Notes to the Group financial statements

Note 1 Accounting policies

General information
Tesco PLC ('the Company') is a public limited company incorporated and domiciled in the United Kingdom under the Companies Act 2006 (Registration number 445790). The address of the registered office is Tesco House, Shire Park, Kestrel Way, Welwyn Garden City, AL7 1GA, UK.

The main activities of the Company and its subsidiaries (together, 'the Group') are those of retailing and retail banking.

Basis of preparation
The consolidated Group financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as endorsed by the European Union ('EU'), and those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated Group financial statements are presented in Pounds Sterling, generally rounded to the nearest million. They are prepared on the historical cost basis, except for certain financial instruments, share-based payments, customer loyalty programmes and net pension liabilities that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Director's report on page 73.

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

Basis of consolidation
The consolidated Group financial statements consist of the financial statements of the ultimate Parent Company ('Tesco PLC'), all entities controlled by the Company (its subsidiaries) and the Group's share of its interests in joint ventures and associates.

The financial year represents the 52 weeks ended 27 February 2016 (prior financial year 53 weeks ended 28 February 2015). For the UK and the Republic of Ireland ('UK & ROI'), the results are for the 52 weeks ended 27 February 2016 (prior financial year 53 weeks ended 28 February 2015). For all other operations, the results are for the calendar year ended 29 February 2016 (prior calendar year ended 28 February 2015).

Subsidiaries
Subsidiaries are consolidated in the Group's financial statements from the date that control commences until the date that control ceases.

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions are eliminated in preparing the consolidated financial statements.

Joint ventures and associates
The Group has assessed the nature of its joint arrangements under IFRS 11 'Joint arrangements' and determined them to be joint ventures. This assessment required the exercise of judgement as set out in Note 13.

The Group's share of the results of joint ventures and associates is included in the Group Income Statement and Group Statement of Other Comprehensive Income using the equity method of accounting. Investments in joint ventures and associates are carried in the Group Balance Sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate.

Unrealised gains arising from transactions with joint ventures and associates are eliminated to the extent of the Group's interest in the entity.

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

Sale of goods
Revenue is recognised when the significant risks and rewards of ownership of the goods have transferred to the buyer and the amount of revenue can be measured reliably. Revenue is recorded net of returns, discounts/offers and value added taxes.

Provision of services
Revenue from the provision of services is recognised when the service is provided and the revenue can be measured reliably, based on the terms of the contract.

Where the Group acts as an agent selling goods or services, only the commission income is included within revenue.

Financial services
Revenue consists of interest, fees and income from the provision of insurance.

Interest income on financial assets that are classified as loans and receivables is determined using the effective interest rate method.

Calculation of the effective interest rate takes into account fees receivable that are an integral part of the instrument's yield, premiums or discounts on acquisition or issue, early redemption fees and transaction costs.

Fees in respect of services (credit card interchange fees, late payment and ATM revenue) are recognised as the right to consideration accrues through the provision of the service to the customer. The arrangements are generally contractual and the cost of providing the service is incurred as the service is rendered.

The Group generates commission from the sale and service of motor and home insurance policies underwritten by Tesco Underwriting Limited, or in a minority of cases by a third-party underwriter. This is based on commission rates, which are independent of the profitability of underlying insurance policies. Similar commission income is also generated from the sale of white label insurance products underwritten by other third-party providers.

Clubcard, loyalty and other initiatives
The cost of Clubcard and loyalty initiatives is part of the fair value of the consideration received and is deferred and subsequently recognised over the period that the awards are redeemed. The deferral is treated as a deduction from revenue.

The fair value of the points awarded is determined with reference to the fair value to the customer and considers factors such as redemption via Clubcard deals versus money-off-in-store and redemption rate.

Rental income
Rental income is recognised in the period in which it is earned, in accordance with the terms of the lease.

Commercial income
Consistent with standard industry practice, the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. Most of the income received from suppliers relates to adjustments to a core cost price of a product, and as such is considered part of the purchase price for that product. Sometimes receipt of the income is conditional on the Group performing specified actions or satisfying certain performance conditions associated with the purchase of the product. These include achieving agreed purchases or sales volume targets and providing promotional or marketing materials and activities or promotional product positioning. Whilst there is no standard definition, these amounts receivable from suppliers in connection with the purchase of goods for resale are generally termed commercial income.

Commercial income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories.

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

Note 1 Accounting policies continued

Finance income
Finance income, excluding income arising from financial services, is recognised in the period to which it relates using the effective interest rate method.

Finance costs
Finance costs directly attributable to the acquisition or construction of qualifying assets are capitalised. Qualifying assets are those that necessarily take a substantial period of time to prepare for their intended use. All other borrowing costs are recognised in the Group Income Statement in finance costs, excluding those arising from financial services, in the period in which they occur. For Tesco Bank, finance cost on financial liabilities is determined using the effective interest rate method and is recognised in cost of sales.

Business combinations and goodwill
The Group accounts for all business combinations by applying the acquisition method. All acquisition-related costs are expensed.

On acquisition, the assets (including intangible assets), liabilities and contingent liabilities of an acquired entity are measured at their fair value. Non-controlling interest is stated at the non-controlling interest's proportion of the fair values of the assets and liabilities recognised.

Goodwill arising on consolidation represents the excess of the consideration transferred over the net fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired subsidiary, joint venture or associate and the fair value of the non-controlling interest in the acquiree. If the consideration is less than the fair value of the Group's share of the net assets, liabilities and contingent liabilities of the acquired entity (i.e. a discount on acquisition), the difference is credited to the Group Income Statement in the period of acquisition.

At the acquisition date of a subsidiary, goodwill acquired is recognised as an asset and is allocated to each of the cash-generating units expected to benefit from the business combination's synergies and to the lowest level at which management monitors the goodwill. Goodwill arising on the acquisition of joint ventures and associates is included within the carrying value of the investment. On disposal of a subsidiary, joint venture or associate, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

Where the Group obtains control of a joint venture or associate, the Group's previously-held interests in the acquired entity is remeasured to its acquisition date fair value and the resulting gain or loss, if any, is recognised in the Group Income Statement.

Intangible assets
Intangible assets, such as software and pharmacy licences, are measured initially at acquisition cost or costs incurred to develop the asset. Development expenditure incurred on an individual project is capitalised only if specific criteria are met including that the asset created will probably generate future economic benefits. 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, at 10%–25% of cost per annum.

Property, plant and equipment
Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment in value. Property, plant and equipment is depreciated on a straight-line basis to its residual value over its anticipated useful economic life. The following depreciation rates are applied for the Group:
- freehold and leasehold buildings with greater than 40 years unexpired – at 2.5% of cost;
- leasehold properties with less than 40 years unexpired are depreciated by equal annual instalments over the unexpired period of the lease; and
- fixtures and fittings, office equipment and motor vehicles – at rates varying from 9% to 50%, with predominantly all assets depreciated at rates between 10% and 33%.

Assets held under finance leases are depreciated over their expected useful lives on the same basis as owned assets or, when shorter, over the term of the relevant lease.

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 Group Income Statement and is not subsequently reversed.

For all other non-financial assets (including intangible assets and property, plant and equipment) the Group 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 Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

The recoverable amount is the higher of value in use and fair value less costs of disposal. 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 Group Income Statement.

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 years. A reversal of an impairment loss is recognised immediately as a credit to the Group Income Statement.

Investment property
Investment property assets are carried at cost less accumulated depreciation and any recognised impairment in value. The depreciation policies for investment property are consistent with those described for owner-occupied property.

Short-term and other investments
Short-term and other investments in the Group Balance Sheet comprise receivables, loan receivables and available-for-sale financial assets.

Receivables and loan receivables are recognised at amortised cost. Available-for-sale financial assets are recognised at fair value.

Refer to the financial instruments accounting policy for further detail.

Inventories
Inventories comprise goods and development properties held for resale. Inventories are valued at the lower of cost and fair value less costs to sell using the weighted average cost basis. Directly attributable costs and incomes (including applicable commercial income) are included in the cost of inventories.

Cash and cash equivalents
Cash and cash equivalents in the Group Balance Sheet consist of cash at bank, in hand, demand deposits with banks, loans and advances to banks, certificates of deposits and other receivables together with short-term deposits with an original maturity of three months or less.

Non-current assets held for sale and discontinued operations
Non-current assets (or disposal groups) are classified as assets held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

Discontinued operations
In accordance with IFRS 5 'Non-current assets held for sale and discontinued operations', the net results of the Korean and Chinese operations are presented within discontinued operations in the Group Income Statement (for which the comparatives have been restated) and the assets and liabilities of these operations are presented separately in the Group Balance Sheet. Refer to Note 7 for further details.

Leases
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. Refer to Note 33 for additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

The Group as a lessor
Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment in the lease. Rental income from operating leases is recognised on a straight-line basis over the term of the lease.

The Group as a lessee
Assets held under finance leases are recognised as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, each determined at the inception of the lease. The corresponding liability is included in the Group Balance Sheet as a finance lease obligation. Lease payments are apportioned between finance charges and a reduction of the lease obligations so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged to the Group Income Statement. Rentals payable under operating leases are charged to the Group Income Statement on a straight-line basis over the term of the lease.

Sale and leaseback
A sale and leaseback transaction is one where the Group sells an asset and immediately re-acquires the use of the asset by entering into a lease with the buyer.

The accounting treatment of the sale and leaseback depends upon the substance of the transaction (by applying the lease classification principles described above) whether or not the sale was made at the asset's fair value and the relationship with the buyer, which is based on levels of control and influence (the buyer may be an associate, joint venture or an unrelated party).

For sale and finance leasebacks, any profit from the sale is deferred and amortised over the lease term. For sale and operating leasebacks, generally the assets are sold at fair value, and accordingly the profit or loss from the sale is recognised immediately in the Group Income Statement.

Post-employment obligations
For defined benefit plans, obligations are measured at discounted present value (using the projected unit credit method) whilst plan assets are recorded at fair value.

The operating and financing costs of such plans are recognised separately in the Group Income Statement; service costs are spread systematically over the expected service lives of employees and financing costs are recognised in the periods in which they arise. Actuarial gains and losses are recognised immediately in the Group Statement of Comprehensive Income.

Payments to defined contribution schemes are recognised as an expense as they fall due.

Share-based payments
The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the Group Income Statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting.

Taxation
The tax expense included in the Group Income Statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Group Income Statement except to the extent that it relates to items recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, in which case it is recognised in the Group Statement of Comprehensive Income or directly in the Group Statement of Changes in Equity, respectively.

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

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

Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the assets to be recovered.

Deferred tax assets and liabilities are offset against each other when there is a legally enforceable right to set off current taxation assets against current taxation liabilities and it is the intention to settle these on a net basis.

Foreign currencies
Transactions in foreign currencies are translated to the functional currency at the exchange rate on the date of the transaction. At each balance sheet date, monetary assets and liabilities that are denominated in foreign currencies are retranslated to the functional currency at the rates prevailing on the balance sheet date. All differences are taken to the Group Income Statement.

The non-monetary assets and liabilities of overseas subsidiaries denominated in foreign currencies are translated into Pounds Sterling at exchange rates prevailing at the date of the Group Balance Sheet; profits and losses are translated at average exchange rates for the relevant accounting periods. Exchange differences arising are recognised in the Group Statement of Comprehensive Income and are included in the Group's translation reserve. Such translation differences are recognised as income or expenses in the period in which the operation is disposed of.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate.

Financial instruments
Financial assets and financial liabilities are recognised on the Group Balance Sheet when the Group becomes a party to the contractual provisions of the instrument.

Trade receivables
Trade receivables are non interest-bearing and are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Investments
Investments are recognised at trade date. Investments are classified as either held for trading or available-for-sale, and are recognised at fair value. For available-for-sale investments, gains and losses arising from changes in fair value are recognised directly in other comprehensive income, until the security is disposed of or is determined to be impaired, at which time the cumulative gain or loss previously recognised in other comprehensive income is included in the Group Income Statement for the period. Interest calculated using the effective interest rate method is recognised in the Group Income Statement. Dividends on an available-for-sale equity instrument are recognised in the Group Income Statement when the entity's right to receive payment is established.

Loans and advances to customers
Loans and advances are initially recognised at fair value plus directly related transaction costs. Subsequent to initial recognition, these assets are carried at amortised cost using the effective interest method less any impairment losses. Income from these financial assets is calculated on an effective yield basis and is recognised in the Group Income Statement.

Impairment of loans and advances to customers
At each balance sheet date, the Group reviews the carrying amounts of its loans and advances to determine whether there is any indication that those assets have suffered an impairment loss.

If there is objective evidence that an impairment loss on a financial asset or group of financial assets classified as loans and advances has been incurred, the Group measures the amount of the loss as the difference between the carrying amount of the asset or group of assets and the present value of estimated future cash flows from the asset or group of assets discounted at the effective interest rate of the instrument at initial recognition. Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessments of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar credit risk

Note 1 Accounting policies continued

characteristics. Historical loss experience is adjusted, on the basis of current observable data, to reflect the effects of current conditions not affecting the period of historical experience.

Impairment losses are recognised in the Group Income Statement and the carrying amount of the financial asset or group of financial assets is reduced by establishing an allowance for impairment losses. If in a subsequent period the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. Once an impairment loss has been recognised on a financial asset or group of financial assets, interest income is recognised on the carrying amount using the rate of interest at which estimated future cash flows were discounted in measuring impairment.

Loan impairment provisions are established on a portfolio basis taking into account the level of arrears, security, past loss experience, credit scores and defaults based on portfolio trends. The most significant factors in establishing these provisions are the expected loss rates.

The portfolios include credit card receivables and other personal advances. The future credit quality of these portfolios is subject to uncertainties that could cause actual credit losses to differ materially from reported loan impairment provisions. These uncertainties include the economic environment, notably interest rates and their effect on customer spending, the unemployment level, payment behaviour and bankruptcy trends.

Interest-bearing borrowings
Interest-bearing bank loans and overdrafts are initially recorded at fair value, net of attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between proceeds and redemption value being recognised in the Group Income Statement over the period of the borrowings on an effective interest basis.

Trade payables
Trade payables are non interest-bearing and are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

Equity instruments
Equity instruments issued by the Group are recorded at the proceeds received, net of direct issue costs.

Derivative financial instruments and hedge accounting
The Group uses derivative financial instruments to hedge its exposure to foreign exchange, interest rate and commodity risks arising from operating, financing and investing activities. The Group does not hold or issue derivative financial instruments for trading purposes; however, if derivatives do not qualify for hedge accounting they are accounted for as such.

Derivative financial instruments are recognised and stated at fair value. Where derivatives do not qualify for hedge accounting, any gains or losses on remeasurement are immediately recognised in the Group Income Statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Group is required to document from inception the relationship between the item being hedged and the hedging instrument.

The Group is also required to document and demonstrate an assessment of the relationship between the hedged item and the hedging instrument, which shows that the hedge will be highly effective on an ongoing basis. This effectiveness testing is performed at each reporting period to assess whether the hedge remains highly effective.

Derivative financial instruments with maturity dates of more than one year from the balance sheet date are disclosed as non-current.

Fair value hedging
Derivative financial instruments are classified as fair value hedges when they hedge the Group's exposure to changes in the fair value of a recognised asset or liability. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement together with any changes in the fair value of the hedged item that is attributable to the hedged risk.

Cash flow hedging
Derivative financial instruments are classified as cash flow hedges when they hedge the Group's exposure to variability in cash flows that are either attributable to a particular risk associated with a recognised asset or liability, or a highly probable forecasted transaction. The effective element of any gain or loss from remeasuring the derivative instrument is recognised directly in the Group Statement of Comprehensive Income.

The associated cumulative gain or loss is reclassified from other comprehensive income and recognised in the Group Income Statement in the same period or periods during which the hedged transaction affects the Group Income Statement. The classification of the effective portion when recognised in the Group Income Statement is the same as the classification of the hedged transaction. Any element of the remeasurement of the derivative instrument that does not meet the criteria for an effective hedge is recognised immediately in the Group Income Statement within finance income or costs.

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or if a voluntary de-designation takes place or no longer qualifies for hedge accounting. At that point in time, any cumulative gain or loss on the hedging instrument recognised in equity is retained in the Group Statement of Changes in Equity until the forecast transaction occurs or the original hedged item affects the Group Income Statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Group Statement of Changes in Equity is reclassified to the Group Income Statement.

Net investment hedging
Derivative financial instruments are classified as net investment hedges when they hedge the Group's net investment in an overseas operation. The effective element of any foreign exchange gain or loss from remeasuring the derivative instrument is recognised directly in other comprehensive income. Any ineffective element is recognised immediately in the Group Income Statement. Gains and losses accumulated in other comprehensive income are included in the Group Income Statement when the foreign operation is disposed of.

Treatment of agreements to acquire non-controlling interests
The Group has entered into a number of agreements to purchase the remaining shares of subsidiaries with non-controlling interests.

The net present value of the expected future payments are shown as a financial liability. At the end of each period, the valuation of the liability is reassessed with any changes recognised in the Group Income Statement within finance income or costs.

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.

Provisions
Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

Provisions for onerous leases are recognised when the Group believes that the unavoidable costs of meeting or exiting the lease obligations exceed the economic benefits expected to be received under the lease.

Use of assumptions and estimates
The preparation of the consolidated Group financial statements requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Critical estimates and assumptions that are applied in the preparation of the consolidated financial statements include:

Depreciation and amortisation
The Group exercises judgement to determine useful lives and residual values of intangibles; property, plant and equipment; and investment property. The assets are depreciated down to their residual values over their estimated useful lives.

Notes to the Group financial statements continued

Note 1 Accounting policies continued

Impairment

a) Impairment of goodwill

The Group tests annually whether goodwill has suffered any impairment. The recoverable amount of the cash-generating units are based on the higher of value in use and fair value less cost of disposal. These calculations require the use of estimates as set out in Note 10.

b) Impairment of assets

The Group has determined each store as a separate cash-generating unit for impairment testing. Where there are indicators of impairment, the Group performs an impairment test. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use is calculated from cash flow projections generally over five years using data from the Group's latest internal forecasts, and extrapolated beyond five years using estimated long-term growth rates. These calculations require the use of estimates as set out in Note 11. Fair value is determined with the assistance of independent, professional valuers where appropriate.

c) Impairment of loans and advances to customers and banks

The Group's loan impairment provisions are established to recognise incurred impairment losses in its portfolio of loans classified as loans and receivables and carried at amortised cost. These calculations require the use of estimates as set out in the accounting policy note for impairment of loans and advances to customers.

