequent remeasurement depends on the Company'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.

Debtors

Debtors including intercompany balances are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment including the expected credit loss.

Investments

Equity investments other than investment in subsidiaries have been irrevocably designated as 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 Company Profit and Loss Account, including on derecognition. Impairment losses are not recognised separately from other changes in fair value.

Impairment of financial assets

The Company assesses on a forward-looking basis the expected credit losses (ECLs) associated with its financial assets carried at amortised cost and debt instruments at fair value through other comprehensive income. The ECLs are updated at each reporting date to reflect changes in credit risk.

The three-stage model for impairment has been applied to loans and advances to customers and banks, debt instruments at fair value through other comprehensive income, 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 debtors and other receivables, contract assets and lease receivables, the Company applies the simplified approach permitted by IFRS 9, with lifetime ECLs recognised from initial recognition of the receivables. These assets are grouped based on shared credit risk characteristics and days past due, with ECLs for each risk grouping determined based on the Company'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 Profit and Loss Account over the period of the borrowings on an effective interest basis.

Creditors

Creditors including intercompany balances are recognised initially at fair value, and subsequently measured 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, inflation, interest rate and commodity 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 Profit and Loss Account. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Derivative financial instruments and hedge accounting (continued)

At inception of designated hedging relationships, the Company 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 Company has elected to continue to apply the existing hedge accounting requirements of IAS 39 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 balance sheet date are disclosed as non-current.

Cash flow hedging

Derivative financial instruments are classified as cash flow hedges when they hedge the Company's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in statement of comprehensive income and the ineffective element is recognised immediately in the Profit and Loss Account within interest income or costs.

Where the hedged item subsequently results in the recognition of a non-financial asset such as stock, the amounts accumulated in the hedging reserve and currency basis reserve are included in the initial cost of the asset. For all other cash flow hedges, the amounts accumulated in the hedging reserve and currency basis reserve are recognised in the Profit and Loss Account when the hedged item or transaction affects the Profit and Loss Account.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised. The cumulative gain or loss in other comprehensive income remains until the forecast transaction occurs or the original hedged item affects the Profit and Loss Account. If a forecast hedged transaction is no longer expected to occur, the cumulative gain or loss in other comprehensive income is reclassified to the Profit and Loss Account.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the Balance Sheet when there is a current legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

Stocks

Stocks comprise goods and development properties held for resale. Stocks are valued at the lower of cost and net realisable value using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of stocks.

Cash and cash equivalents

Cash and cash equivalents in the Company Balance Sheet consist of cash at bank and on hand, credit and debit card receivables, demand deposits with banks and short-term highly liquid investments with an original maturity of three months or less, for example, short-term deposits, loans and advances to banks and certificates of deposits.

Income taxes

Current tax, including United Kingdom (UK) corporation tax and foreign tax, is provided at amounts expected to be paid (or recovered) using the tax rates and laws that have been enacted or substantively enacted by the Balance Sheet date. The tax currently payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the Profit and Loss Account because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Income taxes (continued)

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 Company will be required to settle that tax. Measurement is dependent on subjective judgements as to the outcome of decisions by tax authorities in the various tax jurisdictions in which the Company operates. This is assessed on a case to case basis using in-house tax experts, professional firms and previous experience.

Group relief on taxation

The Company may receive or surrender group relief from group companies without payment and consequently there may be no tax charge in the Profit and Loss Account.

Deferred taxes

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and 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. Such assets and liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries and associates, and interests in joint ventures, except where the Company is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future. 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 asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised based on tax laws and rates that have been enacted or substantively enacted at the Balance Sheet date.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set-off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

Current tax and deferred tax for the period

Current and deferred tax are recognised in the Profit and Loss Account, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

3. Accounting policies (continued)

(c) Significant accounting policies (continued)

Pension and other post-employment benefit obligations

The Company participates in defined benefit pension schemes and cannot identify its share of the underlying assets and liabilities of the schemes.

Therefore, in accordance with Group policy, as the vast majority of Tesco Group's employees and Scheme members are or were employed by this subsidiary, the entire net defined benefit deficit relating to the UK scheme is recognised by the Company, and the Company accounts for this scheme as a defined benefit plan. 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 Profit and Loss Account; 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 Statement of Comprehensive Income. There is no contractual agreement or agreed policy for recharges. The Company also participates in a defined contribution scheme open to all UK colleagues. Payments to this scheme are recognised as an expense as they fall due.

Revenue recognition

Revenue is income arising from the sale of goods and services in the ordinary course of the Company'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 Company'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 Company'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 creditors and other payables. Revenue is recognised as the points are redeemed by the customer.

Commercial income

Consistent with standard industry practice, the Company 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 Company performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning. Whilst there is no standard 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 Company, 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 stocks which are held by the Company at the reporting date, the income is included within the cost of those stocks and recognised in cost of sales upon sale of those stocks.

3. Accounting policies (continued)

(e) Significant accounting policies (continued)

Commercial income (continued)

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

Interest receivable and similar income

Interest income is recognised in the period to which it relates using the effective interest method. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to its net carrying amount.

Interest payable and similar 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 and from which future economic benefits are expected to arise. All other borrowing costs are recognised in the Profit and Loss Account in interest expense in the period in which they occur.

Dividend income

Income from shares in Group undertakings is recognised in the Profit and Loss Account when the shareholder's right to payment is established, that is on declaration of the dividend by the subsidiary.

Share-based payments

Some employees of the Company receive part of their remuneration in the form of share-based payment transactions, whereby employees render services in exchange for shares or rights over shares (equity-settled transactions). The fair value of employee share option plans is calculated at the grant date using either the Monte Carlo or Black-Scholes models. The resulting cost is charged to the Profit and Loss Account over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Options awarded to employees are for share capital of Tesco PLC. This is treated as a capital contribution to the reserves of the Company.

4. Revenue

The Company operates within one business segment being that of the operation of retail stores and associated activities with business transacted in the United Kingdom (UK).

5. Operating profit

	52 weeks ended 25 February 2023	52 weeks ended 26 February 2022
	£m	£m
Operating profit is stated after charging/(crediting):		
Investment property rental income	**(11)**	(19)
Other rental income	**(50)**	(53)
Direct expenses for investment properties generating rental income	**6**	5
Depreciation and amortisation:		
Tangible assets (Note 13)	**545**	558
Right of use assets (Note 14)	**477**	480
Intangible assets (Note 12)	**124**	127
Net impairment charge for tangible assets (Note 13)	**479**	82
Net impairment charge for right of use assets (Note 14)	**279**	30
Net impairment charge for intangible assets (Note 12)	**14**	14
Cost of stocks recognised as an expense (included in cost of sales)	**35,351**	32,768
Property provision release (Note 22)	**(13)**	(23)
Stock losses and provisions	**936**	791
Profit on property transactions	**-**	(22)
Restructuring and redundancy cost (Note 22)	**103**	58

Significant items in operating profit:

Net impairment charge on tangible fixed assets, right of use assets and intangibles

Included within net impairment of non-current assets in the year is a net charge of £772m (2022: £126m), comprising of a net impairment charge on tangible assets of £479m (2022: £82m), a net charge on right of use assets of £279m (2022: £30m) and a net charge on intangible assets of £14m (2022: £14m). This is included in cost of sales.

The impairment charges on non-trading assets are £6m (2022: £4m) which is included in administrative expenses.

6. Auditor's remuneration

The Company paid the following amounts to its auditor in respect of the audit of the financial statements.

	52 weeks ended 25 February 2023 £'000	52 weeks ended 26 February 2022 £'000
Audit of the financial statements	**114**	103

The Company has taken advantage of the exemption not to disclose amounts paid for non-audit services as these are disclosed in the Group financial statements of its ultimate parent, Tesco PLC.

