

fastFT Tesco PLC

Tesco's UK arm to pay £129m fine and set up £85m compensation scheme over accounting scandal



Mehreen Khan MARCH 28 2017

Tesco's UK arm is set to pay a £129m penalty over its accounting scandal and set up a £85m scheme to compensate investors.

The UK supermarket group said its subsidiary Tesco Stores had entered into a “deferred prosecution agreement” with the Serious Fraud Office to pay the penalty of £129m. The fine relates to false accounting at Tesco Stores in 2014 and will mean the company will avoid prosecution after a two-year investigation.

The draft agreement, due to go before a court on April 10, concerns only the potential criminal liability of Tesco Stores, the supermarket's UK subsidiary, and does not address whether liability of any sort attaches to the parent company or any of the group's employees or agents.

In September 2014, Tesco said it misstated profits during the first half of that year, with the discrepancy eventually growing to £326m. The retailer went on to report a £6.3bn loss in 2015, one of the biggest in British corporate history.

On Tuesday, the company said it had also agreed with the Financial Conduct Authority to set up a compensation scheme for shareholders and bondholders who bought assets between August 29 and September 19 in 2014.

The cost of the compensation measures will be in the region of £85m excluding interest. The scheme will be set up in August 2017 and will be administered by accountants KPMG.

As a result of the penalties, Tesco said it would book an exceptional charge of £235m in 2016/2017.

The FCA, which will not be issuing a fine on the supermarket, said the compensation scheme was the first time it had used its regulatory powers “to require a listed company to pay compensation for market abuse”.

Dave Lewis, chief executive of Tesco said:

Over the last two and a half years, we have fully cooperated with this investigation into historic accounting practices, while at the same time fundamentally transforming our business. We sincerely regret the issues which occurred in 2014 and we are committed to doing everything we can to continue to restore trust in our business and brand.

Andrew Bailey, chief executive of the FCA said the company was “doing the right thing”.

“They have cooperated fully with us and this sets a good example for the market and so is a good outcome for Tesco and investors.”

Tesco shares slipped 0.3 percent at the start of London trading.

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