Commercial income

Accounting for the amount and timing of recognition of commercial income (as defined on page 90) may require the exercise of judgement. The key estimates and judgements made in the recognition of commercial income are as follows:

- volume-related allowances relate to amounts receivable by the Group for achieving agreed purchase or sales targets within a set period. Where volume-related allowances span different accounting periods, the amount of income recognised in each period is estimated based on the probability that the Group will meet contractual target volumes based on historical and forecast performance; and
- promotional, marketing and other allowances cover amounts receivable by the Group to support the promotion, marketing and advertising of specific items including promotional pricing discounts, in-store displays, margin protection and cost reimbursements. There is limited judgement or estimation involved in recognising income for these allowances. The Group 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.

Refer to Note 15, Note 16 and Note 19 for additional income statement and balance sheet disclosure.

Provisions

Provisions have been made for property contracts, dilapidations, restructuring, post-employment benefits and customer redress. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. The difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, and other onerous contracts related to property. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased property to the Group is based on the same assumptions for discount rates, growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11. The calculations also assume that the Group can sublet properties at market rents. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Provisions relating to Tesco Bank

The Group has provisions for potential customer redress which it handles in accordance with provisions of the regulatory policy statement PS 10/12.

In November 2015, the Financial Conduct Authority (FCA) issued a Consultation Paper (CP15/39 'rules and guidance in payment protection insurance complaints'). This paper proposes:

- a deadline, to be confirmed, in 2018, by which customers would need to make payment protection insurance complaints; and
- new rules and guidance on the handling of PPI complaints in light of the Supreme Court's decision in Plevin v Paragon Personal Finance Limited ('Plevin').

The final FCA rules, and the implications of the Plevin decision, remain uncertain. Although a significant degree of uncertainty also remains with regard to the ultimate cost of settling PPI complaints, in particular the volume of complaints arising from customers ahead of any deadline to be confirmed by the FCA, the provision balance represents management's best estimate at the reporting date of that cost.

The Group also holds a provision in respect of customer redress relating to the historic sale of certain cardholder protection products to credit card customers. The level of provision held is based on management's best estimate at the reporting date, relating to the number and value of cases for which compensation may be paid under an industry-wide scheme of arrangement that closed on 18 March 2016. Management's assumption in assessing provision adequacy is that a small number of ex gratia settlements will continue throughout the next financial year.

The Group holds a further provision in respect of customer redress relating to instances where certain requirements of the CCA for post-contract documentation were not fully complied with. In arriving at the provision required, the Group has considered the legal and regulatory position with respect to these matters and has sought legal advice which it took into account when making its judgement. The provision represents management's best estimate at the reporting date of the cost of concluding the redress programme for loan and credit card customers, and in making the estimate management have exercised judgement as to both the timescale for completing the redress campaign and the final scope of any amounts payable.

Inventories

An inventory provision is booked for cases where the realisable value from sale of the inventory is estimated to be lower than the inventory carrying value. The inventory provision is estimated taking into account various factors, including prevailing sales prices of inventory item, the seasonality of the item's sales profile and losses associated with slow-moving inventory items.

Post-employment benefit obligations

The present value of the post-employment benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of post-employment benefit obligations. Key assumptions for post-employment benefit obligations are disclosed in Note 26.

Classification of mall properties

The Group exercises judgement in determining the appropriate classification of shopping malls as investment properties or property, plant and equipment. Factors considered in making this determination include the level of services provided to tenants, who manages the mall and any shared facilities, the proportion of sublet space to own-use space and the variability of earnings from the property.

Operating segments

The Group's reportable segments are in line with its management reporting structure. Retail operations in different countries are deemed to share similar economic characteristics, products, customers and supply chain operations, and have therefore been aggregated to the Retail UK and ROI segment and the Retail International segment. Tesco Bank operates in a different industry and reports separately.

Note 1 Accounting policies continued

Standards issued but not yet effective

As of the date of authorisation of these financial statements, the following standards were in issue but not yet effective and have not yet been adopted by the EU. The Group has not applied these standards in the preparation of the financial statements, and has not adopted any new or amended standards early:

- IFRS 9 'Financial instruments' is effective for periods commencing on or after 1 January 2018 subject to endorsement by the EU. IFRS 9 is a replacement for IAS 39 'Financial Instruments' and covers three distinct areas. Phase 1 contains new requirements for the classification and measurement of financial assets and liabilities. Phase 2 relates to the impairment of financial assets and requires the calculation of impairment on an expected loss basis rather than the current incurred loss basis. Phase 3 relates to less stringent requirements for general hedge accounting. The adoption of IFRS 9 is likely to have a significant impact on the Group in future periods, specifically in relation to the impairment charge recognised on financial asset balances. The full impact of this and the other phases of IFRS 9 on the Group is still being assessed.
- IFRS 15, 'Revenues from Contracts with Customers' is effective for periods commencing 1 January 2018 subject to endorsement by the EU. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts. IFRS 15 may have an impact on recognition and related disclosures. The full impact of future adoption is still being assessed; and
- IFRS 16, 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to endorsement by the EU. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases. The full impact of the future adoption is currently under review.

Use of non-GAAP measures

The Directors have adopted new measures of performance, namely revenue exc. fuel, operating profit before exceptional items and profit before tax before exceptional items adjusted for net pension finance costs. These measures replace the previous measures of sales including VAT (excluding IFRIC 13), trading profit and underlying profit.

The Directors believe that these non-GAAP measures provide additional useful information to shareholders on the underlying trends, performance and position of the Group. These measures are used for performance analysis. The non-GAAP measures are not defined by IFRS and therefore may not be directly comparable with other companies' non-GAAP measures. These measures are not intended to be a substitute for, or superior to, IFRS measurements. The tax impact on non-GAAP measures is included within the Group Income Statement.

Revenue exc. fuel

This is the headline measure of revenue for the Group. It excludes the impact of sales, predominantly fuel sales, made at petrol filling stations, due to the volatilities associated with movements in fuel prices.

Operating profit before exceptional items

This is the headline measure of the Group's performance, and is based on operating profit before the impact of exceptional items.

Exceptional items

Exceptional items relate to certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which, individually or, if of a similar type, in aggregate, are excluded from the Group's non-GAAP performance measures by virtue of their size and nature in order to better reflect management's view of the performance of the Group.

The Group exercises judgement in assessing whether items should be classified as exceptional. This assessment covers both the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria.

Profit before tax before exceptional items and net pension finance costs

This measure excludes exceptional items and the net finance costs of the defined benefit pension deficit as the costs are impacted by corporate bond yields which can fluctuate significantly.

Free cash flow

Free cash flow is net cash generated from/ (used in) operating activities less capital expenditure on property, plant and equipment, investment property and intangible assets.

Net debt

Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations. Net debt comprises bank and other borrowings, finance lease payables, net derivative financial instruments, joint venture loans and other receivables and net interest receivables/ payables, offset by cash and cash equivalents and short-term investments.

Operating margin

Operating margin is based on operating profit before exceptional items and on revenue.

Total indebtedness

Net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum rentals payable under non-cancellable operating leases.

Notes to the Group financial statements continued

Note 2 Segmental reporting

The Group's operating segments are determined based on the Group's internal reporting to the Chief Operating Decision Maker ('CODM'). The CODM has been determined to be the Group Chief Executive, with support from the Executive Committee, as the function primarily responsible for the allocation of resources to segments and assessment of performance of the segments.

In line with changes in management reporting and management structure reporting to the CODM, the Group has reassessed its reportable segments and determined:
- that the retailing and associated activities in the Republic of Ireland ('ROI'), previously disclosed as part of the Europe segment, be combined in a UK and Republic of Ireland segment going forward; and
- that the retailing and associated activities in other countries, previously segregated between the Europe and the Asia segments, be combined in an International segment.

The principal activities of the Group are therefore presented in the following segments:
- Retailing and associated activities ('Retail') in:
  - UK & ROI – the UK and Republic of Ireland; and
  - International – Czech Republic, Hungary, Poland, Slovakia, Malaysia, Thailand and Turkey; and
- Retail banking and insurance services through Tesco Bank in the UK ('Tesco Bank').

This presentation reflects how the Group's operating performance is reviewed internally by management. Segmental information for the 53 weeks ended 28 February 2015 has been restated accordingly.

In addition, the retailing and associated activities in the Republic of Korea ('Korea') have been classified as discontinued operations in the current year, their performance in this year and comparative years is therefore part of discontinued operations as presented in Note 7 and excluded from segmental performances below.

The CODM uses operating profit before exceptional items, as reviewed at monthly Executive Committee meetings, as the key measure of the segments' results as it better reflects the segments' underlying performance for the financial period under evaluation. Operating profit before exceptional items is a consistent measure within the Group as defined within Note 1. Refer to Note 4 for exceptional items. Inter-segment revenue between the operating segments is not material.

The segment results and the reconciliation of the segment measures to the respective statutory items included in the Group Income Statement are as follows:

52 weeks ended 27 February 2016 At constant exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations						
Revenue exc. fuel	37,359	10,858	955	49,172	(820)	48,352
Revenue	43,256	11,066	955	55,277	(844)	54,433
Operating profit before exceptional items	**509**	**283**	**162**	**954**	**(10)**	**944**
Exceptional items	96	9	(1)	104	(2)	102
Operating profit/ (loss)	605	292	161	1,058	(12)	1,046
Operating margin**	1.2%	2.6%	17.0%	1.7%	–	1.7%

52 weeks ended 27 February 2016 At actual exchange rates***	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	37,189	10,208	955	48,352
Revenue	43,080	10,398	955	54,433
Operating profit before exceptional items	**505**	**277**	**162**	**944**
Exceptional items	94	9	(1)	102
Operating profit	599	286	161	1,046
Operating margin**	1.2%	2.7%	17.0%	1.7%
Share of post-tax losses of joint ventures and associates				(21)
Finance income				29
Finance costs				(892)
Profit/ (loss) before tax				**162**

* Constant exchange rates are the average actual periodic exchange rates for the previous financial period.
** Operating margin is based on operating profit before exceptional items and on revenue.
*** Actual exchange rates are the average actual periodic exchange rates for that financial period.

Note 2 Segmental reporting continued

53 weeks ended 28 February 2015 At actual exchange rates*	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Revenue exc. fuel	38,228	10,678	947	49,853
Revenue**	45,062	10,916	947	56,925
Operating profit before exceptional items	**498**	**254**	**188**	**940**
Exceptional items	(5,832)	(823)	(35)	(6,690)
Operating profit/ (loss)	(5,334)	(569)	153	(5,750)
Operating margin***	1.1%	2.3%	19.9%	1.7%
Share of post-tax losses of joint ventures and associates				(13)
Finance income				80
Finance costs				(651)
Profit/ (loss) before tax				**(6,334)**

* Actual exchange rates are the average actual periodic exchange rates for that financial period.
** Includes a reclassification of £77m from Tesco Bank to the UK & ROI segment, relating to revenue recognition on Clubcard vouchers. There is no impact on segmental operating profit before exceptional items or operating profit.
*** Operating margin is based on operating profit before exceptional items and on revenue.

The following tables showing segment assets and liabilities exclude those balances that make up net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal groups). Net debt balances have been included within the unallocated segment to reflect how the Group manages these balances. Intercompany transactions have been eliminated, other than intercompany transactions with Tesco Bank in net debt.

At 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,391	309	1,174	–	2,874
Property, plant and equipment and investment property	12,815	5,085	78	–	17,978
Investments in joint ventures and associates	5	704	76	–	785
Other investments	–	–	984	151	1,135
Loans and advances to customers – non-current	–	–	4,723	–	4,723
Deferred tax asset	–	49	–	–	49
Non-current assets[(a)]	**14,211**	**6,147**	**7,035**	**151**	**27,544**
Inventories and trade and other receivables[(b)]	2,557	1,016	314	–	3,887
Trade and other payables	(6,580)	(1,736)	(252)	–	(8,568)
Loans and advances to customers – current	–	–	3,819	–	3,819
Customer deposits and deposits from banks	–	–	(7,479)	–	(7,479)
Total provisions	(837)	(129)	(58)	–	(1,024)
Deferred tax liability	(64)	(39)	(32)	–	(135)
Net current tax	(403)	(3)	2	–	(404)
Post-employment benefits	(3,153)	(22)	–	–	(3,175)
Assets held for sale and of the disposal groups[(c)]	165	71	–	–	236
Liabilities of the disposal groups[(c)]	–	–	–	–	–
Net debt[(d)]	–	–	(975)	(5,110)	(6,085)
Net assets	**5,896**	**5,305**	**2,374**	**(4,959)**	**8,616**

(a) Excludes derivative financial instrument non-current assets of £1,532m (2015: £1,546m).
(b) Excludes loans to joint ventures of £149m (2015: £207m) and interest and other receivables of £1m (2015:£1m).
(c) Excludes net debt of the disposal groups of £nil (2015: £9m). Refer to Note 7.
(d) Refer to Note 29.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

At 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Other/ unallocated £m	Total £m
Goodwill and other intangible assets	1,648	900	1,223	–	3,771
Property, plant and equipment and investment property	11,604	8,914	86	–	20,604
Investments in joint ventures and associates	89	771	80	–	940
Other investments	–	–	827	148	975
Loans and advances to customers – non-current	–	–	3,906	–	3,906
Deferred tax asset	433	81	–	–	514
Non-current assets[a]	**13,774**	**10,666**	**6,122**	**148**	**30,710**
Inventories and trade and other receivables[b]	2,814	1,821	235	–	4,870
Trade and other payables	(6,931)	(2,746)	(245)	–	(9,922)
Loans and advances to customers – current	–	–	3,814	–	3,814
Customer deposits and deposits from banks	–	–	(7,020)		(7,020)
Total provisions	(1,071)	(205)	(90)	–	(1,366)
Deferred tax liability	–	(158)	(41)	–	(199)
Net current tax	(89)	5	5	–	(79)
Post-employment benefits	(4,773)	(69)	–	–	(4,842)
Assets held for sale and of the disposal groups[c]	61	69	–	–	130
Liabilities of the disposal groups[c]	–	–	–	(5)	(5)
Net debt[d]	–	–	(539)	(8,481)	(9,020)
Net assets	**3,785**	**9,383**	**2,241**	**(8,338)**	**7,071**

[a]-[d] Refer to previous table for footnotes.

Other segment information

52 weeks ended 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operation** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	2,300	236	8	2,544	55	2,599
Investment property	5	–	–	5	–	5
Goodwill, software and other intangible assets	188	18	32	238	3	241
Depreciation:						
Property, plant and equipment	(688)	(293)	(16)	(997)	(80)	(1,077)
Investment property	(2)	–	–	(2)	–	(2)
Amortisation of intangible assets	(145)	(30)	(75)	(250)	(5)	(255)
Impairment of intangible assets	(159)	(10)	–	(169)	–	(169)
Impairment of goodwill	(18)	–	–	(18)	–	(18)
Impairment of property, plant and equipment and investment property	(164)	(100)	–	(264)	(1)	(265)
Reversal of impairment of property, plant and equipment and investment property	133	119	–	252	–	252

53 weeks ended 28 February 2015	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operation** £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment*	1,119	364	14	1,497	145	1,642
Investment property	–	–	–	–	–	–
Goodwill, software and other intangible assets	351	28	45	424	11	435
Depreciation:						
Property, plant and equipment	(741)	(358)	(18)	(1,117)	(176)	(1,293)
Investment property	–	–	–	–	(1)	(1)
Amortisation of intangible assets	(154)	(26)	(68)	(248)	(9)	(257)
Impairment of intangible assets	(46)	(3)	(4)	(53)	–	(53)
Impairment of goodwill	(116)	–	–	(116)	–	(116)
Impairment of property, plant and equipment and investment property	(3,504)	(607)	–	(4,111)	(202)	(4,313)
Reversal of impairment of property, plant and equipment and investment property	132	35	–	167	29	196

* Includes £1,742m (2015: £3m) of property, plant and equipment acquired through business combinations.

** Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises those of Korea in the first six months of the year ended 27 February 2016 and the twelve months of the year ended 28 February 2015.

Note 2 Segmental reporting continued

The following tables provide further analysis of the Group Cash Flow Statement, including a split of cash flows between Retail and Tesco Bank as well as continuing operations and discontinued operations.

	Retail		Tesco Bank		Tesco Group	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss) of continuing operations*	**885**	**(5,903)**	**161**	**153**	**1,046**	**(5,750)**
Operating profit/ (loss) of discontinued operations	128	(52)	–	–	128	(52)
Depreciation and amortisation	1,243	1,466	91	86	1,334	1,552
ATM net income	(38)	(28)	38	28	–	–
Loss/ (profit) arising on sale of property, plant and equipment and intangible assets	165	42	(1)	7	164	49
Loss arising on sale of subsidiaries and other investments	–	41	–	–	–	41
Profit arising on sale of joint ventures and associates	(1)	–	–	–	(1)	–
Impairment of goodwill	18	116	–	–	18	116
Net reversal of impairment of other investments	(7)	–	–	–	(7)	–
Impairment of loans/ investments in joint ventures and associates	1	712	–	–	1	712
Net impairment of property, plant and equipment and intangible assets	182	4,167	–	4	182	4,171
Adjustment for non-cash element of pensions charge	(395)	68	–	–	(395)	68
Additional contribution into pension schemes	(223)	(13)	–	–	(223)	(13)
Share-based payments	273	99	10	6	283	105
Tesco Bank non-cash items included in operating profit	–	–	72	58	72	58
Cash flow from operations excluding working capital	**2,231**	**715**	**371**	**342**	**2,602**	**1,057**
Decrease/ (increase) in working capital	350	1,145	(518)	(735)	(168)	410
Cash generated from operations	**2,581**	**1,860**	**(147)**	**(393)**	**2,434**	**1,467**
Interest paid	(422)	(609)	(4)	(4)	(426)	(613)
Corporation tax received/ (paid)	125	(347)	(7)	(23)	118	(370)
Net cash generated from/ (used in) operating activities	**2,284**	**904**	**(158)**	**(420)**	**2,126**	**484**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(858)	(1,977)	(13)	(12)	(871)	(1,989)
Purchase of intangible assets	(146)	(267)	(21)	(62)	(167)	(329)
Non-GAAP measure: Free cash flow	**1,280**	**(1,340)**	**(192)**	**(494)**	**1,088**	**(1,834)**
Disposal of subsidiaries, net of cash disposed	3,237	(157)	–	–	3,237	(157)
Acquisition of subsidiaries, net of cash acquired	(325)	(86)	–	–	(325)	(86)
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	350	244	–	–	350	244
Proceeds from sale of joint ventures and associates	192	–	–	–	192	–
Net (increase)/ decrease in loans to joint ventures and associates	(1)	21	–	–	(1)	21
Net investments in joint ventures and associates	(77)	(382)	–	–	(77)	(382)
Net (investments in)/ proceeds from sale of short-term investments	(2,894)	423	–	–	(2,894)	423
Net proceeds from sale of/ (investments in) other investments	17	5	(120)	43	(103)	48
Dividends received from joint ventures and associates	41	81	–	7	41	88
Interest received	3	104	–	–	3	104
Net cash used in investing activities	**(461)**	**(1,991)**	**(154)**	**(24)**	**(615)**	**(2,015)**
Proceeds from issue of ordinary share capital	1	15	–	–	1	15
Increase in borrowings	286	4,391	300	498	586	4,889
Repayment of borrowings	(1,328)	(3,185)	–	–	(1,328)	(3,185)
Net cash flows from derivative financial instruments	154	(6)	–	–	154	(6)
Repayment of obligations under finance leases	(17)	(3)	–	–	(17)	(3)
Rights issue to non-controlling interests	–	18	–	–	–	18
Dividends paid to equity owners	–	(914)	–	–	–	(914)
Net cash generated from/ (used in) financing activities	**(904)**	**316**	**300**	**498**	**(604)**	**814**
Intra-Group funding and intercompany transactions	**50**	**(77)**	**(50)**	**77**	**–**	**–**
Net increase/ (decrease) in cash and cash equivalents	**969**	**(848)**	**(62)**	**131**	**907**	**(717)**
Cash and cash equivalents at the beginning of the year	1,558	2,328	616	485	2,174	2,813
Effect of foreign exchange rate changes	1	78	–	–	1	78
Cash and cash equivalents including cash held in disposal groups at the end of the year	**2,528**	**1,558**	**554**	**616**	**3,082**	**2,174**
Cash held in disposal groups**	–	(9)	–	–	–	(9)
Cash and cash equivalents at the end of the year	**2,528**	**1,549**	**554**	**616**	**3,082**	**2,165**

* Tesco Bank operating profit as per Bank Income Statement excluding ATM net income segmental adjustment.
** This relates to the cash held within discontinued operations reported within assets of the disposal groups.