7. Staff costs and Directors' remuneration

(a) Staff costs

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Wages and salaries	**3,942**	4,031
Social security costs	**252**	247
Post-employment defined benefits (Note 24)	**23**	25
Post-employment defined contributions (Note 24)	**288**	292
Share-based payment expense (Note 23)	**83**	84
Termination benefits charge	**110**	38
Total staff costs	**4,698**	4,717

Post-employment defined contribution charges include £107m (2022: £136m) of salaries paid as pension contributions. Contributions paid for defined contribution schemes of £288m (2022: £292m) have been recognised in the Company's Profit and Loss Account.

The average monthly number of employees during the period was 241,340 (2022: 259,472) and the average number of full-time equivalents was 138,128 (2022: 143,054).

(b) Directors' remuneration

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Directors' remuneration	**4**	3

There were no payments for loss of office or retirement in the period.

In respect of highest paid Director:

Aggregate remuneration	**2**	1

In the current and prior financial period, the highest paid Director was not a member of the Company's defined benefit pension scheme.

	52 weeks ended 25 February 2023 No.	52 weeks ended 26 February 2022 No.
Number of Directors who received shares in respect of qualifying services	**3**	3

In the current financial period share options were exercised by no Directors (2022: one Director) In current and prior financial period, shares were received under a long-term incentive scheme by the highest paid Director.

The Company receives management and operational recharges for relevant pooled group costs which may include a portion of the directors' emoluments along with numerous other costs. I Nawaz and K Murphy who served during the year are also directors of a number of fellow subsidiaries within the Group. It is not practicable to make an accurate apportionment of the emoluments in respect of each of the subsidiaries. Accordingly, their emoluments are disclosed on pages 77 to 101 of the Tesco PLC Annual Report and Financial Statements 2023, which do not form a part of this Report, with whom they have their primary employment contracts.

8. Interest receivable and similar income

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Interest receivable on loans to Group undertakings	**31**	14
Other interest receivable	**19**	1
Net pension finance income (Note 24)	**84**	-
Financial instruments – fair value remeasurements	**15**	-
Total interest receivable and similar income	**149**	15

9. Interest payable and similar costs

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Other interest payable	**7**	1
Finance charges payable on lease liabilities (Note 14)	**380**	402
Unwinding of discount on provisions	**2**	-
Net pension finance costs (Note 24)	**-**	18
Financial instruments – fair value remeasurements	**-**	7
Total interest payable and similar costs	**389**	428

10. Tax charge on profit

(a) Factors that have affected the tax charge

The standard rate of corporation tax in the UK at the Balance Sheet date is 19%. This gives a corporation tax rate for the Company for the full period of 19% (2022: 19%).

The Finance Act 2021 included legislation to increase the main rate of UK corporation tax from 19% to 25% from 1 April 2023. As the change to the main UK corporation tax rate was substantively enacted by the Balance Sheet date the impact is included in these financial statements with temporary differences remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

(b) Tax charge in the Profit and Loss Account

The analysis of the charge for the period is as follows:

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Current income tax:		
UK corporation tax on profit for financial period	**(123)**	(160)
Adjustments in respect of prior periods	**(1)**	60
Total current income tax charge	**(124)**	(100)
Deferred tax:		
Current period	**(42)**	(95)
Adjustments in respect of prior periods	**(35)**	(9)
Impact of rate change adjustment	**(23)**	40
Total deferred tax charge	**(100)**	(64)
Total tax charge in the Profit and Loss Account	**(224)**	(164)

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

10. Tax charge on profit (continued)

(c) Tax on items (charged)/credited directly to Statement of Changes in Equity:

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Deferred tax (charge)/credit:		
Share-based payments	(9)	11
Current tax credit:		
Share-based payments	2	2
Total tax (charge)/credit to Equity	(7)	13

(d) Tax relating to components of the Statement of Comprehensive Income:

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Deferred tax credit/(charge) on:		
Defined benefit pension plan	746	(1,015)
Cash flow hedges	3	(13)
	749	(1,028)
Current tax credit on:		
Defined benefit pension plan	120	121
Total tax credit/(charge) to Other Comprehensive Income	869	(907)

(e) Reconciliation of the tax charge

The differences between the total charge shown above and the amount calculated by applying the UK corporation tax rate to profit is as follows:

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Profit before tax	565	1,260
Tax charge at standard UK corporation tax rate of 19% (2022: 19%)	(107)	(239)
Effects of:		
Non-qualifying depreciation	(4)	(5)
Non-qualifying impairment charge	(75)	(7)
Other non-taxable items	26	1
Profit on property disposals not taxable or available for tax relief	(9)	(13)
Share-based payments	4	(4)
Adjustments in respect of prior periods	(36)	51
Impact of rate change adjustment	(23)	40
Group relief received without payment	-	12
Total tax charge	(224)	(164)
Effective tax rate %	39.65%	13.02%

Non qualifying depreciation has been reduced by the tax effect of the super deduction of £23m in respect of tax relief for fixed assets.

10. Tax charge on profit (continued)

(f) Current tax asset

Current tax asset was as follows:

	25 February 2023	26 February 2022
	£m	£m
Current tax asset	**68**	68
Total current tax asset	**68**	68

(g) Deferred tax

The following are the major deferred tax (liabilities)/assets recognised by the Company and movements thereon during the current and prior financial periods 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.

	Accelerated capital allowances	Short term timing differences	Share-based payments	Property related items	Pension	Financial instruments	Transitional Adjustments -Financial instruments	Transitional Adjustments - IFRS 16	Tax losses	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m	£m
At 26 February 2022	**(103)**	**10**	**35**	**(173)**	**(485)**	**(3)**	**1**	**386**	**24**	**(308)**
Credit/(charge) in Profit and Loss Account - current period	-	(10)	3	(3)	(17)	-	-	(15)		(42)
Rate change P&L	(17)	(1)	1	(1)	(5)	-	-	-	-	(23)
Credit/(charge) in Profit and Loss Account - prior periods	(12)	2	-	(1)	-	-	-	-	(24)	(35)
Credited to other comprehensive income	-	-	-	-	538	2	-	-	-	540
Rate change OCI	-	-	-	-	208	1	-	-	-	209
Credited/ (Charged) to equity	-	-	(7)	-	-	-	-	-	-	(7)
Rate change equity	-	-	(2)	-	-	-	-	-	-	(2)
At 25 February 2023	**(132)**	**1**	**30**	**(178)**	**239**	**-**	**1**	**371**	**-**	**332**

Deferred tax assets and liabilities are offset only where the Company has a legally enforceable right to do so and where assets and liabilities relate to income taxes levied by the same taxation authority.

11. Assets classified as held for sale

The following non-current assets are classified as held for sale and included within net assets:

	25 February 2023	26 February 2022
	£m	£m
Assets classified as held for sale	**19**	3

The assets classified as held for sale consist of properties in the UK

12. Intangible assets

	Software	Goodwill	Other intangible assets	Total
	£m	£m	£m	£m
Cost				
At 26 February 2022	806	131	47	984
Additions	186	-	3	189
Disposals	(164)	-	-	(164)
At 25 February 2023	**828**	**131**	**50**	**1,009**
Accumulated amortisation/impairment				
At 26 February 2022	(457)	-	(25)	(482)
Charge for the period	(124)	-	-	(124)
Disposals	162	-	-	162
Impairment charge	(28)	-	-	(28)
Reversal of impairment losses	11	-	3	14
At 25 February 2023	**(436)**	**-**	**(22)**	**(458)**
Net book value				
At 25 February 2023	**392**	**131**	**28**	**551**
At 26 February 2022	349	131	22	502

Assessment of the carrying value of goodwill

Goodwill has been allocated to the grouping of all stores within the Company in the UK. This represents the lowest level within the Company at which goodwill is monitored for internal management purposes. Goodwill is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. An impairment review was performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating unit to which goodwill has been allocated. The recoverable amount for the group of cash generating units is determined using value in use calculations.

The key estimates for the value in use calculations are those regarding discount rate, growth rate and expected changes in future cashflows. Management estimates the discount rate using the pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the cash-generating unit.

Cash flow projections are based on the Company's three-year internal forecasts, the results of which are reviewed by the Board, extrapolated to five years. The forecasts include best estimate assumptions on inflation, which differs by revenue and cost categories.

The pre-tax discount rate of 8.6% (2022: 6.4%) used to calculate the value in use range is derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. On a post-tax basis, the discount rate is 6.5% (2022: 4.8%). The forecast is extrapolated to five years based on management's expectations and extrapolated beyond five years based on an estimated long-term average growth rate of 2.0% (2022: 1.9%). The impairment methodology of intangible assets other than goodwill is set out in Note 13.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

13. Tangible assets

	Land and buildings	Plant and equipment, fixtures and fittings and motor vehicles	Total
	£m	£m	£m
Cost			
At 26 February 2022	13,990	3,634	17,624
Additions	216	372	588
Disposals	(45)	(375)	(420)
Reclassification [(a)]	1,331	-	1,331
Classified as held for sale	(18)	-	(18)
At 25 February 2023	**15,474**	**3,631**	**19,105**
Accumulated depreciation/impairment			
At 26 February 2022	**(4,792)**	**(2,626)**	**(7,418)**
Charge for the period	(291)	(254)	(545)
Impairment charge	(531)	(118)	(649)
Reversal of impairment losses	137	33	170
Disposals	25	369	394
Classified as held for sale	1	-	1
At 25 February 2023	**(5,451)**	**(2,596)**	**(8,047)**
Net book value			
At 25 February 2023	**10,023**	**1,035**	**11,058**
At 26 February 2022	9,198	1,008	10,206

Assets under construction included above	25 February 2023 £m	26 February 2022 £m
Land and buildings	**76**	76
Plant and equipment	**186**	133
	262	209

(a) Includes £1,331m of land and buildings relating to property buyback transactions.

The net impairment charge for the period of £479m is all included in cost of sales. Assets under construction does not include land.

Impairment of non-current assets

The Company treats each store as a separate cash-generating unit for impairment testing of intangible assets, tangible assets, right of use assets and investment property. The recoverable amount for each cash-generating unit is the higher of its value in use or fair value less costs of disposals. 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.

13. Tangible assets (continued)

Impairment of non-current assets (continued)

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 Company's properties were determined with the assistance of independent professional valuers where appropriate. Costs of disposal are estimated based on past experience.

Estimates for value in use calculations include discount rates, long-term growth rates and expected changes to future cash flows, including volumes and prices and 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 Company's operational scale.

Cash flow projections are based on the Company's three-year internal forecasts, the results of which are reviewed by the Board, extrapolated to five years. The forecasts include best estimate assumptions on inflation, which differs by revenue and cost categories. 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 are based on inflation forecasts by recognised bodies. Cashflow forecasts are allocated to store-level cash-generating units based on their relative current year actual sales performance, after adjusting for one-off cash flows affecting particular stores.

The Company applies an expected cash flow approach by probability-weighting different cash flow scenarios. The greatest probability weighting is applied to the cash flows derived from the three-year internal forecasts. Additional scenarios take account of the risks presented by macroeconomic downturns, higher levels of operating costs and climate change, as well as an upside scenario. In addition to the climate change scenario included within the probability-weighted cash flows, the Company incorporates other climate change related assumptions into the impairment modelling, including, but not limited to, investments in technology to aid the Company's net-zero commitments, the costs associated with replacing assets with more environmentally-friendly alternatives, and assumptions over the cash flow profile of the Company's fuel business.

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 post-tax weighted average cost of capital. The risk-free rate is based on an applicable government bond rate and the equity risk premium and equity beta are based on forecasts by recognised bodies. The pre-tax discount rate used is 8.6% (2022: 6.4%) and the post-tax discount rate is 6.5% (2022: 4.8%). The estimated long-term average growth rate used was 2.0% (2022: 1.9%).

As disclosed in Note 3(d), impairment of non-financial assets is a key source of estimation uncertainty. The Company has carried out sensitivity analyses on the reasonably possible changes in key assumptions in the impairment tests for intangible assets other than goodwill, tangible fixed assets and right of use assets. 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 Company in the next financial year, the table below summarises the reasonably possible changes in each key assumption and its isolated impact on the impairment of the entire portfolio of store cash-generating units, presented in aggregate due to the large number of individually immaterial store cash-generating units:

Impairment increase/(decrease)	**25 February 2023**
	£m
1% increase in post-tax discount rates	**358**
1% decrease in post-tax discount rates	**(326)**
1% increase in long term growth rates	**(185)**
1% decrease in long term growth rates	**184**
10% increase in property fair values	**(173)**
10% decrease in property fair values	**192**
10% increase in future cash flows	**(210)**
10% decrease in future cash flows	**234**

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

14. Leases

Lease liabilities represent rentals payable by the Company for certain of its retail, distribution and office properties and other assets such as motor vehicles. The leases have varying terms, purchase options, escalation clauses and renewal rights. Purchase options and renewal rights, where they occur, are at market value. Escalation clauses are in line with market practices and include inflation linked, fixed rates, resets to market rents and hybrids of these.

In prior years, the Company sold and leased back properties to and from Group-related joint ventures over 20-to 30-year terms. On some of these transactions the Company also has a lease-break option, which is exercisable if the Group's 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.

Right of use assets

	Land and buildings	Plant and equipment, fixtures and fittings and motor vehicles	Total
At 25 February 2023 and for the 52 weeks ended 25 February 2023	**£m**	**£m**	**£m**
Net carrying value at 26 February 2022	**5,290**	**13**	**5,303**
Additions and modifications	1,549	-	1,549
Depreciation charge for the year	(473)	(4)	(477)
Reclassification [a]	(1,331)	-	(1,331)
Impairment charge	(369)	-	(369)
Reversal of impairment losses	90	-	90
Net carrying value at 25 February 2023	**4,756**	**9**	**4,765**

	Land and buildings	Plant and equipment, fixtures and fittings and motor vehicles	Total
At 26 February 2022 and for the 52 weeks ended 26 February 2022	**£m**	**£m**	**£m**
Net carrying value at 27 February 2021	**5,394**	**19**	**5,413**
Additions and modifications	413	-	413
Depreciation charge for the year	(472)	(8)	(480)
Disposals	(9)	-	(9)
Reclassification	(6)	2	(4)
Impairment charge	(212)	-	(212)
Reversal of impairment losses	182	-	182
Net carrying value at 26 February 2022	**5,290**	**13**	**5,303**

(a) Includes £1,331m of land and buildings relating to property buyback transactions.

Impairment of right of use assets

Impairment of right of use assets is described in Note 13.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

14. Leases (continued)

Lease liabilities

The following tables show the discounted lease liabilities included in the Company Balance Sheet and a maturity analysis of the contractual undiscounted lease payments:

	25 February 2023 £m	26 February 2022 £m
Lease liabilities		
Current	**460**	518
Non-current	**6,686**	7,210
Total lease liabilities	**7,146**	7,728

	25 February 2023 £m	26 February 2022 £m
Maturity analysis – contractual undiscounted lease payments		
Within one year	**803**	998
Greater than one year but less than five years	**3,110**	3,839
Greater than five years but less than ten years	**3,115**	3,700
Greater than ten years but less than fifteen years	**2,133**	2,418
After fifteen years	**1,205**	1,781
Total undiscounted lease payments	**10,366**	12,736

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Amounts recognised in the Profit and Loss Account		
Interest on lease liabilities	**380**	402

Future possible cash outflows not included in the lease liability

The Company is committed to payments (undiscounted) totalling £22m (2022: £54m) in relation to leases that have been signed but have not yet commenced.

Company as lessor

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Amounts recognised in the Profit and Loss Account		
Finance lease – interest income[1]	**2**	2
Operating lease – rental income[2]	**22**	18

[1] Includes £2m (2022: £2m) of sub lease interest income.

[2] Includes £11m (2022: £13m) of sub lease rental income.