Notes to the Group financial statements continued

Note 2 Segmental reporting continued

	Continuing operations		Discontinued operations		Retail	
	2016 £m	2015 £m	2016 £m	2015 £m	2016 £m	2015 £m
Operating profit/ (loss)	**885**	**(5,903)**	**128**	**(52)**	**1,013**	**(5,955)**
Depreciation and amortisation	1,158	1,280	85	186	1,243	1,466
ATM net income	(38)	(28)	–	–	(38)	(28)
Loss arising on sale of property, plant and equipment and intangible assets	165	28	–	14	165	42
Loss arising on sale of subsidiaries & other investments	–	41	–	–	–	41
Profit arising on sale of joint ventures and associates	(1)	–	–	–	(1)	–
Impairment of goodwill	18	116	–	–	18	116
Net reversal of impairment of other investments	(7)	–	–	–	(7)	–
Impairment of loans/ investments in joint ventures and associates	1	712	–	–	1	712
Net impairment of property, plant and equipment and intangible assets	181	3,993	1	174	182	4,167
Adjustment for non-cash element of pensions charge	(400)	68	5	–	(395)	68
Additional contribution into pension schemes	(223)	(2)	–	(11)	(223)	(13)
Share-based payments	271	102	2	(3)	273	99
Cash flow from operations excluding working capital	**2,010**	**407**	**221**	**308**	**2,231**	**715**
Decrease/ (increase) in working capital	70	1,270	280	(125)	350	1,145
Cash generated from operations	**2,080**	**1,677**	**501**	**183**	**2,581**	**1,860**
Interest paid	(394)	(560)	(28)	(49)	(422)	(609)
Corporation tax received/ (paid)	167	(267)	(42)	(80)	125	(347)
Net cash generated from operating activities	**1,853**	**850**	**431**	**54**	**2,284**	**904**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(776)	(1,774)	(82)	(203)	(858)	(1,977)
Purchase of intangible assets	(146)	(266)	–	(1)	(146)	(267)
Non-GAAP measure: Free cash flow	**931**	**(1,190)**	**349**	**(150)**	**1,280**	**(1,340)**

Note 3 Income and expenses

Continuing operations	2016 £m	2015 £m
Profit/ (loss) before tax is stated after charging/ (crediting) the following:		
Property rental income, of which £39m (2015: £40m) relates to investment properties	(331)	(344)
Other rental income	(53)	(53)
Direct operating expenses arising on rental earning investment properties	20	19
Costs of inventories recognised as an expense	39,955	42,515
Inventory losses and provisions*	1,263	1,623
Depreciation and amortisation charged	1,249	1,366
Operating lease expenses, of which £102m (2015: £106m) relates to hire of plant and machinery	1,160	1,289
Net impairment charge on property, plant and equipment and investment property	13	3,944
Impairment of goodwill, software and other intangibles	187	169
Impairment of investments in and loans to joint ventures and associates	1	712

* Includes £nil (2015: £359m) exceptional inventory provision.

During the financial year, the Group carried out a tender for the external audit following which Deloitte LLP ('Deloitte') were appointed as auditor in place of PricewaterhouseCoopers LLP ('PwC'). Accordingly, the figures for auditor's remuneration below relate to Deloitte for 2016 and PwC for 2015.

	2016 £m	2015 £m
Audit services		
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.5	1.0
The audit of the financial statements of the Company's subsidiaries	4.4	3.6
Audit-related assurance services	0.6	0.8
Total audit and audit related services	**6.5**	**5.4**
Non-audit services		
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	0.3	–
Taxation advisory services	0.9	0.9
All other non-audit services	8.8	2.4
Total auditor's remuneration	**16.5**	**8.7**

Other non-audit services of £8.8m represent retail consultancy services (£4.6m), forensic services (£2.3m), international employee services (£0.9m), pension advisory services (£0.6m) and other (£0.4m). The level of non-audit fees in the 52 weeks ended 27 February 2016 reflects the transition to Deloitte as external auditor during the year and the completion of certain activities that were in progress. Steps have been taken to reduce the level of non-audit fees significantly in the 52 weeks ended 25 February 2017.

In addition to the amounts shown above, the auditor received fees of £0.2m (2015: £0.2m) for the audit of the main Group pension scheme.
A description of the work of the Audit Committee is set out in the Corporate Governance Report on page 47 and includes how objectivity and independence is safeguarded when non-audit services are provided by Deloitte.

Note 3 Income and expenses continued

Employment costs, including Directors' remuneration

Continuing operations	2016 £m	2015 £m
Wages and salaries	5,983	6,140
Social security costs	403	436
Post-employment defined benefits (Note 26)*	20	605
Post-employment defined contributions (Note 26)**	175	23
Share-based payments expense (Note 25)	308	141
Termination benefits	79	407
Total	**6,968**	**7,752**

* Includes £538m (2015: £nil) of exceptional past service credit. Refer to Note 4.
** Includes £58m (2015: £nil) of additional exceptional costs. Refer to Note 4.

Post-employment expenses include £168m (2015: £167m) of salaries paid as pension contributions.

The average number of employees by operating segment during the financial year was:

	Average number of employees		Average number of full-time equivalents	
	2016	2015	2016	2015
UK & ROI	335,061	330,130	225,371	225,192
International	143,459	146,606	129,110	133,602
Tesco Bank	3,632	3,871	3,354	3,576
Total	**482,152**	**480,607**	**357,835**	**362,370**

Note 4 Exceptional items

Income Statement

52 weeks ended 27 February 2016
Profit/ (loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Admin-istrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Loss on disposal of Korean operations £m
Net impairment of property, plant and equipment, intangible assets and onerous lease provisions [a]	(299)	–	(109)	(408)	–	73	–
Net restructuring and redundancy costs [b]	(75)	(34)	(17)	(126)	–	9	–
Property transactions [c]	–	–	156	156	–	(20)	–
Past service credit and other associated costs [d]	424	56	–	480	–	(86)	–
Foreign exchange losses on GBP balances held in overseas entities [e]	–	–	–	–	(220)	–	–
Release of overprovision of tax liabilities in prior years [f]	–	–	–	–	–	86	–
Loss on disposal of Korean operations [g]	–	–	–	–	–	–	(168)
Total	**50**	**22**	**30**	**102**	**(220)**	**62**	**(168)**

In assessing whether income and expense items met the Group's criteria as exceptional, items totalling £4m reflected in operating profit as non-exceptional cost in the first half of the year have subsequently been reclassified to exceptional. This is as a result of restructuring activities extended beyond the original scope, as well as two further property transactions where the Group regained sole ownership of stores and distribution centres.

(a) Following an evaluation of the cash-generating unit for technology and associated fixed assets principally relating to online general merchandise, impairment charges and write-offs of £275m have been recorded as the Group moves toward a single online platform for customers. In addition, a net property, plant and equipment ('PPE') impairment and onerous lease charge of £133m has arisen, including write downs on construction in progress and non-trading sites of £109m. Refer to Notes 10 and 11 for further details on impairment and Note 24 for further details on onerous lease provisions.

(b) A net charge of £126m has been recognised as restructuring and redundancy costs in the UK & ROI. This includes £89m relating to store colleague structures and working practices and £34m relating to head office restructuring costs, partly offset by a provision release of £74m related to the prior year changes to store colleague working arrangements. In addition, there have been costs of £77m related to business rationalisation including the closure of UK Homeplus stores. These costs include impairment of PPE, goodwill and onerous lease provisions. Refer to Notes 10 and 11 for further details on impairment and Note 24 for further details on onerous lease provisions.

(c) In line with the Group's strategy to strengthen its balance sheet, the Group has taken sole control of 70 stores and two distribution centres previously held in three joint ventures, whilst selling its interests in two property joint ventures, as discussed in Note 13 and Note 30. The Group has also disposed of 12 development sites in London.

(d) As a result of the closure of the UK defined benefit pension scheme (the 'Scheme'), all active members of the Scheme became deferred members. The rate at which previously accrued benefits grow until retirement differs for active and deferred members. The rate of increase for deferred members aligns with the consumer price index and resulted in an actuarial credit of £538m. This credit was offset by one-off payments of £58m relating to auto-enrolment and top-up payments to the new defined contribution scheme for some colleagues previously in the defined benefit scheme. Refer to Note 26.

Notes to the Group financial statements continued

Note 4 Exceptional items continued

(e) The Group holds £2.5bn of proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. The £220m loss represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.

(f) In agreeing tax liabilities for past years up to 2011, the Group has identified provisions of £86m held for uncertain tax positions which are no longer required.

(g) On 22 October 2015, the Group completed its sale of its Korea operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. Refer to Note 7 for further details.

Income Statement
53 weeks ended 28 February 2015

Profit/ (loss) for the period included the following exceptional items:

Exceptional items included in:	Cost of sales £m	Administrative expenses £m	Property-related items £m	Total exceptional items included within operating profit £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Impairment of PPE and onerous lease provisions	(3,586)	–	(925)	(4,511)	–	460	–
Impairment of goodwill and intangible assets	(166)	–	–	(166)	–	17	–
Inventory valuations and provisions	(500)	–	–	(500)	–	87	–
Reversal of commercial income recognised in previous years	(208)	–	–	(208)	–	38	–
Restructuring costs including trading store redundancies	(261)	(145)	–	(406)	–	75	–
Other restructuring and one-off items	(160)	–	–	(160)	–	15	–
Impairment of investments in and loans to joint ventures and associates	–	(712)	–	(712)	–	–	–
Provision for customer redress	–	(27)	–	(27)	–	6	–
Exceptional items related to discontinued operations	–	–	–	–	–	–	(307)
Tax on exceptional items related to discontinued operations	–	–	–	–	–	–	17
Total	**(4,881)**	**(884)**	**(925)**	**(6,690)**	**–**	**698**	**(290)**

Cash Flow Statement
The table below shows the impact of exceptional items on the Cash Flow Statement:

	Cash flows from operating activities		Cash flows from investing activities	
Exceptional items included in:	2016 £m	2015 £m	2016 £m	2015 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies[a]	(251)	(174)	–	–
Current year restructuring costs including trading store redundancy costs[b]	(63)	–	–	–
Utilisation of onerous lease provisions	(90)	–	–	–
Property transactions – sale of development sites[c]	218	–	–	–
Defined benefit pension scheme closure cost[d]	(58)	–	–	–
Provision for customer redress[e]	(34)	(42)	–	–
Property transactions – buy back of property joint ventures, net of £15m cash acquired [f]	–	–	(139)	–
Total	**(278)**	**(216)**	**(139)**	**–**

(a) Cash outflows on settlement of exceptional redundancy provisions booked in the 53 weeks ended 28 February 2015. Refer to Note 24 for further details.
(b) Cash outflows on settlement of restructuring and redundancy costs. Refer to item (b) on page 101.
(c) Cash proceeds received on sale of 12 development sites. Refer to item (c) on page 101.
(d) One-off payment on closure of defined benefit pension scheme. Refer to item (d) on page 101.
(e) Settlement of claims for customer redress in Tesco Bank from prior years. Refer to Note 24 for further details.
(f) During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interest in each of the partnerships. Net cash outflow is due to: acquisition of subsidiaries of £(317)m; proceeds on sale of joint ventures of £172m; and repayment of loans by joint ventures of £6m. Refer to Note 30 for further details.

In addition, the Group received a tax refund of £263m. This relates to a claim raised with HMRC to carry back the loss made in the 53 weeks ended 28 February 2015 to offset against the taxable profits from the 52 weeks ended 22 February 2014.

Note 5 Finance income and costs

Continuing operations	2016 £m	2015 £m
Finance income		
Interest receivable and similar income	29	80
Total finance income	**29**	**80**
Finance costs		
GBP MTNs	(176)	(191)
EUR MTNs	(122)	(155)
USD Bonds	(86)	(85)
Other MTNs	–	(2)
Finance charges payable under finance leases and hire purchase contracts	(9)	(9)
Other interest payable	(111)	(93)
Capitalised interest (Note 11)*	6	44
Financial instruments – fair value remeasurements	(19)	(26)
Total finance costs before exceptional items and net pension finance costs	**(517)**	**(517)**
Net pension finance costs (Note 26)	(155)	(134)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(220)	–
Total finance costs	**(892)**	**(651)**
Net finance cost	**(863)**	**(571)**

* A deferred tax liability is recognised in respect of capitalised interest at the applicable rate in the country in which the interest is capitalised.

GBP MTNs

Interest payable on the 4% RPI GBP MTN 2016 includes £3m (2015: £8m) of Retail Price Index ('RPI') related accretion.
Interest payable on the 3.322% LPI GBP MTN 2025 includes £3m (2015: £7m) of RPI-related accretion.
Interest payable on the 1.982% RPI GBP MTN 2036 includes £3m (2015: £7m) of RPI-related accretion.

Notes to the Group financial statements continued

Note 6 Taxation

Recognised in the Group Income Statement

Continuing operations	2016 £m	2015 £m
Current tax (credit)/ charge		
UK corporation tax	81	(159)
Release of UK provisions for uncertain tax positions – exceptional credit	(86)	–
Foreign tax	73	74
Adjustments in respect of prior years	(191)	(12)
	(123)	**(97)**
Deferred tax (credit)/ charge		
Origination and reversal of temporary differences	(69)	(621)
Adjustments in respect of prior years	169	14
Change in tax rate	(31)	34
	69	**(573)**
Total income tax (credit)/ charge	**(54)**	**(670)**

Finance (No.2) Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 18% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included in these consolidated financial statements. In addition to the changes in the rates of corporation tax disclosed above it was announced in the March 2016 Budget Statement that the main rate of corporation tax will be further reduced by 1% to 17% from 1 April 2020. This further rate reduction had not been substantively enacted at the balance sheet date and has therefore not been reflected in these consolidated financial statements.

Temporary differences have been remeasured using the enacted tax rates that are expected to apply when the liability is settled or the asset realised.

Reconciliation of effective tax charge

	2016 £m	2015 £m
Profit before tax	**162**	**(6,334)**
Tax credit/ (charge) at 20.1% (2015: 21.2%)	(33)	1,343
Effect of:		
Non-qualifying depreciation	(49)	(58)
Other non deductible items	(7)	(523)
Unrecognised tax losses	(111)	(135)
Release of provisions for uncertain tax positions	86	34
Property items taxed on a different basis to accounting entries*	114	86
Differences in overseas taxation rates	5	(40)
Adjustments in respect of prior years	22	(2)
Share of losses of joint ventures and associates	(4)	(3)
Change in tax rate	31	(32)
Total income tax credit/ (charge) for the year	**54**	**670**
Effective tax rate	**(33.2%)**	**10.6%**

* This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Reconciliation of effective tax charge on non-GAAP measures

	2016 £m	2015 £m
Profit before tax before exceptional items	**280**	**356**
Tax credit/ (charge) at 20.1% (2015: 21.2%)	(56)	(75)
Effect of:		
Non-qualifying depreciation	(30)	(27)
Other non deductible items	(7)	52
Unrecognised tax losses	(70)	(56)
Release of provisions for uncertain tax positions	–	34
Property items taxed on a different basis to accounting entries*	102	86
Differences in overseas taxation rates	8	(20)
Adjustments in respect of prior years	22	(2)
Share of losses of joint ventures and associates	(4)	(3)
Change in tax rate	27	(17)
Total income tax credit/ (charge) for the year	**(8)**	**(28)**
Effective tax rate before exceptional items	**2.7%**	**7.8%**
Net pension finance costs	155	134
Tax charge at 20.1% (2015: 21.2%)	(31)	(28)
Change in tax rate	3	1
Total income tax credit/ (charge) before exceptional items and net pension finance cost for the year	**(36)**	**(55)**
Effective tax rate before exceptional items and net pension finance cost	**8.2%**	**11.2%**

* This includes property items with differences in the book value and the valuation for tax purposes in addition to recognition of capital losses on property asset disposals.