14. Leases (continued)

Company as Lessor (continued)

	25 February 2023 £m	26 February 2022 £m
Undiscounted finance lease payments to be received		
Within one year	**6**	3
Greater than one year but less than two years	**4**	5
Greater than two years but less than three years	**4**	3
Greater than three years but less than four years	**3**	3
Greater than four years but less than five years	**3**	4
Greater than five years but less than ten years	**1**	4
Total undiscounted finance lease payments receivable	**21**	22
Unearned finance income	**(9)**	(11)
Net investment in the lease included in the Company Balance Sheet	**12**	11

	25 February 2023 £m	26 February 2022 £m
Undiscounted operating lease payments to be received		
Within one year	**14**	16
Greater than one year but less than two years	**12**	12
Greater than two years but less than three years	**9**	9
Greater than three years but less than four years	7	7
Greater than four years but less than five years	5	6
Greater than five years but less than ten years	**11**	14
Greater than ten years but less than fifteen years	**4**	6
After fifteen years	**26**	33
Total undiscounted finance lease payments receivable	**88**	103

15. Investment properties

	£m
Cost	
At 26 February 2022	24
Disposal	(1)
Reclassification	2
Classified as held for sale	(1)
At 25 February 2023	**24**
Accumulated depreciation and impairment losses	
At 26 February 2022	(16)
Charge for the period	(1)
Charge of impairment	(1)
Disposal	1
Reversal of impairment loss	2
At 25 February 2023	**(15)**

15. Investment properties (continued)

Net book value	**£m**
At 25 February 2023	**9**
At 26 February 2022	8

In the period there has been a £1m net reversal of impairment loss (2022: net impairment charge of £4m) for investment properties which has been recognised within administrative expenses.

16. Investments

	25 February 2023	26 February 2022
	£m	£m
Investments in subsidiaries	-	465
	-	465

During the current period, as part of simplification of the Red and Aqua partnership structures, the Company bought back the properties held in the Red and Aqua partnerships which were previously leased (See Note 13). Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment. The Company tests the investments balances for impairment annually or when there are indicators of impairment, by employing a value in use model. An investment write off of £465m has been recognised in respect of The Tesco Aqua Limited Partnership and The Tesco Red Limited Partnership, of which £241m is recognised as an impairment loss in the Profit and Loss Account and £224m was utilised against the merger reserve.

Related undertakings of the Company

In accordance with Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, the registered office address, the place of incorporation and the percentage of share class owned as at 25 February 2023 are disclosed on pages 44 and 45. All undertakings are directly owned by the Company unless otherwise stated. Footnotes are included on page 46.

Name of the company- subsidiary undertaking	**Registered office address**	**Place of incorporation**	**Proportion of voting rights and shares held**	**Share class**
Bath Upper Bristol Road Management Company Limited (i)	(1)	England and Wales	100%	Guarantee Membership
Broughton Retail Park Nominee 1 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Broughton Retail Park Nominee 2 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Broughton Retail Park Nominee 3 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Broughton Retail Park Nominee 4 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Cardiff Cathays Terrace Management Company Limited (i)	(1)	England and Wales	100%	Guarantee Membership
Oxford Fox and Hounds Management Company Limited (i)	(1)	England and Wales	100%	Guarantee Membership
Seacroft Green Nominee 1 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Seacroft Green Nominee 2 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

16. Investments (continued)

Name of the company- subsidiary *undertaking*	**Registered *office* address**	**Place of *incorporation***	**Proportion of *voting rights* and shares held**	**Share class**
Spen Hill Residential No 1 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Spen Hill Residential No 2 Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Aqua (GP) Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Aqua (3LP) Limited (in liquidation) (iii)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Aqua (Nominee Holdco) Limited (iv)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Aqua (Nominee 1) Limited (v)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Aqua (Nominee 2) Limited (v)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Employees' Share Scheme Trustees Limited(ii)	(1)	England and Wales	50%	£1.00 Ordinary shares
Tesco Property Nominees (No. 5) Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Property Nominees (No.6) Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Red (GP) Limited	(1)	England and Wales	100%	£0.00001 Ordinary A £0.00001 Ordinary B
Tesco Red (Nominee Holdco) Limited (vi)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Red (Nominee 1) Limited (vii)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Red (Nominee 2) Limited (vii)	(1)	England and Wales	100%	£1.00 Ordinary shares
Tesco Seacroft Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
Weymouth Avenue (Dorchester) Limited	(1)	England and Wales	100%	£1.00 Ordinary shares
WBD (Chesterfield Management) Limited	(5)	England and Wales	16.7%	£1.00 Ordinary shares
Reskammel Property Company Limited	(1)	England and Wales	100%	£1.00 Ordinary shares

Name of the company-Associated undertakings	**Registered office address**	**Place of incorporation**	**Proportion of voting rights and shares held**	**Share class**
Broadfields Management Limited	(3)	England and Wales	35.33%	£0.10 Ordinary shares
Shire Park Limited	(4)	England and Wales	48.57%	£1.00 Ordinary shares
Holmscroft H.C. Limited	(6)	Scotland	14.3%	£0.10 Ordinary shares
Latitude Management Company Limited	(7)	England and Wales	1%	£1.00 Ordinary shares

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

16. Investments (continued)

Notes:

(i) Directly held by Spen Hill Residential No 1 Limited

(ii) Tesco PLC controls the entity but legal control is with TSL employees who are Trust beneficiaries.

(iii) Tesco Aqua (3LP) Limited was dissolved on 2 June 2023.

(iv) Directly held by Tesco Aqua (GP) Limited

(v) Directly held by Tesco Aqua (Nominee Holdco) Limited

(vi) Directly held by Tesco Red (GP) Limited

(vii) Directly held by Tesco Red (Nominee Holdco) Limited

Registered office addresses:

1) Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom
2) Ernst & Young LLP, 1 More London Place, London, SE1 2AF, United Kingdom
3) 2 Paris Parklands, Railton Road, Guildford, Surrey, GU2 9JX
4) Riverside House, 3 Place Farm, Wheathampstead, St. Albans, England, AL4 8SB
5) Barratt House Cartwright Way Forest Business Park, Bardon Hill, Coalville, Leicestershire, LE67 1UF
6) 73 Union Street, Greenock, PA16 8BG, Scotland
7) 11 Queensway House Queensway, New Milton, Hampshire, England, BH25 5NR

17. Stocks

	25 February 2023	26 February 2022
	£m	£m
Goods held for resale	**1,519**	1,456
Development properties	**3**	3
Total stocks	**1,522**	1,459

Goods held for resale are net of commercial income. Cost of inventories from continuing operations recognised as an expense was £35,351m (2022: £32,768m). Inventory losses and provisions from continuing operations recognised as an expense were £132m (2022: £123m).

18. Debtors: amounts falling due within one year

	25 February 2023	26 February 2022
	£m	£m
Amounts owed by Group undertakings	**69**	671
Amounts owed by joint ventures	**16**	25
Other debtors	**130**	138
Prepayments	**79**	77
Accrued income	**127**	115
Finance lease receivable	**4**	2
Total amounts falling due within one year	**425**	1,028

Included within amounts owed by Group undertakings are amounts that are unsecured, have no fixed date of repayment and are repayable on demand.

Amounts owed by Group undertakings are either interest-bearing balances of £nil (2022: £600m) or non-interest bearing balances of £69m (2022: £71m), depending on the type and duration of the debtor relationship with an interest rate of nil (2022: 1.0%).

19. Debtors: amounts falling due after more than one year

	25 February 2023	26 February 2022
	£m	£m
Amounts owed by Group undertakings	**548**	549
Finance lease receivable	**7**	9
Total amounts falling due after more than one year	**555**	558

Amounts owed by Group undertakings are interest-bearing, with an interest rate of 4.83% (2022: 1.62%).

20. Creditors: amounts falling due within one year

	25 February 2023	26 February 2022
	£m	£m
Trade creditors	**4,614**	4,226
Overdrafts	**688**	14
Amounts owed to Group undertakings	**652**	533
Amounts owed to joint ventures	**7**	8
Other taxation and social security	**314**	337
Accruals	**388**	309
Deferred income	**457**	491
Other creditors	**585**	620
"A" Preference shares of £1 each – 259,000,000 (2022: 259,000,000)	**259**	259
Total amounts falling due within one year	**7,964**	6,797

Amounts owed to Group undertakings are either interest-bearing balances of £nil (2022: £nil) or non-interest bearing balances of £652m (2022: £533m) depending on the type and duration of creditor relationship.

Trade payables include £521m (2022: £805m) that suppliers have chosen to early-fund under supplier financing arrangements.

Preference shares

The Preference shares confer on the holder the right to receive a fixed dividend. Dividends accrue on the "A" Preference shares at a fixed rate of 6.08 percent per annum of the nominal value of each "A" Preference share. As regards capital, on winding up the Company, the Preference shares shall be redeemed in priority to ordinary shares, together with any arrears of dividend.

The "A" Preference shares are redeemable at par value at any date after 22 May 2007 by service of a notice of redemption by the Company or the "A" Preference shareholders. The right to receive dividends on the "A" Preference shares in the capital of the Company was waived in respect of current and prior periods.

21. Derivative financial instruments

Derivatives are used to hedge exposure to market risks and those that are held as hedging instruments are formally designated as hedges as defined in IFRS 9. The expected maturity of the financial assets and liabilities is not considered to be materially different to their current and non-current classification.

	Asset	**Liability**	Asset	Liability
	25 February 2023	**25 February 2023**	26 February 2022	26 February 2022
	£m	**£m**	£m	£m
Current	**20**	**(26)**	20	(9)
Non-current	**1**	**(2)**	-	-
	21	**(28)**	20	(9)

21. Derivative financial instruments (continued)

The fair value and notional amounts of derivatives analysed by hedge type are as follows:

	25 February 2023 £m				26 February 2022 £m			
	Asset		**Liability**		Asset		Liability	
	Fair value	**Notional value**	**Fair value**	**Notional value**	Fair value	Notional value	Fair value	Notional value
Cash flow hedges								
Forward contracts	**19**	**628**	**(25)**	**643**	16	562	(6)	(433)
Derivatives not in a formal hedging arrangement								
Forward contracts	**2**	**73**	**(3)**	**120**	4	120	(3)	(139)
	21	**701**	**(28)**	**763**	20	682	(9)	(572)

Financial risk factors

The fair values of derivative financial instruments are measured using a discounted cash flow technique based on market data applied consistently for similar types of instruments.

Derivatives are used to hedge exposure to market risks. Derivatives may qualify as hedges for accounting purposes and the Company's hedging policies are further described below.

Cash flow hedges

The Company uses forward contracts to mainly hedge the foreign currency cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Where these contracts qualify for hedge accounting, fair value gains and losses are deferred in equity. These hedging instruments are primarily used to hedge purchases in Euros and US Dollars. The cash flow hedges will mature and will affect the Profit and Loss Account within one year of the Balance Sheet date.

Financial instruments not qualifying for hedge accounting

The Company'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 Profit and Loss Account.

Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Profit and Loss Account within interest income or costs. Refer to Notes 8 and 9.

22. Provisions for liabilities

	Property provision	**Restructuring provisions**	**Other provisions**	**Total**
	£m	**£m**	**£m**	**£m**
At 26 February 2022	**134**	**38**	**63**	**235**
Amount provided in the period	28	109	79	216
Amount utilised in the period	(8)	(50)	(29)	(87)
Amount released in the period	(13)	(6)	(15)	(34)
Unwinding of discount	2	-	-	2
At 25 February 2023	**143**	**91**	**98**	**332**
Analysed as:				
Current	17	91	98	206
Non-current	126	-	-	126
	143	**91**	**98**	**332**

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

22. Provisions for liabilities (continued)

Property provisions

Property provisions comprise onerous contracts related to unprofitable stores and vacant properties, *decommissioning provisions and remediation works and dilapidations provisions.*

Dilapidations are recognised where there is a present obligation to repair and restore leased properties to their preoccupancy state at the end of the lease term. The provision is based on best estimates for individual properties, with reference to previous experience and size of leased property, or specific agreements with the landlord where relevant. The term is measured in accordance with the outstanding length of leases or the expected timing of specific obligations.

Onerous contract provisions are recognised where the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The timing of provisions is determined by reference to the contract giving rise to the obligations.

Decommissioning provisions reflect the Company's long-term obligation for site-level environmental remediation works, arising from government regulations and changing consumer habits. The extent and cost of future environmental remediation represents a best estimate applied across the property portfolio based on past experience, the extent of remediation work required and the expected timing of activity, for which there is a high level of uncertainty. Amounts provided in the year primarily relate to decommissioning, and amounts released in the year primarily relate to releases of dilapidation and similar remediation provisions.

The expected undiscounted aging of property provisions as at 25 February 2023:

	Current	1 to 5 years	6 to 10 years	11 to 15 years	over 15 years	Total
	£m	£m	£m	£m	£m	£m
Property provisions	16	18	7	4	204	**249**

Restructuring provisions

The net charge of £103m (£109m charge and £6m release) (2022: net charge of £58m) relates to operational restructuring changes announced in February 2023 as part of 'Save to invest', a multi-year programme.

Other provisions

Other provisions include operational insurance provisions which relate to outstanding liabilities from public and employer's liability and third-party motor claims. Provisions relate to claims arising from incidents reported prior to the reporting date, including an allowance for those currently incurred but not reported. Amounts are measured considering claims history, including claims volume and average cost of claims, with assessment and projection by third-party actuaries. Releases in the year primarily relate to improved estimates of future outflows from revised actuarial valuations. The Balance Sheet as at the financial year is expected to be materially utilised within three years from the reporting date.

23. Share-based payments

The company charge for the financial year recognised in respect of share-based payments is £83m (2022: £84m), which is made up of share option schemes and share bonus payments. Of this amount, £73m (2022: £74m) will be settled in equity to employees and £10m (2022: £10m) in cash representing employee tax and National Insurance contributions.

Share option schemes

The Company had six share option schemes and four discretionary share award schemes in operation during the financial year, all of which are equity-settled schemes:

Arrangement	Participants	Term	Vesting requirements
Savings-related option schemes			
The Savings-related Share Option Scheme (1981)	UK colleagues	Three or five years.	The options are capable of being exercised at the end of the term at a subscription price of not less than 80% of the average of the middle-market quotations of an Ordinary share over the three dealing days immediately preceding the offer date.
The Savings-related Share Option Scheme (2021)	UK colleagues	Three or five years.	
Discretionary option schemes [a]			
The Executive Incentive Plan (2014)	Selected senior executives	Granted as a proportion of annual bonus following the completion of a required service period, normally exercisable between three and 10 years from the date of grant for nil consideration.	Dependent on the achievement of corporate performance, individual targets and continuous employment.
The Group Bonus Plan	Selected senior executives and senior managers	Granted as a proportion of annual bonus following the completion of a required service period and is normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.	
The Performance Share Plan (2011)	Selected senior executives and senior managers	Normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.	Conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.
The Long Term Incentive Plan (2015)	Selected senior executives and senior managers	Normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration.	

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

23. Share-based payments (continued)

Share option schemes (continued)

Arrangement	Participants	Term	Vesting requirements
Discretionary share award schemes[b]			
The Performance Share Plan (2011) and the Long Term Incentive Plan (2021)	Selected senior executives and senior managers	Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration.	Conditional on the achievement of specified performance targets over a three year performance period and/or continuous employment.
The Group Bonus Plan and the Deferred Bonus Plan (2019)	Selected senior executives and senior managers	Granted based on a percentage of salary, which is determined by the achievement of corporate *and individual* performance targets. 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.	*Conditional on completion* of continuous employment and achievement of corporate and individual performance targets.