Note 6 Taxation continued

Tax on items credited directly to the Group Statement of Changes in Equity

	2016 £m	2015 £m
Current tax credit/ (charge) on:		
Share-based payments	–	–
Deferred tax credit/ (charge) on:		
Share-based payments	–	–
Total tax on items credited/ (charged) to the Group Statement of Changes in Equity	**–**	**–**

Tax relating to components of the Group Statement of Comprehensive Income

	2016 £m	2015 £m
Current tax credit/ (charge) on:		
Foreign exchange movements	6	14
Fair value of movement on available-for-sale investments	–	(1)
Fair value movements on cash flow hedges	–	(3)
Deferred tax credit/ (charge) on:		
Pensions	(300)	291
Fair value movements on cash flow hedges	(36)	(17)
Total tax on items credited/ (charged) to Group Statement of Comprehensive Income	**(330)**	**284**

Deferred tax

The following are the major deferred tax (liabilities)/ assets recognised by the Group and movements thereon during the current and prior financial years measured using the tax rates that are expected to apply when the liability is settled or the asset realised based on the tax rates that have been enacted or substantially enacted by the balance sheet date:

	Property-related items* £m	Retirement benefit obligation*** £m	Share-based payments £m	Short-term timing differences £m	Tax losses £m	Financial Instruments £m	Other pre/post-tax temporary differences £m	Total £m
At 22 February 2014	**(1,308)**	**634**	**42**	**84**	**24**	**13**	**10**	**(501)**
(Charge)/ credit to the Group Income Statement	363	35	(40)	184	46	(6)	(9)	573
(Charge)/ credit to the Group Statement of Comprehensive Income	–	291	–	–	–	(17)	–	274
Discontinued operations	2	–	–	(19)	(2)	–	–	(19)
Business combinations	–	–	–	–	–	–	–	–
Foreign exchange and other movements**	(10)	(3)	1	(1)	1	–	–	(12)
At 28 February 2015	**(953)**	**957**	**3**	**248**	**69**	**(10)**	**1**	**315**
(Charge)/ credit to the Group Income Statement	46	(86)	5	(36)	3	–	(1)	(69)
(Charge)/ credit to the Group Statement of Comprehensive Income	–	(300)	–	–	–	(36)	–	(336)
Discontinued operations	232	(10)	(2)	(68)	(22)	–	–	130
Business combinations	(136)	–	–	(4)	–	14	–	(126)
Foreign exchange and other movements**	(5)	2	–	3	–	–	–	–
At 27 February 2016	**(816)**	**563**	**6**	**143**	**50**	**(32)**	**–**	**(86)**

* Property-related items include a deferred tax liability on rolled over gains of £321m (2015: £294m) and deferred tax assets on capital losses of £137m (2015: £101m). The remaining balance relates to accelerated tax depreciation. It is not anticipated these will reverse materially in the foreseeable future.

** The deferred tax charge for foreign exchange and other movements is a £nil (2015: £12m debit) relating to the retranslation of deferred tax balances at the balance sheet date is included within the Group Statement of Comprehensive Income under the heading Currency translation differences.

*** The deferred tax asset on retirement benefits is expected to reverse as additional funding contributions are made to the closed defined benefit scheme. Refer to Note 26.

Certain deferred tax assets and liabilities have been offset and are analysed as follows:

	2016 £m	2015 £m
Deferred tax assets	49	514
Deferred tax liabilities	(135)	(199)
	(86)	**315**

No deferred tax liability is recognised on temporary differences of £2.9bn (2015: £2.1bn) relating to the unremitted earnings of overseas subsidiaries and joint ventures as the Group is able to control the timing of the reversal of these temporary differences and it is probable that they will not reverse in the foreseeable future. The deferred tax on unremitted earnings at 27 February 2016 is estimated to be £141m (2015: £112m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Notes to the Group financial statements continued

Note 6 Taxation continued

Unrecognised deferred tax assets

Deferred tax assets in relation to continuing operations have not been recognised in respect of the following items (because it is not probable that future taxable profits will be available against which the Group can utilise the benefits):

	2016 £m	2015 £m
Deductible temporary differences	163	97
Tax losses	249	66
	412	**163**

As at 27 February 2016, the Group has unused trading tax losses from continuing operations of £1,343m (2015: £539m) available for offset against future profits. A deferred tax asset has been recognised in respect of £274m (2015: £244m) of such losses. No deferred tax asset has been recognised in respect of the remaining £1,069m (2015: £295m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £126m that will expire in 2020 (2015: £118m in 2019) and £100m that will expire between 2021 and 2036 (2015: £15m between 2020 and 2035). Other losses will be carried forward indefinitely.

Current tax

Within the Group current tax liability of £419m is £271m in respect of capital gains tax liabilities that may arise in respect of the sale of the Korean business. Refer to Note 7.

Changes in tax law or its interpretation

The Group operates in a number of territories which leads to the Group's profits being subject to tax in many jurisdictions. The tax authorities in these jurisdictions may challenge our tax returns which could have an adverse impact on the Group.

Note 7 Discontinued operations and non-current assets classified as held for sale

Assets and liabilities of the disposal groups and non-current assets classified as held for sale

	2016 £m	2015 £m
Assets of the disposal groups	–	9
Non-current assets classified as held for sale	236	130
Total assets of the disposal groups and non-current assets classified as held for sale	**236**	**139**
Total liabilities of the disposal groups	–	(5)
Total net assets of the disposal groups and non-current assets classified as held for sale	**236**	**134**

The non-current assets classified as held for sale consist mainly of properties in the UK and Central Europe due to be sold within one year.

Discontinued operations

On 22 October 2015, the Group completed the sale of the Korean operations, made up of Homeplus Co. Limited, Homeplus Tesco Co. Limited and related subsidiaries, to a group of investors led by MBK Partners and including Canada Pension Plan Investment Board, Public Sector Pension Investment Board and Temasek Holdings (Private) Limited. In accordance with IFRS 5, 'Non-current Assets Held for Sale and Discontinued Operations', the Korean operations for the period up to 22 October 2015 have been classified as a disposal group.

The tables below show the results of the discontinued operations which are included in the Group Income Statement, Group Balance Sheet and Group Cash Flow Statement respectively.

Income Statement

	2016	2015		
	Total* £m	Korea £m	China and US*** £m	Total £m
Revenue	3,526	5,359	281	5,640
Expenses**	(3,404)	(5,139)	(299)	(5,438)
Profit/ (loss) before tax before exceptional items	**122**	**220**	**(18)**	**202**
Taxation	(41)	(13)	(1)	(14)
Profit/ (loss) after tax before exceptional items	**81**	**207**	**(19)**	**188**
Loss after tax on disposal of Chinese operations (net of £53m tax)	–	–	(28)	(28)
Exceptional items pre-tax	–	(332)	–	(332)
Tax on exceptional items	–	70	–	70
Loss after tax on disposal of Korean operations	(168)	–	–	–
Total profit/ (loss) after tax of discontinued operations	**(87)**	**(55)**	**(47)**	**(102)**

* The results of Korea are for the period ended 22 October 2015, at which point the operations were sold.
** Intercompany recharges and intercompany loan interest totalling £48m (2015: £90m) between continuing operations and the Korea discontinued operation have been eliminated. This elimination impacts the performance of continuing and discontinued operations, reducing the profit/ (loss) before tax of continuing operations by £48m (2015: £90m), whilst increasing the profit/ (loss) before tax of Korea discontinued operations by the same amounts.
*** The results of China are for the 13 weeks ended 28 May 2014, at which point the operations were contributed into a new venture with China Resource Enterprise Limited.

Note 7 Discontinued operations and non-current assets classified as held for sale continued

The loss after tax on disposal of the Group's Korean operations is made up as follows:

	£m
Gross proceeds	3,944
Withholding tax and stamp duty	(341)
Net Proceeds	**3,603**
Net book value of assets disposed	
Goodwill and other intangible assets	(548)
Property, plant and equipment	(3,616)
Investment property	(31)
Deferred tax assets	(134)
Inventories	(204)
Trade and other receivables	(510)
Cash and cash equivalents	(362)
Trade and other payables	1,390
Borrowings	97
Current tax	(6)
Provisions	74
Post-employment benefit obligation	52
Deferred tax liabilities	265
Costs to sell and other provisions	(55)
Currency translation reserve recycled to income statement	88
Taxation	(271)
Loss after tax of disposal of Korean operations	**(168)**

There is the potential for the Korean National Tax Service to interpret International Tax Conventions in a manner which gives rise to a tax liability in Korea on the sale of the Korean business. MBK Partners, the purchasers, considering this potential interpretation, withheld and paid capital gains tax of £325m from the sale proceeds to entirely eliminate any possible challenge against the purchasers by the Korean tax authorities. In addition, a further provision of £271m has been made for potential additional capital gains tax on the disposal.

The Group intends to vigorously contest this interpretation through the Korean legal process. To this end, the Group has filed a claim for a refund of the capital gains tax withheld by the purchasers. The Korean National Tax Service have commenced an investigation into this claim. It is anticipated the full Korean legal process could take four to five years.

Loss per share impact from discontinued operations

	2016 Pence/share	2015 Pence/share
Basic	(1.07)	(1.26)
Diluted	(1.07)	(1.26)

Cash flow statement

	Total Korea 2016 £m	Total Korea, China and US 2015 £m
Net cash flows from operating activities	431	54
Net cash flows from investing activities	(34)	(104)
Net cash flows from financing activities	(4)	165
Net cash flows from discontinued operations	**393**	**115**
Intra-Group funding and intercompany transactions	(103)	(339)
Net cash flows from discontinued operations, net of intercompany	**290**	**(224)**
Net cash flows from disposal of subsidiary	(366)	(148)
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**(76)**	**(372)**

Note 8 Dividends

	2016		2015	
	Pence/share	£m	Pence/share	£m
Amounts recognised as distributions to owners in the financial year:				
Prior financial year final dividend	–	–	10.13	819
Current financial year interim dividend	–	–	1.16	95
Dividends paid to equity owners in the financial year	**–**	**–**	**11.29**	**914**

No dividend has been paid or is proposed in respect of the financial year ended 27 February 2016.

Notes to the Group financial statements continued

Note 9 Earnings (losses) per share and diluted earnings per share

Basic earnings/ (losses) per share amounts are calculated by dividing the profit/ (loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year.

Diluted earnings/ (losses) per share amounts are calculated by dividing the profit/ (loss) attributable to owners of the parent by the weighted average number of ordinary shares in issue during the financial year adjusted for the effects of potentially dilutive options. The dilutive effect is calculated on the full exercise of all potentially dilutive ordinary share options granted by the Group, including performance-based options which the Group considers to have been earned. The Group has recognised a profit for the financial year from its continuing operations therefore the diluted earnings/ (losses) per share includes this dilutive/ antidilutive effect.

Given the loss for the 53 weeks ended 28 February 2015, the Group recognised a basic loss per share rather than a basic earnings per share. The dilutive effect of the 12m potentially dilutive share options in that year was not considered in calculating the diluted loss per share as it would have reduced the loss per share. For the 52 weeks ended 27 February 2016 there were 26m potentially dilutive share options. As the Group has recognised a profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent the dilutive effects have been considered in calculating diluted earnings per share from continuing operations before exceptional items and net pension finance costs.

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations*	225	–	225	(5,639)	–	(5,639)
Discontinued operations	(87)	–	(87)	(102)	–	(102)
Total	**138**	**–**	**138**	**(5,741)**	**–**	**(5,741)**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**–**	**8,107**
Earnings/ (losses) per share (pence)						
Continuing operations	2.77	(0.01)	2.76	(69.56)	–	(69.56)
Discontinued operations	(1.07)	–	(1.07)	(1.26)	–	(1.26)
Total	**1.70**	**(0.01)**	**1.69**	**(70.82)**	**–**	**(70.82)**

* Profit/ (loss) from continuing operations of £225m (2015: £5,639m) excludes losses from non-controlling interests of £9m (2015: £25m).

Non-GAAP measure: earnings and diluted earnings per share from profit before tax from continuing operations before exceptional items

	2016			2015		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/ (loss) (£m)						
Continuing operations	278	–	278	336	–	336
Discontinued operations	81	–	81	188	–	188
Total	**359**	**–**	**359**	**524**	**–**	**524**
Weighted average number of shares (millions)	**8,126**	**26**	**8,152**	**8,107**	**12**	**8,119**
Earnings/ (losses) per share (pence)						
Continuing operations	3.42	(0.01)	3.41	4.14	–	4.14
Discontinued operations	1.00	(0.01)	0.99	2.32	–	2.32
Total	**4.42**	**(0.02)**	**4.40**	**6.46**	**–**	**6.46**

* Profit/ (loss) from continuing operations of £278m (2015: £336m) excludes losses from non-controlling interest of £6m (2015: £8m).

Non-GAAP measure: Diluted earnings per share from continuing operations before exceptional items and net pension finance costs

	2016	2015
Profit before tax from continuing operations before exceptional items	280	356
Add: Net pension finance costs (Note 26)	155	134
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	435	490
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	442	494
Taxation on profit from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(37)	(51)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	**405**	**443**
Diluted weighted average number of shares (millions)	**8,152**	**8,119**
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs (pence)	**4.97**	**5.46**

There have been no transactions involving ordinary shares between the reporting date and the date of approval of these financial statements which would significantly change the earnings per share calculations shown above.

Note 10 Goodwill and other intangible assets

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 28 February 2015	2,949	2,970	422	6,341
Foreign currency translation	(21)	13	(1)	(9)
Additions	64	174	3	241
Reclassification	–	6	–	6
Disposals	–	(224)	(7)	(231)
Transfer to disposal group classified as held for sale	(475)	(78)	(45)	(598)
At 27 February 2016	**2,517**	**2,861**	**372**	**5,750**
Accumulated amortisation and impairment losses				
At 28 February 2015	661	1,596	313	2,570
Foreign currency translation	14	3	1	18
Charge for the year	–	244	11	255
Impairment losses for the year	18	169	–	187
Reclassification	–	45	–	45
Disposals	–	(125)	(6)	(131)
Transfer to disposal group classified as held for sale	(3)	(46)	(19)	(68)
At 27 February 2016	**690**	**1,886**	**300**	**2,876**
Net carrying value				
At 27 February 2016	**1,827**	**975**	**72**	**2,874**
At 28 February 2015	2,288	1,374	109	3,771

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 22 February 2014	2,880	2,827	401	6,108
Foreign currency translation	(10)	(20)	(3)	(33)
Additions	98	306	5	409
Acquired through business combinations	–	–	25	25
Reclassification	–	4	1	5
Disposals	(19)	(147)	(7)	(173)
At 28 February 2015	**2,949**	**2,970**	**422**	**6,341**
Accumulated amortisation and impairment losses				
At 22 February 2014	594	1,420	299	2,313
Foreign currency translation	(54)	(17)	–	(71)
Charge for the year	–	243	14	257
Impairment losses for the year	116	50	2	168
Disposals	5	(100)	(2)	(97)
At 28 February 2015	**661**	**1,596**	**313**	**2,570**

* To aid user understanding, presentation of intangible assets has been changed to show a single asset class of software combining elements that were previously presented in internally generated development costs and pharmacy and software licenses. This more closely reflects the nature of software assets which typically have both purchased and internally developed components. The closing net carrying value of £1,374m at 28 February 2015 was previously disclosed in internally generated development costs of £750m, pharmacy and software licences of £579m and other intangibles assets of £45m.

Impairment of goodwill

The goodwill, discount rates and long-term growth rates for each group of cash generating units are shown below:

	Balance		Pre-tax discount Rates		Post-tax discount rates		Long-term growth rates	
	2016	2015	2016	2015	2016	2015	2016	2015
Malaysia	**70**	74	**12.3%**	12.5%	**9.4%**	9.4%	**2.1%**	3.2%
Korea	**–**	502	**–**	10.8%	**–**	8.2%	**–**	2.8%
Tesco Bank	**802**	802	**11.0%**	10.5%	**8.2%**	8.4%	**4.0%**	4.0%
Thailand	**159**	159	**10.1%**	12.3%	**8.1%**	9.9%	**2.6%**	3.3%
UK	**767**	722	**9.1%**	8.8%	**7.2%**	7.0%	**2.0%**	2.1%
Other	**29**	29	**–**	–	**–**	–	**–**	–
	1,827	**2,288**						

The Group disposed of its Korean operation during the current year, including goodwill. Refer to Note 7.

Goodwill arising on business combinations is not amortised but is reviewed for impairment on an annual basis, or more frequently if there are indications that goodwill may be impaired. Goodwill acquired in a business combination is allocated to groups of cash-generating units according to the level at which management monitor that goodwill.

Impairment reviews were performed by comparing the carrying value of goodwill with the recoverable amount of the cash-generating units to which goodwill has been allocated. Recoverable amounts for cash-generating units are based on the higher of value in use and fair value less costs of disposal. Value in use

Notes to the Group financial statements continued

Note 10 Goodwill and other intangible assets continued

is calculated from cash flow projections for generally five years using data from the Group's latest internal forecasts, the results of which are reviewed by the Board. The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market.

The pre-tax discount rates used to calculate value in use range are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each cash-generating unit. The forecasts are extrapolated beyond five years based on estimated long-term average growth rates as shown above.

A resulting charge of £18m has been recognised for businesses included in the UK & ROI segment. This charge has been classified as an exceptional item within 'Net restructuring and redundancy costs' within cost of sales.

The Group has carried out a sensitivity analysis on the impairment tests of each group of cash-generating units to which goodwill has been allocated. An increase in the discount rate or reduction in the long-term growth rate by less than one percentage point would cause the carrying value of goodwill in the Malaysia (£70m) and Sociomantic (£43m, included in UK above) groups of cash-generating units to equal their recoverable values.

Impairment of software

An impairment of £154m of software has been recognised in the year, principally as a result of an evaluation of the cash-generating unit for technology relating to online general merchandising as the Group moves toward a single online platform for customers. In addition, assets with a total net carrying value of £98m were written off within disposals. These amounts have been reflected as 'Net impairment of PPE, intangible assets and onerous lease provisions' within exceptional items in cost of sales. The other amounts have not been classified as exceptional items.

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 28 February 2015	25,298	11,493	36,791
Foreign currency translation	76	34	110
Additions[b]	364	493	857
Acquired through business combinations	1,725	17	1,742
Reclassification	(93)	2	(91)
Classified as held for sale	(715)	(23)	(738)
Disposals	(515)	(346)	(861)
Transfer to disposal group classified as held for sale	(3,583)	(1,202)	(4,785)
At 27 February 2016	**22,557**	**10,468**	**33,025**
Accumulated depreciation and impairment losses			
At 28 February 2015	8,021	8,330	16,351
Foreign currency translation	93	49	142
Charge for the year	318	759	1,077
Impairment losses	263	–	263
Reversal of impairment losses	(220)	(25)	(245)
Reclassification	(28)	(77)	(105)
Classified as held for sale	(475)	(20)	(495)
Disposals	(295)	(281)	(576)
Transfer to disposal group classified as held for sale	(479)	(808)	(1,287)
At 27 February 2016	**7,198**	**7,927**	**15,125**
Net carrying value[c][d]			
At 27 February 2016	**15,359**	**2,541**	**17,900**
At 28 February 2015	17,277	3,163	20,440
Construction in progress included above[e]			
At 27 February 2016	**121**	**63**	**184**
At 28 February 2015	271	71	342

[a] Other assets consist of fixtures and fittings with a net carrying value of £2,145m (2015: £2,722m), office equipment with a net carrying value of £144m (2015: £233m) and motor vehicles with a net carrying value of £252m (2015: £208m).
[b] Includes £7m (2015: £44m) in respect of interest capitalised, principally relating to land and building assets. The capitalisation rate used to determine the amount of finance costs capitalised during the financial year was 4.6% (2015: 4.4%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.
[c] Net carrying value includes assets held under finance leases which are analysed below.