(a) 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 on pages 77 to 101 of the Tesco PLC Annual Report and Financial Statements 2023, which do not form a part of this Report.

(b) Until 2017, nil-cost options were awarded to selected senior executives using the Group Bonus Plan and Performance Share Plan, and conditional share awards were granted to selected senior executives and senior managers. Since 2018, conditional share awards have been granted to all eligible colleagues.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

23. Share-based payments (continued)

Share option schemes (continued)

The following tables reconcile the number of share options outstanding and the weighted average exercise price ("WAEP").

For the 52 weeks ended 25 February 2023

	Savings related share option scheme		Nil cost share option scheme	
	Options	**WAEP**	**Options**	**WAEP**
Outstanding at 26 February 2022	**127,917,962**	**208.21**	**2,012,486**	**-**
Granted	**53,352,731**	**182.00**	**99,189**	**-**
Forfeited	**(22,399,904)**	**216.18**	**-**	**-**
Exercised	**(17,621,497)**	**188.52**	**-**	**-**
Outstanding at 25 February 2023	**141,249,292**	**199.25**	**2,111,675**	**-**
Exercise price range (pence)	**-**	**188.00 to 190.00**	**-**	**-**
Weighted average remaining contractual life (years)	**-**	**2.87**	**-**	**3.22**
Exercisable as at 25 February 2023	**60,629**	**188.25**	**-**	**-**
Exercise price range (pence)	**-**	**168.00 to 242.00**	**-**	**-**
Weighted average remaining contractual life (years)*	**-**	**-**	**-**	**3.22**

* 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.

For the 52 weeks ended 26 February 2022:

	Savings related share option scheme		Nil cost share option scheme	
	Options	WAEP	Options	WAEP
Outstanding at 27 February 2021	150,385,494	193.86	4,076,579	-
Granted	29,522,550	242.00	134,359	-
Forfeited	(29,527,530)	199.66	-	-
Exercised	(22,462,552)	169.81	(2,198,452)	-
Outstanding at 26 February 2022	127,917,962	208.21	2,012,486	-
Exercise price range (pence)	-	151.00 to 242.00	-	-
Weighted average remaining contractual life (years)	-	2.74	-	4.22
Exercisable as at 26 February 2022	1,839,655	189.57	2,012,486	-
Exercise price range (pence)	-	151.00 to 190.00	-	-
Weighted average remaining contractual life (years)	-	0.42	-	4.22

Share options were exercised on a regular basis throughout the financial year. The average share price during the 52 weeks ended 25 February 2023 was 248.40p (2022: 254.05p).

The fair value of savings-related share options schemes is estimated at the date of grant using the Black-Scholes option pricing model. The following table gives the assumptions applied to the options granted in the respective periods shown. No assumption has been made to incorporate the effects of expected early exercise.

23. Share-based payments (continued)

Share option schemes (continued)

	25 February 2023		26 February 2022	
	SAYE	**Nil cost**	SAYE	Nil cost
Expected dividend yield (%)	**4.96%-5.43%**	-	4.10%-4.17%	-
Expected volatility (%)	**22.25%-22.53%**	-	21.79%-21.89%	-
Risk free interest rate (%)	**3.54%-3.59%**	-	1.38%-1.39%	-
Expected life of option (years)	**3 or 5**	-	3 or 5	-
Weighted average fair value of options granted (pence)	**46.32**	-	38.52	-
Probability of forfeiture (%)	**7%-9%**	-	7%-10%	-
Share price (pence)	**202.35**	-	268.50	-
Weighted average exercise price (pence)	**182.00**	-	242.00	-

Volatility is a measure of the amount by which a price is expected to fluctuate during a period. The measure of volatility used in the Group's option pricing models is the annualised standard deviation of the continuously compounded rates of return on the share over a period of time. In estimating the future volatility of the Company's share price, the Board considers the historical volatility of the share price over the most recent period that is generally commensurate with the expected term of the option, taking into account the remaining contractual life of the option.

Share bonus schemes

The number and weighted average fair value (WAFV) of share bonuses awarded during the financial period were:

	25 February 2023		26 February 2022	
	Number of shares	**WAFV (pence)**	Number of shares	WAFV (pence)
Group Bonus Plan	**11,503,115**	**265.58**	8,337,534	232.25
Performance Share Plan	**9,447,981**	**254.91**	14,812,411	225.65

24. Pensions and other post-employment benefits

Pensions

The Company operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and defined contribution schemes.

Defined contribution schemes

Defined contribution schemes are open to all Tesco employees in the UK.

Under the Company's defined contribution pension schemes, employees of the Company pay contributions to an independently administered fund, into which the Company also pays contributions based upon a fixed percentage of the employee's contributions. The Company has no further payment obligations once its contributions have been paid. Contributions paid for defined contribution schemes of £288m (2022: £292m) have been recognised in the Company's Profit and Loss Account. This includes £107m (2022: £136m) of salaries paid as pension contributions.

Defined benefit schemes

The Company has a defined benefit pension deficit of £333m (2022: £154m) and a defined benefit pension surplus of £nil (2022: £3,199m), comprising a number of schemes, which are closed to future accrual.

The principal plan within the Company 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 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:

i. representatives of the Company;
ii. independent trustees; and
iii. representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

24. Pensions and other post-employment benefits (continued)

Scheme funding

The Company considers two measures of the pension deficit. The accounting position is shown on the Company 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.

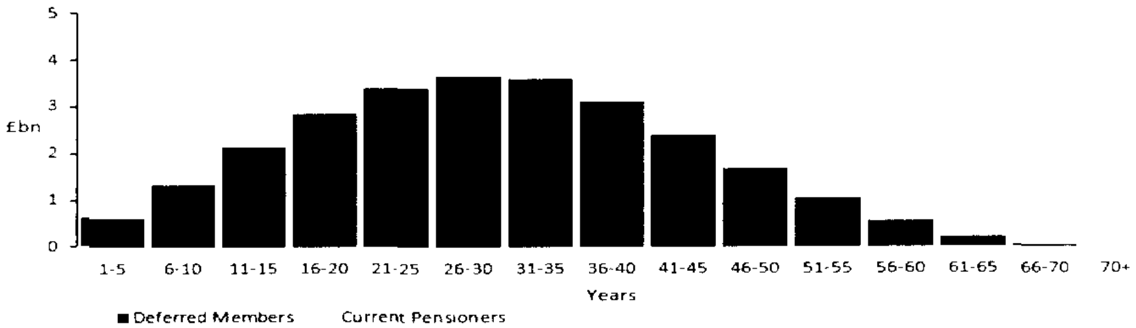
Under IFRIC 14 "The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction", the Company is not required to recognise any additional liabilities in relation to funding plans or limit the recognition of any surpluses, as any future economic benefits will be available to the Company by way of future contributions. The most recent completed triennial funding valuation of the Scheme was performed as at 31 March 2022 using the projected unit credit method. The funding position was a surplus of £0.9bn. The Scheme remained in a funding surplus position as at 25 February 2023. Subsequent to this last triennial funding valuation it was agreed that no further pension deficit contributions would be required, with contributions next expected to be assessed at the 31 March 2025 triennial review.

The Company was paying £25m per annum to meet expenses of the Scheme, including the Pension Protection Fund levy. This expense payment fell to £17m per annum from October 2022. In addition, the market value of assets held as security in favour of the Scheme is at least £775m (2022: £775m).