	2016		2015	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	55	21	76	43

These assets are pledged as security for the finance lease liabilities.
[d] The net carrying value of land and buildings comprises:

Note 11 Property, plant and equipment continued

	2016 £m	2015 £m
Freehold	13,005	15,057
Long leasehold – 50 years or more	491	607
Short leasehold – less than 50 years	1,863	1,613
Net carrying value	**15,359**	**17,277**

[e] Construction in progress does not include land.

In the current year the Group reclassified property, plant and equipment with a net book value of £8m (2015: £81m) to development properties in inventories.

Following a re-evaluation of the allocation of the prior year impairment between the components of cash-generating units, the prior year movement table has been re-presented. There is no impact on the total net carrying value, Income Statement, depreciation or impairment charge.

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 22 February 2014	25,734	10,851	36,585
Foreign currency translation	(314)	(106)	(420)
Additions[b]	799	840	1,639
Acquired through business combinations	–	3	3
Reclassification	(591)	152	(439)
Classified as held for sale	30	(18)	12
Disposals	(360)	(229)	(589)
At 28 February 2015	**25,298**	**11,493**	**36,791**
Accumulated depreciation and impairment losses			
At 22 February 2014	4,985	7,110	12,095
Foreign currency translation	(186)	(96)	(282)
Charge for the year	446	847	1,293
Impairment losses	3,621	671	4,292
Reversal of impairment losses	(169)	(7)	(176)
Reclassification	(358)	–	(358)
Classified as held for sale	(86)	(16)	(102)
Disposals	(232)	(179)	(411)
At 28 February 2015	**8,021**	**8,330**	**16,351**

[a][b] Refer to previous page for footnotes.

Impairment of property, plant and equipment

The Group has determined that for the purposes of impairment testing, each store is a cash-generating unit. Cash-generating units are tested for impairment if there are indicators of impairment at the balance sheet date. Recoverable amounts for cash-generating units are based on the higher of value in use or fair value less costs of disposal. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £17,900m (2015: £20,440m) above comprises £13,731m (2015: £13,642m) of unimpaired assets and £4,169m (2015: £6,798m) of impaired assets . Of the impaired assets, £1,805m (2015: £3,841m) carrying value was supported by value in use and £2,364m (2015: £2,957m) was supported by fair value. Due to the individual nature of each property, these fair values are classified as Level 3 within the fair value hierarchy.

Fair values are determined in 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. The key inputs to the valuation are the potential market rents and yields, both of which are largely based on rentals and yields for similar properties in that location.

Value in use is generally calculated from cash flow projections for five years using data from the Group's latest internal forecast, the results of which are reviewed by the Board. The forecasts are extrapolated beyond five years based on estimated long-term growth rates of 2% to 6% (2015: 2% to 5%).

The key assumptions for the value in use calculations are those regarding discount rates, growth rates and expected changes in margins. Management estimates discount rates using pre-tax rates that reflect the current market assessment of the time value of money and the risks specific to the cash-generating units. Changes in selling prices and direct costs are based on past experience and expectations of future changes in the market. The pre-tax discount rates used to calculate value in use predominately range from 9% to 12% (2015: 9% to 12%) depending on the specific conditions in which each cash-generating unit operates. On a post-tax basis, the discount rates predominately range from 7% to 9% (2015: 7% to 10%). These discount rates are derived from the Group's post-tax weighted average cost of capital, as adjusted for the specific risks relating to each geographical region.

A net impairment loss of £18m (£263m loss offset by £245m reversal) has been recognised in the year, largely reflecting normal fluctuations expected from store level performance within the continuing challenging economic environment. These losses and reversals have been largely presented net at an operating segment level to reflect the underlying trends in the businesses. The impairment loss of £263m (2015: £4,118m) relates to properties in the UK & ROI of £164m (2015: £3,484m) and International of £99m (2015: £634m), whilst the impairment reversal of £245m (2015: £176m) relates to properties in the UK & ROI of £126m (2015: £133m) and International of £119m (2015: £43m).

Of the £18m net loss, a £93m release within exceptional items related to trading stores and online general merchandising hardware has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within cost of sales. In addition, an £89m loss within exceptional items related to construction in progress and closed stores has been classified as 'Net impairment of PPE, intangible assets and onerous lease provisions' included within profits/(losses) arising on property-related items. An additional £34m loss within exceptional items relating to business rationalisation in the UK & ROI has been classified as 'Net restructuring and redundancy costs' included within cost of sales. The remaining £12m reversal has not been included within exceptional items.

Notes to the Group financial statements continued

Note 11 Property, plant and equipment continued

The prior year net impairment loss of £4,116m included £174m related to Korean operations which were disposed of in the current financial year. Of the remaining £3,942m impairment loss related to continuing operations, £3,094m was classified as an exceptional item within 'Impairment of PPE and onerous lease provisions' within cost of sales. An additional £777m impairment loss related to construction in progress and closed stores was classified as 'Impairment of PPE and onerous lease provisions' included within profits/ (losses) arising on property-related items. The remaining £71m impairment loss was not included within exceptional items.

Note 12 Investment property

	2016 £m	2015 £m
Cost		
At beginning of the year	285	283
Foreign currency translation	5	(4)
Additions	5	–
Reclassification	48	87
Classified as held for sale	(91)	(51)
Disposals	(43)	(30)
Transfer to disposal group classified as held for sale	(39)	–
At end of the year	**170**	**285**
Accumulated depreciation and impairment losses		
At beginning of the year	121	56
Foreign currency translation	6	(5)
Charge for the year	2	1
Impairment losses for the year	2	21
Reversal of impairment losses for the year	(7)	(20)
Reclassification	31	92
Classified as held for sale	(47)	(1)
Disposals	(7)	(23)
Transfer to disposal group classified as held for sale	(9)	–
At end of the year	92	121
Net carrying value at end of the year	**78**	**164**

The estimated fair value of the Group's investment property is £0.3bn (2015: £0.3bn). This fair value has been determined by applying an appropriate rental yield to the rentals earned by the investment property. A valuation has not been performed by an independent valuer.

Note 13 Group entities

The Group consists of the ultimate parent company, Tesco PLC, and a number of subsidiaries, joint ventures and associates held directly or indirectly by Tesco PLC. See pages 151 to 159 for a complete list of Group entities.

Subsidiaries

The accounting period ends of the subsidiaries consolidated in these financial statements are on or around 27 February 2016.

Consolidated structured entities

The Group has a number of securitisation structured entities established in connection with Tesco Bank's credit card securitisation transactions. Although none of the equity of these entities is owned by the Group, the Group has rights to variable returns from its involvement with these entities and has the ability to affect those returns through its power over them. As such these entities are effectively controlled by the Group, and are therefore accounted for as subsidiaries of the Group.

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 27 February 2016 within these financial statements.

Note 13 Group entities continued

Interests in joint ventures and associates

Principal joint ventures and associates
The Group's principal joint ventures and associates are:

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
BLT Properties Limited	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Coral Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Blue Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Atrato Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Passaic Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Navona Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Sarum Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Dorney Limited Partnership	Joint venture	Property investment	50%	England	United Kingdom
The Tesco Property (No. 2) Limited Partnership	Joint venture	Property investment	50%	Jersey	United Kingdom
Tesco Mobile Limited	Joint venture	Telecommunications	50%	England	United Kingdom
Tesco Underwriting Limited	Joint venture	Financial services	49.9%	England	United Kingdom
Trent Hypermarket Limited	Joint venture	Retail	50%	India	India
Gain Land Limited	Associate	Retail	20%	British Virgin Islands	People's Republic of China/Hong Kong
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Associate	Property investment	25%	Thailand	Thailand

In the current year, the Group sold its interests in three joint ventures: The Tesco British Land Property Partnership; Shopping Centres Limited; and Tesco BL Holdings Limited. Additionally, the Group acquired the remaining interests in three other joint ventures: the Tesco Aqua Limited Partnership; The Tesco Red Limited Partnership; and The Tesco Property Limited Partnership. See Note 30 for further details on these transactions.

The Group holds a 21% investment stake in Lazada Group S.A. This investment is not treated as an associate because the Group does not have the power to participate in key management decisions. Refer to Note 34 for details of the disposal of part of this investment subsequent to the reporting date.

The accounting period end dates of the joint ventures and associates consolidated in these financial statement range from 31 December 2015 to 27 February 2016. The accounting period end dates for joint ventures differ from those of the Group for commercial reasons and depend upon the requirements of the joint venture partner as well as those of the Group. The accounting period end dates of the associates are different from those of the Group as they depend upon the requirements of the parent companies of those entities.

There are no significant restrictions on the ability of joint ventures and associates to transfer funds to the parent, other than those imposed by the Companies Act 2006.

Summarised financial information for joint ventures and associates

The summarised financial information for UK Property joint ventures has been aggregated in order to provide useful information to users without excessive detail since these entities have similar characteristics and risk profiles largely based on their nature of activities and geographic market.

The UK property joint ventures involve the Group partnering with third parties in carrying out some property investments in order to enhance returns from property and access funding whilst reducing risks associated with sole ownership. These property investments generally cover shopping centres and standalone stores. The Group enters into operating leases for some or all of the properties held in the joint ventures. These leases provide the Group with some rights over alterations and adjacent land developments. Some leases also provide the Group with options to purchase the other joint venturers' equity stakes at a future point in time. In some cases the Group has the ability to substitute properties in the joint ventures with alternative properties of similar value, subject to strict eligibility criteria. In other cases, the Group carries out property management activities for third party rentals of shopping centre units.

The property investment activities are carried out in separate entities, usually partnerships or limited liability companies. The Group has assessed its ability to direct the relevant activities of these entities and impact Group returns and concluded that the entities qualify as joint ventures since decisions regarding them require the unanimous consent of both equity holders. This assessment included not only rights within the joint venture agreements, but also any rights within the other contractual arrangements between the Group and the entities.

The Group made a number of judgements and assertions in arriving at this determination, the key ones being:
- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;
- since the Group's leases are priced at fair value, and any rights embedded in the leases are consistent with market practice, they do not provide the Group with additional control over the joint ventures or infer an obligation by the Group to fund the settlement of liabilities of the joint ventures;
- any options to purchase the other joint venturers' equity stakes are priced at market value, and only exercisable at future dates, hence they do not provide control to the Group at the current time;
- where the Group has a right to substitute properties in the joint ventures, the rights are strictly limited and are at fair value, hence do not provide control to the Group; and
- where the Group carries out property management activities for third party rentals in shopping centres, these additional activities are controlled through joint venture agreements or lease agreements, and do not provide the Group with additional powers over the joint venture.

Notes to the Group financial statements continued

Note 13 Group entities continued

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required.

	UK Property joint ventures		Gain Land Limited	
	2016 £m	2015 £m	12 months to Dec 2015 £m	7 months to Dec 2014 £m
Summarised Balance Sheet				
Non-current assets	4,158	5,768	4,712	4,543
Current assets (excluding cash and cash equivalents)	58	219	2,047	1,979
Cash and cash equivalents	38	115	581	579
Current liabilities[(a)]	(327)	(401)	(5,550)	(4,728)
Non-current liabilities[(a)]	(4,731)	(6,628)	(153)	(403)
Net (liabilities)/assets	**(804)**	**(927)**	**1,637**	**1,970**
Summarised Income Statement				
Revenue	296	418	8,408	4,811
Profit/ (loss) after tax	**(36)**	**15**	**(341)**	**(229)**
Reconciliation to carrying amounts:				
Opening balance	49	90	582	–
Additions/ disposals[(b)]	(10)	–	–	1,261
Foreign currency translation	–	–	(3)	(2)
Share of profit/ (loss)[(c)]	22	15	(68)	(47)
Share of other comprehensive income	–	–	–	–
Impairment of joint ventures and associates	–	–	–	(630)
Dividends received from joint ventures and associates	(29)	(56)	–	–
Deferred profits offset against carrying amounts[(d)]	(32)	–	–	–
Closing balance	**–**	**49**	**511**	**582**
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/ (liabilities)	(402)	(464)	327	394
Goodwill	–	–	184	188
Deferred profits offset against carrying amounts[(d)]	(64)	–	–	–
Cumulative unrecognised losses[(e)]	143	138	–	–
Cumulative unrecognised hedge reserves[(e)]	323	375	–	–
Carrying amount	**–**	**49**	**511**	**582**

(a) Included within current and non-current liabilities of UK Property joint ventures are £(646)m (2015: £(750)m) derivative balances related to swaps which hedge the cash flow variability exposures of the joint ventures.
(b) The disposal amount relates to The Tesco Property Limited Partnership. See Note 30.
(c) The profit for the year for UK joint ventures related to £22m dividends received from joint ventures with £nil carrying amounts. £8m of losses and £13m of increases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively.
(d) Deferred profits that arose from the transfer of properties into the UK Property joint ventures have been offset against the carrying amounts of the related joint ventures. These deferred profits were previously included under trade and other payables.
(e) Cumulative unrecognised losses of £57m and cumulative unrecognised hedge reserves of £39m were disposed of relating to joint ventures disposed of or acquired in the period.

At 27 February 2016, the Group has £115m (2015: £179m) loans to UK Property joint ventures and £nil (2015: £nil) to Gain Land Limited.

Note 13 Group entities continued

Individually immaterial joint ventures and associates
The Group also has interests in a number of individually immaterial joint ventures and associates excluding UK Property joint ventures and Gain Land Limited.

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Aggregate carrying amount of individually immaterial joint ventures and associates	219	252	55	57
Group's share of profit for the year	23	14	2	5

Unconsolidated structured entities
The Group has sponsored a number of structured entities. The Group led the formation of the entities and its name appears in the name of the entities and/or on the debt issued by the entities. The structured entities were set up to finance property purchases by some of the UK Property joint ventures in which the Group typically holds a 50% equity interest. The structured entities obtain debt financing from third party investors and lend the funds to these joint ventures, who use the funds to purchase the properties.

The liabilities of the UK Property joint ventures disclosed above include the loans due to these structured entities. The Group's exposure to the structured entities is limited to the extent of the Group's interests in the joint ventures. The liabilities of the structured entities are non-recourse to the Group.

The Group concluded that it does not control, and therefore should not consolidate, these structured entities, since it does not have power over the relevant activities of the structured entities, or exposure to variable returns from these entities.

Note 14 Other investments

	2016 £m	2015 £m
Loans receivable	30	35
Available-for-sale financial assets	1,105	940
	1,135	**975**

Available-for-sale financial assets mainly comprise investments in bonds with varied maturities of which £57m (2015: £111m) is current.

Note 15 Inventories

	2016 £m	2015 £m
Goods held for resale	2,390	2,825
Development properties	40	132
	2,430	**2,957**

Goods held for resale are net of £75m (2015: £93m) relating to commercial income. These commercial income amounts will be recognised in cost of sales upon sale of those inventories.

In the year, the Group disposed of £102m of development properties together with £5m of PPE, representing 12 development sites in London. The sale generated a profit of £97m which has been classified as an exceptional item within 'Property transactions' in profits/ (losses) arising on property-related items. Refer to Note 4.

Notes to the Group financial statements continued

Note 16 Trade and other receivables

	2016 £m	2015 £m
Trade receivables	496	533
Prepayments	319	352
Accrued income	121	183
Other receivables	491	803
Amounts owed by joint ventures and associates (Note 28)	180	250
	1,607	**2,121**

Trade and other receivables includes £201m (2015: £97m) within other receivables of amounts due from suppliers for commercial income which have been invoiced but for which there is no legal right or intention to offset against payables, and £100m (2015: £158m) within accrued income of amounts due from suppliers in relation to commercial income which have been earned but not yet invoiced.

Included within trade and other receivables are the following amounts receivable after more than one year:

	2016 £m	2015 £m
Trade receivables	3	7
Prepayments and accrued income	11	19
Other receivables	35	461
Amounts owed by joint ventures and associates	152	149
	201	**636**

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from seven to 60 days.

At 27 February 2016, trade and other receivables of £37m (2015: £31m) were past due and impaired. The amount of the provision was £30m (2015: £42m). The ageing analysis of these receivables is as follows:

	2016 £m	2015 £m
Up to three months past due	14	2
Three to six months past due	4	2
Over six months past due	19	27
	37	**31**

At 27 February 2016, trade and other receivables of £149m (2015: £146m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2016 £m	2015 £m
Up to three months past due	129	117
Three to six months past due	15	14
Over six months past due	5	15
	149	**146**

No receivables have been renegotiated in the current or prior financial years.

Note 17 Loans and advances to customers

Tesco Bank has loans and advances to customers, as follows:

	2016 £m	2015 £m
Non-current	4,723	3,906
Current	3,819	3,814
	8,542	**7,720**

The maturity of these loans and advances is as follows:

	2016 £m	2015 £m
Repayable on demand or at short notice	3	3
Within three months	3,758	3,744
Greater than three months but less than one year	146	158
Greater than one year but less than five years	2,181	2,033
After five years	2,608	1,922
	8,696	**7,860**
Provision for impairment of loans and advances	(154)	(140)
	8,542	**7,720**

At 29 February 2016, £2.6bn (2015: £3.0bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions.

At 29 February 2016, Delamare Cards MTN Issuer plc had £1.8bn (2015: £2.0bn) notes in issue in relation to securitisation transactions, of which £0.8bn (2015: £0.5bn) was externally issued.

At 29 February 2016, unsecured lending balances (including related asset backed notes) of £2.0bn had been prepositioned with the Bank of England (2015: £2.6bn). A further £0.6bn (2015: £1.3bn) had been pledged as collateral to enable drawings of £0.4bn (2015: £0.8bn) to be made from the Bank of England's Funding for Lending Scheme.

Provision for impairment of loans and advances

	£m
At 22 February 2014	**(157)**
Increase in allowance, net of recoveries, charged to the Group Income Statement	(48)
Amounts written off	62
Unwinding of discount	3
At 28 February 2015	**(140)**
Increase in allowance, net of recoveries, charged to the Group Income Statement	(64)
Amounts written off	47
Unwinding of discount	3
At 27 February 2016	**(154)**

Note 18 Cash and cash equivalents and short-term investments

	2016 £m	2015 £m
Cash at bank and in hand	2,334	2,134
Short-term deposits	748	31
	3,082	**2,165**

In addition to the above, £3,463m (2015: £593m) is held on money market funds and is classed as short-term investments.

Note 19 Trade and other payables

	2016 £m	2015 £m
Trade payables	4,545	5,076
Other taxation and social security	388	366
Other payables	2,091	2,698
Amounts payable to joint ventures and associates (Note 28)	14	23
Accruals and deferred income	1,530	1,759
	8,568	**9,922**

Included in other payables are amounts of £275m (2015: £147m) which are non-current.

Netted against trade and other payables is £305m (2015: £347m) amounts receivable from suppliers in relation to commercial income that has been invoiced, for which there is a current legal right and intention to offset against amounts payable at the balance sheet date.

Amounts received in advance of income being earned of £131m (2015: £53m) are included in accruals and deferred income.

Notes to the Group financial statements continued

Note 20 Borrowings

Current

	Par value	Maturity	2016 £m	2015 £m
Commercial paper, bank loans and overdrafts	–	–	845	1,982
Loans from joint ventures (Note 28)	–	–	6	16
4% RPI MTN[(a)]	£310m	Sep 2016	316	–
5.875% MTN	€1,039m	Sep 2016	877	–
2.7% USD Bond	$500m	Jan 2017	361	–
5.4478% Term Loan	£382m	Jan 2017	396	–
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	14	–
Finance leases (Note 33)	–	–	11	10
			2,826	**2,008**

Non-current

	Par value	Maturity	2016 £m	2015 £m
4% RPI MTN[(a)]	£310m	Sep 2016	–	313
5.875% MTN	€1,039m	Sep 2016	–	872
2.7% USD Bond	$500m	Jan 2017	–	325
LIBOR + 0.5% Term Loan	£488m	Oct 2017	478	–
1.250% MTN	€500m	Nov 2017	394	362
5.5% USD Bond	$850m	Nov 2017	666	625
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	132	135
3.375% MTN	€750m	Nov 2018	595	548
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	149
1.375% MTN	€1,250m	Jul 2019	990	911
5.5% MTN	£350m	Dec 2019	353	353
1% RPI Tesco Bank Retail Bond	£66m	Dec 2019	66	60
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	–
2.125% MTN	€500m	Nov 2020	394	362
5% Tesco Bank Retail Bond	£200m	Nov 2020	211	205
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349
6.125% MTN	£900m	Feb 2022	896	895
5% MTN	£389m	Mar 2023	411	407
2.5% MTN	€750m	Jul 2024	595	547
3.322% LPI MTN[(b)]	£317m	Nov 2025	320	318
5.5457% Secured Bond[(d)(e)]	£380m	Feb 2029	353	–
6.067% Secured Bond[(d)]	£200m	Feb 2029	189	–
LIBOR + 1.2% Secured Bond[(d)]	£50m	Feb 2029	30	–
6% MTN	£200m	Dec 2029	257	261
5.5% MTN	£200m	Jan 2033	259	262
1.982% RPI MTN[(c)]	£263m	Mar 2036	265	263
6.15% USD Bond	$1,150m	Nov 2037	1,035	917
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN[(f)]	€600m	Apr 2047	486	631
5.2% MTN	£279m	Mar 2057	275	275
Finance leases (Note 33)	–	–	88	131
			10,711	**10,651**

(a) The 4% RPI MTN is redeemable at par, including indexation for increases in the Retail Price Index (RPI) over the life of the MTN.
(b) The 3.322% Limited Price Inflation (LPI) MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN. The maximum indexation of the principal in any one year is 5%, with a minimum of 0%.
(c) The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.
(d) The bonds are secured by a charge over the Property, Plant and Equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £838m.
(e) This is an amortising bond which matures in February 2029. £14m is the principal repayment due within the next 12 months, and is payable quarterly during 2016/17. The remainder is payable in quarterly instalments until maturity in February 2029.
(f) The decrease in carrying value of the bond includes £186m of reduction due to a change of the hedge relationship from a fair value to a cash flow hedge. This has been recognised in the Statement of Comprehensive Income in the current year.

Note 20 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed facilities available at 27 February 2016, in respect of which all conditions precedent had been met as at that date:

	2016 £m	2015 £m
Expiring in less than one year	100	132
Expiring between one and two years	2,200	200
Expiring in more than two years	2,700	4,800
	5,000	**5,132**

The current year undrawn committed facilities include £2.4bn of bilateral facilities and a £2.6bn revolving credit facility.

All facilities incur commitment fees at market rates and would provide funding at floating rates.

Note 21 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 IAS 39 'Financial Instruments: Recognition and Measurement'. Derivatives may qualify as hedges for accounting purposes and the Group's hedging policies are further described below.

Net finance cost of £53m (2015: £46m) resulted from hedge ineffectiveness.

Fair value hedges

The Group maintains interest rate and cross-currency swap contracts as fair value hedges of the interest rate and currency risk on fixed rate debt issued by the Group. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the Group Income Statement, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The gain or loss on the hedging instrument and hedged item is recognised in the Group Income Statement within finance income or costs. If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying value of the hedged item is amortised to the Group Income Statement on an effective interest rate basis.

A gain of £45m on hedging instruments was recognised during the year, offset by a loss of £48m on hedged items (2015: a gain of £27m on hedging instruments was offset by a loss of £73m on hedged items).

Cash flow hedges

The Group 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 flows hedged will occur and will affect the Group Income Statement within one year of the balance sheet date.

The Group also uses index-linked swaps to hedge cash flows on index-linked debt, interest rate swaps to hedge interest cash flows on debt and cross-currency swaps to hedge cash flows on fixed rate debt denominated in foreign currencies.

The Group also uses forward contracts to hedge the future purchase of diesel for own use.

Cash flow hedging ineffectiveness resulted in a loss of £50m during the year (2015: £nil).

Net investment hedges

The Group uses currency denominated borrowings to hedge the exposure of a portion of its net investment in overseas operations (with non-Sterling functional currency) against changes in value due to changes in foreign exchange rates. There was £nil (2015: £nil) that was recorded as resulting from net investment ineffectiveness.

Gains and losses accumulated in equity are recycled to the Group Income Statement on disposal of overseas operations.

Financial instruments not qualifying for hedge accounting

The Group's policy does not permit use of derivatives for trading purposes. However, some derivatives do not qualify for hedge accounting, or are specifically not designated as a hedge where gains and losses on the hedging instrument and the hedged item naturally offset in the Group Income Statement.

These instruments include index-linked swaps and forward foreign currency contracts. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the Group Income Statement within finance income or costs.

The fair values of derivative financial instruments have been disclosed in the Group Balance Sheet as follows:

	2016		2015	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	176	(62)	153	(89)
Non-current	1,532	(889)	1,546	(946)
	1,708	**(951)**	**1,699**	**(1,035)**

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Note 21 Financial instruments continued

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

	2016				2015			
	Asset		Liability		Asset		Liability	
	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m	Fair value £m	Notional £m
Fair value hedges								
Interest rate swaps and similar instruments	30	320	(129)	3,241	23	721	(80)	2,303
Cross-currency swaps	280	1,377	–	–	561	1,201	(11)	817
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(263)	998	–	86	(199)	462
Cross-currency swaps	651	1,713	(63)	1,379	241	311	(170)	1,754
Index-linked swaps	108	950	–	–	119	942	–	–
Forward contracts	76	1,173	(15)	292	84	974	(35)	1,271
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	5	70	(14)	2,234	6	640	(6)	2,982
Cross-currency swaps	4	25	(4)	40	10	44	(1)	36
Index-linked swaps	529	3,589	(421)	3,589	580	3,589	(474)	3,589
Forward contracts	25	1,107	(42)	958	75	1,292	(59)	965
Total	**1,708**	**10,324**	**(951)**	**12,731**	**1,699**	**9,800**	**(1,035)**	**14,179**

The carrying value and fair value of financial assets and liabilities are as follows:

	2016		2015	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	3,082	3,082	2,165	2,165
Loans and advances to customers – Tesco Bank	8,542	8,822	7,720	7,772
Short-term investments	3,463	3,463	593	593
Other investments	1,135	1,135	975	975
Joint venture and associates loan receivables (Note 28)*	149	163	207	208
Other receivables	1	1	1	1
Derivative financial assets:				
Interest rate swaps and similar instruments	35	35	29	29
Cross-currency swaps	935	935	812	812
Index-linked swaps	637	637	699	699
Forward contracts	101	101	159	159
Total financial assets	**18,080**	**18,374**	**13,360**	**13,413**
Liabilities				
Short-term borrowings:				
Amortised cost	(1,938)	(1,936)	(1,998)	(1,998)
Bonds in fair value hedge relationships	(877)	(865)	–	–
Long-term borrowings:				
Amortised cost	(9,512)	(9,136)	(7,193)	(7,299)
Bonds in fair value hedge relationships	(1,111)	(800)	(3,327)	(3,033)
Finance leases (Note 33)	(99)	(101)	(141)	(141)
Customer deposits – Tesco Bank	(7,397)	(7,405)	(6,914)	(6,873)
Deposits by banks – Tesco Bank	(82)	(82)	(106)	(106)
Derivative and other financial liabilities:				
Interest rate swaps and similar instruments	(406)	(406)	(285)	(285)
Cross-currency swaps	(67)	(67)	(182)	(182)
Index-linked swaps	(421)	(421)	(474)	(474)
Forward contracts	(57)	(57)	(94)	(94)
Total financial liabilities	**(21,967)**	**(21,276)**	**(20,714)**	**(20,485)**
Total	**(3,887)**	**(2,902)**	**(7,354)**	**(7,072)**

* Joint venture and associates loan receivables carrying amounts of £149m (2015: £207m) are presented on the Balance Sheet net of deferred profits of £57m (2015: £67m) historically arising from the sale of property assets to joint ventures.

The fair values of financial instruments and derivatives have been determined by reference to prices available from the markets on which the instruments are traded, where they are available. Where market prices are not available, the fair value has been calculated by discounting expected future cash flows at prevailing interest rates. The above table excludes trade and other receivables/payables which have fair values equal to their carrying values.

Note 21 Financial instruments continued

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 27 February 2016 and 28 February 2015 are as follows:

At 27 February 2016	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	3,082	–	3,082
Loans and advances to customers – Tesco Bank	–	8,542	–	8,542
Short-term investments	–	3,463	–	3,463
Other investments	1,105	30	–	1,135
Joint venture and associates loan receivables (Note 28)	–	149	–	149
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(7,397)	–	(7,397)
Deposits by banks – Tesco Bank	–	(82)	–	(82)
Short-term borrowings	–	(2,815)	–	(2,815)
Long-term borrowings	–	(10,623)	–	(10,623)
Finance leases (Note 33)	–	(99)	–	(99)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(371)	(371)
Cross-currency swaps	–	–	868	868
Index-linked swaps	–	–	216	216
Forward contracts	–	–	44	44
	1,105	**(5,749)**	**757**	**(3,887)**

At 28 February 2015	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	2,165	–	2,165
Loans and advances to customers – Tesco Bank	–	7,720	–	7,720
Short-term investments	–	593	–	593
Other investments	940	35	–	975
Joint venture and associates loan receivables (Note 28)	–	207	–	207
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(6,914)	–	(6,914)
Deposits by banks – Tesco Bank	–	(106)	–	(106)
Short-term borrowings	–	(1,998)	–	(1,998)
Long-term borrowings	–	(10,520)	–	(10,520)
Finance leases (Note 33)	–	(141)	–	(141)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(256)	(256)
Cross-currency swaps	–	–	630	630
Index-linked swaps	–	–	225	225
Forward contracts	–	–	65	65
	940	**(8,958)**	**664**	**(7,354)**

The above tables exclude trade and other receivables/ payables that are classified under loans and receivables/ other financial liabilities.

Notes to the Group financial statements continued

Note 21 Financial instruments continued

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 27 February 2016 and 28 February 2015, by level of fair value hierarchy:

- quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1);
- inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

At 27 February 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	980	–	125	1,105
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	35	–	35
Cross-currency swaps	–	935	–	935
Index-linked swaps	–	637	–	637
Forward foreign currency contracts	–	101	–	101
Total assets	**980**	**1,708**	**125**	**2,813**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(406)	–	(406)
Cross-currency swaps	–	(67)	–	(67)
Index-linked swaps	–	(421)	–	(421)
Forward contracts	–	(57)	–	(57)
Total liabilities	**–**	**(951)**	**–**	**(951)**
Total	**980**	**757**	**125**	**1,862**

At 28 February 2015	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	828	–	112	940
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	29	–	29
Cross-currency swaps	–	812	–	812
Index-linked swaps	–	699	–	699
Forward foreign currency contracts	–	159	–	159
Total assets	**828**	**1,699**	**112**	**2,639**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(285)	–	(285)
Cross-currency swaps	–	(182)	–	(182)
Index-linked swaps	–	(474)	–	(474)
Forward contracts	–	(94)	–	(94)
Total liabilities	**–**	**(1,035)**	**–**	**(1,035)**
Total	**828**	**664**	**112**	**1,604**

The following table presents the changes in Level 3 instruments for 52 weeks ended 27 February 2016 and 53 weeks ended 28 February 2015:

	2016 £m	2015 £m
At beginning of the year	112	96
Gains/ (losses) recognised in finance costs in the Group Income Statement	–	–
Gains/ (losses) recognised in the Group Statement of Comprehensive Income	9	(16)
Purchase of non-controlling interests	4	32
At end of the year	**125**	**112**

During the financial year, there were no transfers (2015: £nil) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements. £121m of Level 3 assets relate to an investment in an unlisted entity measured at cost (2015: £112m).

Note 21 Financial instruments continued

Offsetting of financial assets and liabilities

The following tables show those financial assets and liabilities subject to offsetting, enforceable master netting arrangements and similar agreements.

At 27 February 2016	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet: Financial instruments £m	Related amounts not offset in the Group Balance Sheet: Collateral £m	Net amount £m
Financial assets offset						
Cash and cash equivalents	3,413	(331)	3,082	–	–	3,082
Derivative financial instruments	1,708	–	1,708	(365)	(4)	1,339
Trade and other receivables	1,916	(309)	1,607	–	–	1,607
Total	**7,037**	**(640)**	**6,397**	**(365)**	**(4)**	**6,028**
Financial liabilities offset						
Bank loans and overdrafts	(1,176)	331	(845)	–	–	(845)
Repurchases, securities lending and similar agreements*	(82)	–	(82)	83	(1)	–
Derivative financial instruments	(951)	–	(951)	365	121	(465)
Trade and other payables	(8,877)	309	(8,568)	–	–	(8,568)
Total	**(11,086)**	**640**	**(10,446)**	**448**	**120**	**(9,878)**

* Repurchases, securities lending and similar agreements are included within the Deposits by banks balance of £82m in the Group Balance Sheet (Note 23).

At 28 February 2015	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) set off in the Group Balance Sheet £m	Net amounts presented in the Group Balance Sheet £m	Related amounts not offset in the Group Balance Sheet: Financial instruments £m	Related amounts not offset in the Group Balance Sheet: Collateral £m	Net amount £m
Financial assets offset						
Cash and cash equivalents	2,405	(240)	2,165	–	–	2,165
Derivative financial instruments	1,699	–	1,699	(331)	(2)	1,366
Trade and other receivables	2,490	(369)	2,121	–	–	2,121
Total	**6,594**	**(609)**	**5,985**	**(331)**	**(2)**	**5,652**
Financial liabilities offset						
Bank loans and overdrafts	(2,222)	240	(1,982)	–	–	(1,982)
Repurchases, securities lending and similar agreements*	(97)	–	(97)	103	–	6
Derivative financial instruments	(1,035)	–	(1,035)	331	61	(643)
Trade and other payables	(10,291)	369	(9,922)	–	–	(9,922)
Total	**(13,645)**	**609**	**(13,036)**	**434**	**61**	**(12,541)**

* Repurchases, securities lending and similar agreements are included within the Deposits by banks balance of £106m in the Group Balance Sheet (Note 23).

For the financial assets and liabilities subject to enforceable master netting arrangements above, each agreement between the Group and the counterparty allows for net settlement of the relevant financial assets and liabilities when both elect to settle on a net basis. In the absence of such an election, financial assets and liabilities will be settled on a gross basis. However, each party to the master netting agreement or similar agreement will have the option to settle all such amounts on a net basis in the event of default of the other party.

Note 22 Financial risk factors

The main financial risks faced by the Group relate to fluctuations in interest and foreign exchange rates, the risk of default by counterparties to financial transactions and the availability of funds to meet business needs. The management of these risks is set out below.

Financial risk management is carried out by a central treasury department under policies approved and delegated by the Board of Directors. The Board provides written principles for risk management.

Interest rate risk

Debt issued at variable rates as well as cash deposits and short-term investments exposes the Group to cash flow interest rate risk. Debt issued at fixed rates exposes the Group to fair value risk.

The Group's policy is to fix interest rates for the year on a minimum of 50% and maximum of 70% of actual and projected debt interest costs of the Group excluding Tesco Bank. At the year end, the percentage of interest-bearing debt at fixed rates was 88% (2015: 79%). The remaining balance of debt is in floating rate form. The average rate of interest paid on an historical cost basis this year, excluding joint ventures and associates, was 3.94% (2015: 4.09%). A progression towards revised policy levels will proceed with due consideration to optimal execution, costs and interest cover.

Forward rate agreements, interest rate swaps, caps and floors may be used to achieve the desired mix of fixed and floating rate debt.

The Group has Retail Price Index ('RPI') linked debt where the principal is indexed to increases in the RPI. RPI debt is treated as floating rate debt. The Group also has Limited Price Inflation ('LPI') linked debt, where the principal is indexed to RPI, with an annual maximum increase of 5% and a minimum of 0%. LPI debt is treated as fixed rate debt. RPI linked debt and LPI linked debt are hedged for the effects of inflation until maturity.

Notes to the Group financial statements continued

Note 22 Financial risk factors continued

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

During 2016 and 2015, net debt was managed using derivative instruments to hedge interest rate risk.