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 18 years. Around 39% of the undiscounted benefits are expected 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	77
Current pensioners	23

24. Pensions and other post-employment benefits (continued)

Risks

The Company bears a number of risks in relation to the Scheme, which are described below:

Risk	Description of risk	Mitigation
Investment	The Scheme's defined benefit obligation is 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. If the Scheme's assets underperform the expected return for the funding valuation, this may require additional contributions to be made by the Company.	The Trustee and the Company regularly monitor the funding position and operate a diversified investment strategy. The Trustee and Company take a balanced approach to investment risk and have a long term plan to significantly reduce the investment risk within the Scheme. The Trustee considers climate risk as one of the key investment risks faced by the Scheme and has set up a Responsible Investment Committee to consider climate-related issues relating to the Scheme. The Scheme has also made a commitment to aim for investments to be net-zero by 2050. Further details on the metrics, targets and actions taken in relation to climate risk can be seen in the Scheme's Climate Change Report.
Inflation	The Scheme's benefit obligations are linked to inflation. A higher rate of expected long-term inflation will therefore lead to higher liabilities, both for the IAS 19 and funding liability. If the Scheme's funding liability increases, this may require additional contributions to be made by the Company.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as inflation expectations increase. This mitigates the impact of any adverse movement in long-term inflation expectations. The Scheme's holdings are designed to hedge against inflation risk for most of the funded liabilities. Additionally, changes to future benefits were introduced in June 2012 to reduce the Scheme's exposure to inflation risk by changing the basis for calculating the rate of increase in pensions to CPI (previously RPI).
Interest rate	A decrease in corporate bond yields in isolation is expected to increase the accounting deficit. Similarly, a decrease in gilt yields in isolation is expected to have an adverse impact on the funding position of the Scheme. This may lead to additional contributions to be made by the Company.	As part of the investment strategy, the Trustee aims to mitigate this risk through investment in a liability-driven investment (LDI) portfolio. The portfolio invests in assets which increase in value as interest rates decrease. The Scheme's holdings are designed to hedge against interest rate risk for most of the funded liabilities. Because the aim of the portfolio is to mitigate risk for the funding position, ineffectiveness in hedging for the accounting deficit under IAS 19 can arise where corporate bond and gilt yields diverge. This is partially offset by Scheme holdings in corporate bonds. Using an LDI portfolio means a rise in interest rates can lead to collateral calls. The Trustee and the Company regularly monitor and manage the level of liquidity to ensure it remains appropriate.
Life expectancy	The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to a higher defined benefit obligation.	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 around two years. The Trustee and Company regularly monitor the impact of changes in longevity on the Scheme defined benefit obligation.

24. Pensions and other post-employment benefits (continued)

Risks (continued)

The operations and audit pensions committee was set up in 2015 to further strengthen the Scheme's Trustee governance and provide greater oversight and stronger internal control over the Company's risks. The Company pensions committee was also set up in 2018 to provide an additional layer of governance and risk management. Further mitigation of the risks is provided by external advisors and the Trustee who considers the funding position, fund performance and impacts of any regulatory changes.

Scheme principal assumptions

Financial assumptions

The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation of the Scheme were as follows:

	2023	2022
	%	%
Discount rate	**4.9**	2.8
Price inflation	**3.0**	3.3
Rate of increases in deferred pensions*	**2.6**	2.9
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	**2.9**	3.1
Benefits accrued after 1 June 2012	**2.5**	2.8

*In excess of any Guaranteed Minimum Pension ('GMP') element.

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.

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 Company 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 0.3% p.a. pre-2030 and 0.5% p.a. post-2030, which is a weighted average of 0.43% (2022: 0.42%). The CPI differential has been set as 1.0% p.a. pre-2030 and 0.1% p.a. post-2030, which is a weighted average of 0.48% lower than RPI (2022: 0.39%).

Mortality assumptions

The Trustee's actuary conducted a mortality analysis of the Scheme as part of the triennial actuarial valuation process. Subsequent to this analysis, the Company adopted the best estimate assumptions for the calculation of the defined benefit obligation for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2018 with CMI 2020 improvements. In addition, the allowance for future mortality improvements from 2018 has been updated to be in line with CMI 2021, with a long-term improvement rate of 1.25% p.a. and a 10% weighting applied to both 2020 and 2021 data, reflecting the expectation that the COVID-19 pandemic has had an impact on future life expectancies.

The base tables used in calculating the mortality assumptions are different for various categories of members, as shown below:

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

24. Pensions and other post-employment benefits (continued)

Mortality assumptions (continued)

Sensitivity analysis of significant actuarial assumptions

		Pensioner	Non-Pensioner
Male	Staff	96% of SAPS S3 Normal Heavy	100 % of SAPS S3 Normal Heavy
	Senior Manager	112% of SAPS S3 Normal Light	113% of SAPS S3 Normal Light
Female	Staff	105% of SAPS S3 Normal Heavy	109% of SAPS S3 Normal Heavy
	Senior Manager	87% of SAPS S3 All Middle	87% 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.

		2023 (Years)	2022 (Years)
Retiring at reporting date at age 65:	Male	**20.0**	20.8
	Female	**22.5**	22.4
Retiring at reporting date +25 years at age 65:	Male	**21.4**	22.1
	Female	**24.2**	24.1

The sensitivity of significant assumptions upon the Scheme defined benefit obligations are detailed below:

Financial assumptions - increase/(decrease) in UK defined benefit obligation	**2023**	**2023**	2022	2022
	Discount rate	**Inflation rate**	Discount rate	Inflation rate
	£m	**£m**	£m	£m
Impact of 0.1% increase of the assumption	**(213)**	**201**	(404)	367
Impact of 0.1% decrease of the assumption	**226**	**(201)**	404	(349)
Impact of 1.0% increase of the assumption	**(1,921)**	**2,147**	(3,467)	3,889
Impact of 1.0% decrease of the assumption	**2,498**	**(1,783)**	4,732	(3,173)

Mortality assumptions - increase/(decrease) in UK defined benefit obligation	**25 February 2023**	26 February 2022
	£m	£m
Impact of 1 year increase in longevity	**364**	697
Impact of 1 year decrease in longevity	**(402)**	(715)

Sensitivities are calculated by changing the relevant assumption whilst 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.

Post-employment benefits other than pensions

The Company 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 accounting deficit as at 25 February 2023 of £4m (2022: £6m) was determined in accordance with the advice of external actuaries. During the period, £nil (2022: £nil) has been charged to the Company Profit and Loss Account and £nil (2022: £nil) of benefits were paid.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

24. Pensions and other post-employment benefits (continued)

Plan assets

The Company'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 Company's Scheme:

	2023				2022			
	Quoted £m	**Unquoted £m**	**Total £m**	**%**	Quoted £m	Unquoted £m	Total £m	%
Equities								
UK	**23**	**-**	**23**	**0%**	121	-	121	1%
Europe	**49**	**-**	**49**	**0%**	644	-	644	3%
Rest of the world	**435**	**-**	**435**	**4%**	3,337	-	3,337	16%
	507	**-**	**507**	**4%**	4,102	-	4,102	20%
Bonds								
Government	**218**	**-**	**218**	**2%**	1,287	-	1,287	6%
Corporates – Investment grade	**350**	**-**	**350**	**3%**	3,069	-	3,069	14%
Corporates - non-investment grade	**209**	**-**	**209**	**2%**	1,120	-	1,120	5%
	777	-	777	**7%**	5,476	-	5,476	25%
Property								
UK	**-**	**1,085**	**1,085**	**8%**	93	1,481	1,574	7%
Rest of the world	**-**	**567**	**567**	**5%**	-	550	550	3%
	-	**1,652**	**1,652**	**13%**	93	2,031	2,124	10%
Alternative assets								
Hedge funds	**-**	**64**	**64**	**1%**	-	311	311	1%
Private equity	**-**	**1,032**	**1,032**	**8%**	-	1,558	1,558	7%
Other	**-**	**1,793**	**1,793**	**15%**	90	1,779	1,869	9%
	-	**2,889**	**2,889**	**24%**	90	3,648	3,738	17%
LDI portfolio	**8,043**	**(2,491)**	**5,552**	**45%**	4,956	(4)	4,952	23%
Cash	**(2)**	**846**	**844**	**7%**	-	1,003	1,003	5%
Total fair value of assets	**9,325**	**2,896**	**12,221**	**100%**	14,717	6,678	21,395	100%

Quoted assets are those with a quoted price in an active market. Unquoted assets are valued in accordance with IFRS13, 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 category consists of assets, including gilts and index linked gilts, cash and money market funds of the value of £8,192m (2022: £8,679m) and associated repurchase agreements and swaps of £(2,640)m (2022: £(3,727)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 fall in fair value is attributable to the increase in gilt yields during the year.