	2016			2015		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	3,082	3,082	–	2,165	2,165
Loans and advances to customers – Tesco Bank	4,725	3,817	8,542	4,041	3,679	7,720
Short-term investments	–	3,463	3,463	–	593	593
Other investments	1,059	76	1,135	904	71	975
Joint venture and associate loan receivables (Note 28)	83	66	149	141	66	207
Other receivables	1	–	1	1	–	1
Finance leases (Note 33)	(99)	–	(99)	(141)	–	(141)
Bank and other borrowings	(10,729)	(2,709)	(13,438)	(10,571)	(1,947)	(12,518)
Customer deposits – Tesco Bank	(3,165)	(4,232)	(7,397)	(2,868)	(4,046)	(6,914)
Deposits from banks – Tesco Bank	(82)	–	(82)	(106)	–	(106)
Derivative effect:						
Interest rate swaps	(6,732)	6,732	–	(6,523)	6,523	–
Cross-currency swaps	1,898	(1,898)	–	1,973	(1,973)	–
Index-linked swaps	(633)	633	–	(567)	567	–
Total	**(13,674)**	**9,030**	**(4,644)**	**(13,716)**	**5,698**	**(8,018)**

Credit risk

Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits with banks and financial institutions.

The Group holds positions with an approved list of investment grade rated counterparties and monitors the exposure, credit rating, outlook and credit default swap levels of these counterparties on a regular basis. The net counterparty exposure under derivative contracts is £1.3bn (2015: £1.4bn). The Group considers its maximum credit risk to be £18.7bn (2015: £14.7bn) being the Group's total financial assets.

For credit risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

Liquidity risk

The Group finances its operations by a combination of retained profits, disposals of assets, debt capital market issues, commercial paper, bank borrowings and leases. The policy is to smooth the debt maturity profile, to arrange funding ahead of requirements and to maintain sufficient undrawn committed bank facilities and to maintain access to capital markets so that maturing debt may be refinanced as it falls due.

Liquidity risk is managed by short-term and long-term cash flow forecasts. In addition, the Group has committed facility agreements for £5.0bn (2015: £5.1bn), consisting of a revolving credit facility and bilateral lines as alternate sources of liquidity, which mature between 2016 and 2019.

The Group has a European Medium Term Note programme of £15.0bn, of which £7.4bn was in issue at 27 February 2016 (2015: £7.4bn), plus a Euro Commercial Paper programme of £2.0bn, £nil of which was in issue at 27 February 2016 (2015: £0.5bn), and a US Commercial Paper programme of $4.0bn, £nil of which was in issue at 27 February 2016 (2015: £0.7bn).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 126 and 127.

The following is an analysis of the undiscounted contractual cash flows payable under financial liabilities and derivatives taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group. The potential cash outflow of £17.1bn is considered acceptable as it is offset by financial assets of £18.7bn (2015: £17.8bn offset by financial assets of £14.7bn).

The undiscounted cash flows will differ from both the carrying values and fair value. Floating rate interest is estimated using the prevailing rate at the balance sheet date. Cash flows in foreign currencies are translated using spot rates at the balance sheet date. For index-linked liabilities, inflation is estimated at 3% for the life of the liability (2015: 3%).

At 27 February 2016	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(2,436)	(1,659)	(1,034)	(1,777)	(617)	(5,370)
Interest payments on borrowings	(482)	(388)	(339)	(311)	(276)	(3,008)
Customer deposits – Tesco Bank	(5,891)	(946)	(329)	(201)	(135)	(1)
Deposits from banks – Tesco Bank	(82)	–	–	–	–	–
Finance leases	(18)	(14)	(11)	(12)	(9)	(123)
Trade and other payables*	(8,293)	(78)	(34)	(5)	(16)	(142)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	63	26	22	13	9	944
Net settled derivative contracts – payments	(145)	(264)	(109)	(202)	(293)	(126)
Gross settled derivative contracts – receipts	4,694	1,228	98	98	492	3,470
Gross settled derivative contracts – payments	(4,551)	(1,121)	(74)	(75)	(496)	(2,670)
Total	**(17,141)**	**(3,216)**	**(1,810)**	**(2,472)**	**(1,341)**	**(7,026)**

* Trade and other payables includes £435m (2015: £505m) of deferred income.

Note 22 Financial risk factors continued

At 28 February 2015	Due within 1 year £m	Due between 1 and 2 years £m	Due between 2 and 3 years £m	Due between 3 and 4 years £m	Due between 4 and 5 years £m	Due beyond 5 years £m
Non-derivative financial liabilities						
Bank and other borrowings	(1,975)	(1,400)	(915)	(670)	(1,468)	(5,758)
Interest payments on borrowings	(403)	(406)	(343)	(306)	(283)	(2,968)
Customer deposits – Tesco Bank	(5,914)	(561)	(124)	(142)	(173)	–
Deposits from banks – Tesco Bank	(106)	–	–	–	–	–
Finance leases	(20)	(19)	(19)	(19)	(12)	(168)
Trade and other payables*	(9,775)	(62)	(25)	(2)	(2)	(56)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	41	68	25	20	14	1,068
Net settled derivative contracts – payments	(97)	(77)	(173)	(77)	(195)	(375)
Gross settled derivative contracts – receipts	4,397	1,260	1,260	76	76	3,152
Gross settled derivative contracts – payments	(3,979)	(1,314)	(1,203)	(69)	(70)	(2,782)
Total	**(17,831)**	**(2,511)**	**(1,517)**	**(1,189)**	**(2,113)**	**(7,887)**

* Refer to previous table for footnotes.

The above table has been re-presented to provide more clarity on the cash flows from derivatives taking into account contractual terms that provide the counterparty a choice of when (the earliest date) an amount is repaid by the Group.

Foreign exchange risk

The Group is exposed to foreign exchange risk principally via:

- transactional exposure that arises from the cost of future purchases of goods for resale, where those purchases are denominated in a currency other than the functional currency of the purchasing company. Transactional currency exposures that could significantly impact the Group Income Statement are hedged. These exposures are hedged via forward foreign currency contracts or purchased currency options, which are designated as cash flow hedges. At the year-end, forward foreign currency transactions, designated as cash flow hedges, equivalent to £1.4bn were outstanding (2015: £2.2bn). The notional and fair value of these contracts is shown in Note 21;
- net investment exposure arises from changes in the value of net investments denominated in currencies other than Pounds Sterling. The Group hedges a part of its investments in its international subsidiaries via foreign currency derivatives and borrowings in matching currencies, which are formally designated as net investment hedges. During the year, currency movements increased the net value, after the effects of hedging, of the Group's overseas assets by £168m (last year increase by £5m). The Group also ensures that each subsidiary is appropriately hedged in respect of its non-functional currency assets; and
- loans to non-UK subsidiaries. These are hedged via foreign currency derivatives and borrowings in matching currencies. These are not formally designated as hedges as gains and losses on hedges and hedged loans will naturally offset.

The impact on the Group financial statements from foreign currency volatility is shown in the sensitivity analysis on the next page.

Sensitivity analysis

The analysis excludes the impact of movements in market variables on the carrying value of pension and other post-employment obligations and on the retranslation of overseas net assets as required by IAS 21 'The Effects of Changes in Foreign Exchange Rates'. However, it does include the foreign exchange sensitivity resulting from local entity non-functional currency financial instruments.

The sensitivity analysis has been prepared on the basis that the amount of net debt, the ratio of fixed to floating interest rates of the debt and derivatives portfolio, and the proportion of financial instruments in foreign currencies are all constant and on the basis of the hedge designations in place at 27 February 2016. It should be noted that the sensitivity analysis reflects the impact on income and equity due to financial instruments held at the balance sheet date. It does not reflect any change in sales or costs that may result from changing interest or exchange rates.

The following assumptions were made in calculating the sensitivity analysis:

- the sensitivity of interest payable to movements in interest rates is calculated on net floating rate exposures on debt, deposits and derivative instruments with no sensitivity assumed for RPI-linked debt which has been swapped to fixed rates;
- changes in the carrying value of derivative financial instruments designated as fair value hedges from movements in interest rates or foreign exchange rates have an immaterial effect on the Group Income Statement and equity due to compensating adjustments in the carrying value of debt;
- changes in the carrying value of derivative financial instruments designated as net investment hedges from movements in foreign exchange rates are recorded directly in the Group Statement of Comprehensive Income;
- changes in the carrying value of derivative financial instruments not designated as hedging instruments only affect the Group Income Statement;
- all other changes in the carrying value of derivative financial instruments designated as hedging instruments are fully effective with no impact on the Group Income Statement; and
- the floating leg of any swap or any floating rate debt is treated as not having any interest rate already set, therefore a change in interest rates affects a full 12-month period for the interest payable portion of the sensitivity calculations.

Notes to the Group financial statements continued

Note 22 Financial risk factors continued

Using the above assumptions, the following table shows the illustrative effect on the Group Income Statement and equity that would result, at the balance sheet date, from changes in interest rates and currency exchange rates that are reasonably possible for major currencies where there have recently been significant movements:

	2016		2015	
	Income gain/ (loss) £m	Equity gain/ (loss) £m	Income gain/ (loss) £m	Equity gain/ (loss) £m
1% increase in interest rates (2015: 1%)	88	(44)	57	–
5% appreciation of the Czech Koruna (2015: 10%)	(1)	–	(4)	7
10% appreciation of the Euro (2015: 10%)	(285)	(94)	(31)	(39)
5% appreciation of the Hungarian Forint (2015: 5%)	(1)	(1)	(1)	2
5% appreciation of the South Korean Won (2015: 5%)	–	–	–	2
10% appreciation of the US Dollar (2015: 10%)	(1)	95	(3)	96
5% appreciation of the Polish Zloty (2015: 5%)	(2)	–	–	1

A decrease in interest rates and a depreciation of foreign currencies would have the opposite effect to the impact in the table above.

The impact on the Group Statement of Comprehensive Income from changing exchange rates results from the revaluation of financial liabilities used as net investment hedges. The impact on the Group Statement of Comprehensive Income will largely be offset by the revaluation in equity of the hedged assets. The sensitivity movements in equity excludes £39m (2015: £100m) in relation to loans to Group entities that form part of their net investment.

Capital risk

The Group's objectives when managing capital (defined as net debt plus equity) are to safeguard the Group's ability to continue as a going concern in order to provide returns to shareholders and benefits for other stakeholders, while protecting and strengthening the balance sheet through the appropriate balance of debt and equity funding. The Group manages its capital structure and makes adjustments to it, in light of changes to economic conditions and the strategic objectives of the Group.

To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, buy back shares and cancel them, or issue new shares.

The Group finances its operations by a combination of retained profit, debt capital market issues, commercial paper, bank borrowings , disposals of property assets and leases. The policy for debt is to smooth debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year, with bonds redeemed of £nil (2015: £1,493m) and new bonds issued of £nil (2015: £2,095m). The Group borrows centrally and locally, using a variety of capital market instruments and borrowing facilities to meet the Group's business requirements of each local business.

Refer to Note 29 for the value of the Group's net debt of £5.1bn (2015: £8.5bn), and the Group Statement of Changes in Equity for the value of the Group's equity of £8.6bn (2015: £7.1bn).

Insurance risk

The Group is exposed to the risk of being inadequately protected from liabilities arising from unforeseen events. The Group purchased assets, earnings and combined liability protection from the open insurance market for higher value losses only.

The risk not transferred to the insurance market is retained within the Group with some cover being provided by the Group's captive insurance companies, ELH Insurance Limited in Guernsey and Valiant Insurance Company DAC (formerly Valiant Insurance Company Limited) in the Republic of Ireland. ELH Insurance Limited covers Assets, Earnings and Combined Liability, while Valiant Insurance Company DAC covers Combined Liability only.

Tesco Bank

Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates. Tesco Bank policy seeks to minimise the sensitivity of net interest income to changes in interest rates. Potential exposures to interest rate movements in the medium to long-term are measured and controlled through position and sensitivity limits. Short-term exposures are measured and controlled in terms of net interest income sensitivity over 12 months to a +1%; -0.5% parallel movement in interest rates. Tesco Bank also use the Capital at Risk ('CaR') approach which assesses the sensitivity (value change) of a reduction in the Bank's capital to movements in interest rates. The scenarios considered include both parallel and non-parallel movements of the yield curve and have been designed to ensure that impacts are assessed across a suitable range of severe but plausible movements in interest rates. This approach has replaced Economic Value of Equity ('EVE') measurement and reporting in the period. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

Liquidity and funding risk

Liquidity risk is the risk that Tesco Bank has insufficient liquidity resources to meet its obligations as they fall due or can access these only at excessive cost. Funding risk is the risk that Tesco Bank does not have sufficiently stable and diverse sources of funding.

Tesco Bank operates within a Liquidity Risk Management Policy Framework ('LRMP') to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's risk appetite is met. Liquidity and funding risk is assessed through the Individual Liquidity Adequacy Assessment Process ('ILAAP') on at least an annual basis. Formal limits are set within the LRMP to maintain liquidity risk exposures within the Liquidity Risk Appetite set by the Board and key liquidity measures are monitored on a daily basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

Note 22 Financial risk factors continued

Credit risk

Credit risk is the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Credit risk principally arises from the Bank's retail lending activities but also from the placement of surplus funds with other banks and money market funds, investments in transferable securities and interest rate and foreign exchange derivatives. In addition, credit risk arises from contractual arrangements with third parties where payments and commissions are due to the Bank for short periods of time.

Retail credit policy is managed through the credit risk policy framework with standards and limits defined at all stages of the customer lifecycle, including new account sanctioning, customer management and collections and recovery activity. Customer lending decisions are managed principally through the deployment of bespoke credit scorecard models and credit policy rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay an outstanding credit amount. Wholesale credit risk is managed using a limit-based framework, with limits determined by counterparty credit worthiness, instrument type and remaining tenor. A limits framework is also in place for the management of third-party credit exposures.

Ineffective management and controls over the emerging asset quality of the Group's lending portfolios could expose the Group to unacceptable levels of bad debt. The Group's asset quality is reflected through the level of its impairment by lending type. Asset quality profiles are regularly monitored and reported to the appropriate senior management team and risk committees.

The table below presents an analysis of credit exposure by impairment status across the different exposure classes. The table predominantly relates to banking assets; the retail instalment lending applies to credit agreements in the insurance business.

Credit quality of loans and advances

As at 27 February 2016	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	30	–	–	30
90–179 days past due	41	–	–	41
180 days plus past due	82	–	–	82
Past due but not defaulted				
Less than 29 days past due	39	1	1	41
30–59 days past due	12	–	–	12
60–119 days past due	9	–	–	9
Neither past due nor defaulted				
Low risk*	6,566	1,673	146	8,385
High risk**	86	10	–	96
Total	**6,865**	**1,684**	**147**	**8,696**

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

As at 28 February 2015	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and defaulted				
Less than 90 days past due	39	–	–	39
90–179 days past due	35	–	–	35
180 days plus past due	70	–	–	70
Past due but not defaulted				
Less than 29 days past due	34	2	–	36
30–59 days past due	9	–	–	9
60–119 days past due	6	–	–	6
Neither past due nor defaulted				
Low risk*	6,234	1,195	154	7,583
High risk**	76	6	–	82
Total	**6,503**	**1,203**	**154**	**7,860**

* Low risk is defined as an asset with a probability of default of less than 10%.
** High risk is defined as an asset with a probability of default of 10% or more.

The credit risk exposure from off balance sheet items, mainly undrawn credit card facilities and mortgage offers, was £11.9bn (2015: £11.5bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited ('TU'), an authorised insurance company. Since late 2010, the majority of new business policies for home and motor insurance products sold by Tesco Bank have been underwritten by TU. The key insurance risks within TU relate to underwriting risk and specifically the potential for a major weather event to generate significant claims on home insurance, or on motor insurance the cost of settling bodily injury claims. Exposure to this risk is actively managed within TU with close monitoring of performance metrics and the use of reinsurance to limit TU's exposure above predetermined limits.

Notes to the Group financial statements continued

Note 23 Customer deposits and deposits by banks

	2016 £m	2015 £m
Customer deposits	7,397	6,914
Deposits by banks	82	106
	7,479	**7,020**

Included above is £1,573m (2015: £1,000m) non-current customer deposits and £nil (2015: £nil) non-current deposits by banks.

Deposits by banks include liabilities of £82m (2015: £97m) that have been sold under sale and repurchase agreements.

Note 24 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
At 22 February 2014	**328**	**–**	**105**	**433**
Foreign currency translation	(1)	–	–	(1)
Amount released in the year	(104)	–	–	(104)
Amount provided in the year	773	325	37	1,135
Amount utilised in the year	(61)	–	(42)	(103)
Unwinding of discount	6	–	–	6
At 28 February 2015	**941**	**325**	**100**	**1,366**
Foreign currency translation	(1)	4	–	3
Amount released in the year	(4)	(77)	–	(81)
Amount provided in the year	154	166	–	320
Amount utilised in the year	(188)	(335)	(34)	(557)
Transfer to disposal group classified as held for sale	(74)	–	–	(74)
Unwinding of discount	47	–	–	47
At 27 February 2016	**875**	**83**	**66**	**1,024**

The balances are analysed as follows:

	2016 £m	2015 £m
Current	360	671
Non-current	664	695
	1,024	**1,366**

Property provisions

Property provisions comprise onerous lease provisions, including leases on unprofitable stores and vacant properties, dilapidations provisions and asset retirement obligation provisions. These provisions are based on the least net cost of fulfilling or exiting the contract.

The calculation of the value in use of the leased properties to the Group is based on the same assumptions for growth rates and expected change in margins as those for Group owned properties, as discussed in detail in Note 11, discounted at the appropriate risk free rate. The cost of exiting lease contracts is estimated as the present value of expected surrender premiums or deficits from subletting at market rents, assuming that the Group can sublet properties at market rents, based on discounting at the appropriate risk adjusted rate. For some leases, termination of the lease at the break clause requires the Group to either purchase the property or buy out the equity ownership of the property at fair value. No value is attributed to the purchase conditions since they are at fair value. It is also assumed that the Group is indifferent to purchasing the properties.

Based on the factors set out above, the Group has recognised a net onerous property provision exceptional charge in the year of £150m (2015: £612m charge), largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties. The onerous property provision charge relates to contracts in the UK & ROI of £134m (2015: £574m) and International of £16m (2015: £38m), with £130m (2015: £492m) included within cost of sales and £20m (2015: £120m) included within profits/ (losses) arising on property-related items. Onerous lease provisions will be utilised over the lease terms.