The plan assets include £240m (2022: £244m) relating to property used by the Company. Company property with net carrying value of £783m (2022: £914m) and a value to the Scheme of at least £775m (2022: £775m) is held as security in favour of the Scheme.

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

24. Pensions and other post-employment benefits (continued)

Movements in the Company pension deficit during the financial period:

	Fair value of plan assets		**Defined benefit obligation**		**Net defined benefit surplus/(deficit)**	
	25 February 2023	26 February 2022	**25 February 2023**	26 February 2022	**25 February 2023**	26 February 2022
Opening balance	**21,395**	19,127	**(18,350)**	(19,999)	**3,045**	(872)
Current service cost	**-**	-	**(23)**	(25)	**(23)**	(25)
Finance income/(cost)	**582**	375	**(498)**	(393)	**84**	(18)
Included in Profit and Loss Account	**582**	375	**(521)**	(418)	**61**	(43)
Remeasurement gain/(loss):						
- Financial assumption gain/(loss)	**-**	-	**7,311**	1,771	**7,311**	1,771
- Demographic assumption gain/(loss)	**-**	-	**(220)**	31	**(220)**	31
- Experience gain/(loss)	**-**	-	**(1,248)**	(202)	**(1,248)**	(202)
- Return on plan assets excluding finance income	**(9,308)**	2,332	**-**	-	**(9,308)**	2,332
Included in Statement of Changes in Equity	**(9,308)**	2,332	**5,843**	1,600	**(3,465)**	3,932
Employer contributions	**23**	25	**-**	-	**23**	25
Benefits paid	**(471)**	(464)	**474**	467	**3**	3
Other movements	**(448)**	(439)	**474**	467	**26**	28
Closing balance	**12,221**	21,395	**(12,554)**	(18,350)	**(333)**	3,045
Deferred tax asset/(liability)					**83**	(761)
(Deficit)/surplus in schemes at the end of the period, net of deferred tax					**(250)**	2,284
Consisting of:						
Schemes in deficit					**(333)**	(154)
Schemes in surplus					**-**	3,199
Total					**(333)**	**3,045**

TESCO STORES LIMITED

NOTES TO THE FINANCIAL STATEMENTS FOR THE 52 WEEKS ENDED 25 FEBRUARY 2023 (continued)

25. Related party transactions

During the period the Company entered into transactions, in the ordinary course of business, with other related parties. The Company has taken advantage of the exemption under paragraph 8(k) of FRS 101 not to disclose transactions with fellow wholly owned subsidiaries within the Group. Transactions entered into with other related parties in the Group which are not wholly owned subsidiaries, are as follows:

	52 weeks ended 25 February 2023 £m	52 weeks ended 26 February 2022 £m
Sales to related parties	**582**	492
Purchases from related parties	**119**	*110*
Amounts owed by joint ventures	**16**	25
Amounts owed to joint ventures	7	8
Lease liability owed to joint ventures	**1,831**	2,117*

Transactions between the Company and the Company's pension plans are disclosed in Note 24.

*Previous year number is restated due to an error.

26. Ultimate group undertaking

The Company's immediate parent undertaking is Tesco Holdings Limited. The Company's ultimate parent undertaking and controlling party is Tesco PLC which is registered in England and Wales, and which is the parent undertaking of the smallest and largest group to consolidate these financial statements.

Copies of the Tesco PLC Annual Report and Financial Statements 2023 are available from the Company Secretary at its registered office: Tesco PLC, Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, United Kingdom.

27. Called up share capital

	25 February 2023 £m	26 February 2022 £m
Allotted, called up and fully paid		
1,320,006,600 ordinary shares of £1 each (2022: 1,320,006,600)	**1,320**	1,320
5,000,000 "B" Irredeemable preference shares of £1 each (2022: 5,000,000)	**5**	5
	1,325	1,325

The Ordinary Shares have attached to them full voting rights at General Meetings of the Company. Each Ordinary Share shall have 150,000 votes for each Ordinary Share registered.

The Preference shares confer on the holder the right to receive a fixed dividend. Dividends for the "B" Preference shares are calculated based on the pre-determined formula of the Reference Gilt Rate plus 1.279% multiplied by the RPI ratio applicable to the month in which the dividend payment falls.

As regards capital, on winding up the Company, the Preference shares shall be redeemed in priority to ordinary shares, together with any arrears of dividend.

The "B" Preference shares are irredeemable.

The right to receive dividends on the "B" Preference Shares in the capital of the Company was waived in respect of current and prior periods.

28. Capital commitments

At 25 February 2023 there were commitments for capital expenditure contracted for but not provided of approximately £117m (2022: £107m), principally related to store development.

29. Contingent liabilities

A number of contingent liabilities can arise in the normal course of business. The Company recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

The Company has provided a fixed charge over a portfolio of several properties with a net carrying value of up to £783m (2022: £914m) in favour of the Tesco PLC Pension Scheme in the event of the Company defaulting on its obligations to the scheme.

The Company is a guarantor to £2.5bn (2022: £2.5bn) of committed facilities consisting of a revolving credit facility and bilateral lines. The Company is a guarantor to these facilities alongside Tesco PLC. As at 25 February 2023, these facilities remain undrawn. The undrawn committed facilities include £nil (2022: £nil) of bilateral facilities and a £2.5bn (2022: £2.5bn) 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.

As previously reported, Tesco Stores Limited (TSL) (along with all the major supermarkets) has received claims from current and former hourly paid store colleagues alleging that they do work of equal value to that of colleagues working in its distribution centres and that differences in terms and conditions relating to pay are not objectively justifiable (the Equal Pay Claims). The claimants are seeking the differential between the pay terms looking back, and equivalence of pay terms moving forward. As at the date of this disclosure, there are approximately 42,000 claims against TSL, with the number of claims expected to continue to increase as the litigation progresses.

UK equal pay law provides that an employee is entitled to the same terms in relation to pay as those of a comparator of the opposite sex in the same employment if they are employed to do work of equal value. The legislation achieves this by implying a clause into the contract of employment, which has the effect of importing into the employee's contract the more favourable term(s) of the comparator.

Equal pay claims are typically heard in three stages and the claimants have to win at every stage in order to succeed. The first stage is comparability, which is effectively a technical gateway to the claims proceeding. The claimants have to show that there is a valid basis in law for comparing their pay and the pay of any comparator. One of the legal bases here is that pay terms are set by the same body. Following a European court ruling on this, TSL has made a concession on comparability.

The second and third stages are an equal value assessment and the consideration of TSL's material factor defences (non-discriminatory reasons for differentials in pay terms) to any claims which succeed at the equal value assessment stage. Completion of these two stages is a lengthy process and likely to take many years with hearings and appeals a part of that process. A final date is impossible to predict with any certainty and any final decision may be delayed further by any final appeals.

At present, the total number of Equal Pay Claims that may be received, the merits, and likely outcome of those claims and of TSL's defences to them, and the potential impact on the Group, are subject to various and substantial uncertainties. There are multiple factual and legal defences to these claims and the Company intends to defend them vigorously, while at the same time taking appropriate steps to mitigate the risks. The Company therefore cannot make an assessment of the likely outcome of the litigation, or the potential quantum of its liability or the potential impact on the Group at this stage. Depending on the outcome at the various stages of the Equal Pay Claims, and dependent on the number of any ultimately successful claims, the potential quantum of its liability could be material. There are a number of other contingent liabilities that arise in the normal course of business, which if realised, are not expected to result in a material liability to the Company.

30. Events after the reporting period

There are no material events since the Balance Sheet date which require disclosure.