Restructuring provisions

Of the £89m net charge (£166m charge, £77m release) recognised in the year, £22m relating to changes to store colleague structures and working practices in the UK & ROI has been classified as an exceptional item within 'Net restructuring and redundancy costs' within cost of sales. An additional £34m relating to UK head office restructuring costs has been classified as an exceptional item within 'Net restructuring and redundancy costs' within administrative expenses. The exceptional charges are expected to be utilised in the next financial year. The remaining £33m has not been included within exceptional items.

The prior year charge of £325m related to cost saving initiatives including in the UK a restructuring of central overheads, simplification of store management structures and increased flexibility in working arrangements and was classified as an exceptional item.

Other provisions

The other provisions relate mainly to provisions for Tesco Bank customer redress in respect of potential complaints arising from the historical sales of Payment Protection Insurance ('PPI'), in respect of customer redress relating to the historical sale of certain Cardholder Protection Products ('CPP') to credit card customers and in respect of customer redress relating to instances where certain of the requirements of the Consumer Credit Act ('CCA') for post contract documentation have not been fully complied with. In each instance, management have exercised judgement as to both the timescale for implementing the redress campaigns and the final scope of any amounts payable.

Note 25 Share-based payments

For continuing operations, the Group Income Statement charge for the year recognised in respect of share-based payments is £308m (2015: £141m), which is made up of share option schemes and share bonus payments. Of this amount, £283m (2015: £120m) will be settled in equity and £25m (2015: £21m) in cash.

Share option schemes

The Company had eight share option schemes in operation during the financial year, all of which are equity-settled schemes:

i) The Savings-related Share Option Scheme (1981) permits the grant to colleagues of options in respect of ordinary shares linked to a building society/ bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between £5 and £500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

ii) The Irish Savings-related Share Option Scheme (2000) permits the grant to Irish colleagues of options in respect of ordinary shares linked to a building society/ bank save-as-you-earn contract for a term of three or five years with contributions from colleagues of an amount between €12 and €500 per four-weekly period. Options are capable of being exercised at the end of the three- or five-year period at a subscription price of not less than 80% of the average of the middle-market quotations of an ordinary share over the three dealing days immediately preceding the offer date.

iii) The Executive Incentive Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of options in respect of ordinary shares to selected senior executives. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. No further options will be granted under this scheme.

iv) The Executive Incentive Plan (2014) was adopted on 10 February 2014. This scheme permits the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration. Full details of this plan can be found in the Directors' Remuneration Report.

v) The Performance Share Plan (2011) was adopted on 1 July 2011 and amended on 4 July 2011. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/ or continuous employment.

vi) The Discretionary Share Option Plan (2004) was adopted on 5 July 2004. This scheme permitted the grant of approved, unapproved and international options in respect of ordinary shares to selected executives. Options are normally exercisable between three and 10 years from the date of grant at a price not less than the middle-market quotation or average middle-market quotations of an ordinary share for the dealing day or three dealing days preceding the date of grant. The exercise of options will normally be conditional upon the achievement of a specified performance target related to the annual percentage growth in earnings per share over a three-year period. There were no discounted options granted under this scheme.

vii) The Group Bonus Plan was adopted on 3 July 2009. This scheme was amended on 20 April 2015 to permit the grant of options in respect of ordinary shares to selected senior executives as a proportion of annual bonus following the completion of a required service period and is dependent on the achievement of corporate performance and individual targets. Options are normally exercisable between three and 10 years from the date of grant for nil consideration.

viii) The Long-Term Incentive Plan (2015) was adopted on 14 May 2015. This scheme permits the grant of options in respect of ordinary shares to selected executives. Options are normally exercisable between the vesting date(s) set at grant and 10 years from the date of grant for nil consideration. The exercise of options will normally be conditional upon the achievement of specified performance targets over a three-year period and/or continuous employment.

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

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	**284,304,292**	**191.11**	**8,122,650**	**218.19**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**11,724,776**	**–**
Granted	71,185,926	151.00	2,153,891	151.00	–	–	–	–	–	–	13,560,088	–
Forfeited	(76,535,735)	218.82	(2,008,433)	264.53	(1,019,414)	354.25	(12,852,627)	364.62	(4,562,179)	355.53	(3,625,191)	–
Exercised	(586,618)	150.00	(4,997)	150.00	–	–	–	–	–	–	(856,867)	–
Outstanding at 27 February 2016	**278,367,865**	**173.32**	**8,263,111**	**189.46**	**6,514,959**	**407.19**	**32,459,966**	**387.09**	**24,534,811**	**386.76**	**20,802,806**	**–**
Exercisable at 27 February 2016	**13,188,829**	**329.78**	**750,453**	**308.64**	**6,514,959**	**407.19**	**32,459,966**	**387.09**	**24,534,811**	**386.76**	**2,302,052**	**–**
Exercise price range (pence)		282.00 to 386.00		282.00 to 386.00		318.60 to 473.75		318.60 to 473.75		318.60 to 473.75		–
Weighted average remaining contractual life (years)		0.42		0.42		1.84		2.18		2.15		8.28

Notes to the Group financial statements continued

Note 25 Share-based payments continued

For the year ended 28 February 2015

	Savings-related Share Option Scheme		Irish Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		International Executive Share Option Scheme		Nil cost Share Option Schemes*	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 22 February 2014	**122,602,128**	**331.31**	**4,899,521**	**331.89**	**8,152,965**	**397.59**	**52,804,433**	**376.63**	**32,586,360**	**379.15**	**21,099,083**	**–**
Granted	220,096,960	150.00	4,961,170	150.00	–	–	–	–	–	–	5,105,144	–
Forfeited	(57,445,888)	330.84	(1,731,520)	344.18	(482,116)	400.30	(4,616,552)	394.86	(2,667,321)	388.13	(13,018,757)	–
Exercised	(948,908)	311.00	(6,521)	311.00	(136,476)	253.25	(2,875,288)	283.00	(822,049)	253.84	(1,460,694)	–
Outstanding at 28 February 2015	**284,304,292**	**191.11**	**8,122,650**	**218.19**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**11,724,776**	**–**
Exercisable at 28 February 2015	**18,832,155**	**343.07**	**807,176**	**351.71**	**7,534,373**	**400.03**	**45,312,593**	**380.72**	**29,096,990**	**381.86**	**714,455**	**–**
Exercise price range (pence)		311.00 to 386.00		328.00 to 364.00		312.75 to 473.75		310.00 to 473.75		310.00 to 473.75		–
Weighted average remaining contractual life (years)		0.42		0.42		2.65		2.89		2.95		8.46

* Nil cost share options granted include buyout awards made to Dave Lewis and Alan Stewart in respect of awards forfeited on leaving previous employers.

Share options were exercised on a regular basis throughout the financial year. The average share price during the financial year ended 27 February 2016 was 196.55p (2015: 245.50p).

The fair value of share options is estimated at the date of grant using the Black-Scholes or Monte Carlo 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.

	2016		2015	
	SAYE	Nil cost*	SAYE	Nil Cost
Expected dividend yield (%)	1.3%	–	2.4%	–
Expected volatility (%)	25-26%	23-25%	22-24%	24%
Risk-free interest rate (%)	0.9-1.3%	0.6-1.6%	0.9-1.3%	1.8%
Expected life of option (years)	3 or 5	3-6	3 or 5	6
Weighted average fair value of options granted (pence)	52.58	129.90 to 221.06	43.72	219.67
Probability of forfeiture (%)	9-11%	–	14-16%	–
Share price (pence)	188.50	218.60 to 221.06	187.00	219.67
Weighted average exercise price (pence)	151.00	–	150.00	–

* Nil cost options granted during the financial year ended 27 February 2016 are calculated using the Black-Scholes or Monte Carlo option pricing model.

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

Eligible UK colleagues are able to participate in Shares In Success, an all-employee profit-sharing scheme. Each year, shares may be awarded to colleagues as a percentage of earnings, up to a statutory maximum of £3,600 per annum in 2015/16. Eligible Republic of Ireland colleagues are able to participate in a Share Bonus Scheme, an all-employee profit-sharing scheme. Each year, colleagues may receive an award of either cash or shares based on a percentage of their earnings.

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid to colleagues is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to selected executives who have completed a required service period and depend on the achievement of corporate and individual performance targets.

Selected executives participate in the Performance Share Plan (2011) and the Long-Term Incentive Plan (2015). Awards made under these plans will normally vest on the vesting date(s) set on the date of the award for nil consideration. Vesting will normally be conditional on the achievement of specified performance targets over a three-year performance period and/or continuous employment.

The Executive Directors participate in short-term and long-term bonus schemes designed to align their interests with those of shareholders. Full details of these schemes can be found in the Directors' Remuneration Report.

The fair value of shares awarded under these schemes is their market value on the date of award. Expected dividends are not incorporated into the fair value.

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

	2016		2015	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Shares In Success	15,979,321	221.79	18,949,708	307.15
Irish Share Bonus Scheme	–	–	84,454	292.00
Group Bonus Plan	8,762,915	215.65	2,808,053	285.43
Performance Share Plan	33,338,199	215.01	27,211,291	283.51
Long Term Incentive Plan	529,292	216.35	–	–

Note 26 Post-employment benefits

Pensions

The Group operates a variety of post-employment benefit arrangements, covering both funded and unfunded defined benefit schemes and funded defined contribution schemes. The most significant of these are the funded defined benefit pension schemes for the Group's employees in the UK (now closed to future accrual) and the Republic of Ireland, and the funded defined contribution pension scheme for employees in the UK. Of these schemes, the UK defined benefit deficit represents 94% of the Group deficit (2015: 95%).

Defined contribution plans

A new defined contribution scheme, Tesco Retirement Savings Plan, was opened on 22 November 2015 and is open to all Tesco employees in the UK.

A defined contribution pension scheme is one under which members pay contributions to an independently administered fund, into which the Group also pays contributions based upon a fixed percentage of the members' contributions. The Group has no legal or constructive obligation to pay further contributions to this fund once its initial contributions have been paid. Members' benefits upon retirement are then determined by the amount of contributions paid into the fund, together with the performance of the investments into which those contributions have been invested. Members are able to choose the investments into which their contributions are invested, as well as how they wish to receive benefits upon retirement. As a result, any risks associated with either the future value of benefits or the performance of the assets invested lie with the member.

The contributions payable for defined contribution schemes of £175m (2015: £23m) have been recognised in the Group Income Statement. This includes £43m (2015: £nil) of salaries paid as pension contributions.

Defined benefit plans

United Kingdom

The principal plan within the Group is the Tesco PLC Pension Scheme (the 'Scheme'), which is a funded defined benefit pension scheme in the UK, 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 the Pension Scheme Act 1993, Pensions Act 1995, Pensions Act 2004, Pensions Act 2014 and all the relevant legislation. Responsibility for governance of the Scheme lies with the Trustee. The Trustee is a company whose directors comprise:

i) representatives of the Group; and
ii) representatives of the Scheme participants, in accordance with its articles of association and UK pension law.

Willis Towers Watson Limited (formerly Towers Watson Limited), an independent actuary, carried out the latest triennial actuarial assessment of the Scheme as at 31 March 2014, using the projected unit credit method. At 31 March 2014, the actuarial deficit was £2,751m. The market value of the scheme's assets was £8,020m and these assets represented 75% of the benefits that had accrued to members, after allowing for expected increases in earnings and pensions in payment.

The Scheme has a duration of 24 years.

Closure to future accrual and new members

The Career Average section of the Scheme ('Pension Builder') was closed to new members and future accrual on 21 November 2015. The Final Salary section of the Scheme, which was closed to new entrants in 2001, was also closed to future accrual on 21 November 2015. As a result of this closure a one off past service credit of £538m and other associated costs of £(58)m have been recognised as exceptional items as set out in Note 4.

Scheme liabilities as at 31 March 2014

The table below shows a breakdown of the liabilities held by the Scheme as at 31 March 2014, the date of the last triennial valuation. As at 27 February 2016, none of the liabilities related to active members, as the Scheme had closed to future accrual.

	%
Active	55
Deferred	21
Pensioner	24

The table below shows a breakdown of the liabilities for active members held by the Scheme as at 31 March 2014:

	%
Pension Builder	57
Final Salary	43

Notes to the Group financial statements continued

Note 26 Post-employment benefits continued

UK principal assumptions

The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 27 February 2016 were as follows:

	2016 %	2015 %
Discount rate	3.8	3.7
Price inflation	2.9	3.1
Rate of increase in deferred pensions*	1.9	2.1
Rate of increase in salaries	N/A	3.2
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	2.7	2.9
Benefits accrued after 1 June 2012	1.9	2.1
Rate of increase in career average benefits		
Benefits accrued before 1 June 2012	N/A	3.1
Benefits accrued after 1 June 2012	N/A	2.1

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

The rate of increase in salaries and career average benefits are no longer applicable, as the Scheme has closed to future accrual.

UK mortality assumptions

The Group conducts analysis of mortality trends under the Tesco PLC Pension Scheme in the UK as part of the triennial actuarial valuation of the Scheme. At the latest triennial actuarial valuation as at 31 March 2014, the following assumptions were adopted for funding purposes:

Base tables:
95% of the SAPS S2 normal male pensioners for male staff and 80% of SAPS S2 normal light male pensioners for male senior managers.
100% of the SAPS S2 all female pensioners for female staff and 80% of SAPS S2 all female pensioners for female senior managers.

These assumptions were used for the calculation of the pension liability as at 27 February 2016 for the Scheme.

The mortality assumptions used are based on tables that have been projected to 2014 with CMI 2013 improvements. In addition, the allowance for future mortality improvements from 2014 is in line with CMI 2013 with a long-term improvement rate of 1.25% per annum.

The following table illustrates the expectation of life of an average member retiring at age 65 at the reporting date and a member reaching age 65 at reporting date +25 years.

		2016 Years	2015 Years
Retiring at reporting date at age 65:	Male	23.1	23.0
	Female	24.5	24.4
Retiring at reporting date +25 years at age 65:	Male	25.4	25.3
	Female	26.8	26.7

Overseas

The most significant overseas scheme is the funded defined benefit scheme which operates in the Republic of Ireland. An independent actuary, using the projected unit credit method, carried out the latest actuarial assessment of the Republic of Ireland scheme as at 27 February 2016. At the year end, the deficit relating to the Republic of Ireland was £145m (2015: £168m).

The accounting valuation has been based on the most recent actuarial valuation and updated by Willis Towers Watson Limited to take account of the requirements of the applicable accounting standard in order to assess the liabilities of the scheme as at 27 February 2016. The scheme's assets are stated at their market values as at 27 February 2016. The liabilities relating to retirement healthcare benefits have also been determined in accordance with the applicable accounting standard.

Risks

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

Investment risk – The Scheme's accounting liabilities are calculated using a discount rate set with reference to corporate bond yields. If the return on the Scheme's assets underperform this rate, the accounting deficit will increase. The Trustee and the Group regularly monitor the funding position and operate a diversified investment strategy.

Inflation risk – The Scheme's benefit obligations are linked to inflation, therefore higher inflation will lead to higher liabilities. This will be partially offset by an increase in any Scheme assets that are linked to, or correlate with, inflation. 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).

Changes in bond yields – A decrease in corporate bond yields will increase the Scheme's liabilities. However, this may be partially offset by an increase in the capital value of the Scheme's assets that have similar characteristics.

Life expectancy risk – The Scheme's obligations are to provide benefits for the life of the member and so increases in life expectancy will lead to higher liabilities. To reduce this risk, changes to future benefits were introduced in June 2012 to increase the age at which members can take their full pension by two years.

The Operations and Audit Pensions Committee (formally the Audit & Risk Pensions Committee) was established to further strengthen our Trustee Governance and provide greater oversight and stronger internal control over our risks. Further mitigation of the risks is provided by external advisors and the Trustee who consider the funding position, fund performance, and impacts of any regulatory changes.

A different approach is used to calculate the triennial actuarial liabilities and the accounting liabilities. The key difference is that the accounting valuation requires the discount rate to be set using corporate bonds whilst the actuarial liabilities discount rate is based on expected returns of Scheme assets.

Note 26 Post-employment benefits continued

Sensitivity analysis of significant actuarial assumptions

	2016 £m	2015 £m
Change in UK defined benefit obligation from a 0.1% increase in discount rate	312	340
Increase in UK defined benefit obligation from a 1% increase in pensions in payment	1,797	1,920
Increase in UK defined benefit obligation from a 1% increase in salary growth	N/A	310
Increase in UK defined benefit obligation from each additional year of longevity assumed	439	490

The UK defined benefit obligation is no longer sensitive to salary growth as the Scheme has closed to future accrual.

The method and assumptions used to determine sensitivity and their limitation is the effect of varying the assumption whilst holding all other assumptions constant.

Plan assets

The table below shows a breakdown of the combined investments held by the Group's schemes:

	2016 £m	2015 £m
Equities		
UK	475	510
Europe	892	1,127
Rest of the world	3,861	3,866
	5,228	**5,503**
Bonds		
Government	1,935	1,122
Corporates – investment grade	338	316
Corporates – non-investment grade	6	43
	2,279	**1,481**
Property		
UK	707	704
Rest of the world	317	261
	1,024	**965**
Alternative assets		
Hedge funds	650	738
Private equity	640	491
Other	204	168
	1,494	**1,397**
Cash	277	331
Total market value of assets	**10,302**	**9,677**

The Scheme uses financial instruments to balance the asset allocation and to manage inflation risk, interest rate risk, liquidity risk and foreign currency risk. The analysis of investments above are shown net of such instruments.

At the year end, 74% (2015: 73%) of investments were quoted on a recognised stock exchange or held in cash or assets readily convertible to cash and are therefore considered to be liquid.

The plan assets include £171m (2015: £166m) relating to property used by the Group. In addition, Group property with net carrying value of £412m (2015: £434m) has been held as security in favour of the Scheme.

Movement in Group pension deficit during the financial year

Changes in the fair value of defined benefit pension assets, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Opening fair value of defined benefit pension assets	**9,677**	**8,124**
Interest income	360	386
Return on plan assets greater than discount rate	59	874
Contributions by employer*	433	563
Additional contribution by employer	223	13
Actual member contributions	11	11
Foreign currency translation	6	(15)
Benefits paid	(346)	(279)
Transfer to disposal group classified as held for sale	(121)	–
Closing fair value of defined benefit pension assets	**10,302**	**9,677**

* Contributions by employer include £125m (2015: £167m) of salaries paid as pension contributions.

Notes to the Group financial statements continued

Note 26 Post-employment benefits continued

Changes in the present value of defined benefit pension obligations, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Opening defined benefit pension obligation	**(14,519)**	**(11,317)**
Current service cost	(570)	(631)
Past service credit	535	–
Interest cost	(515)	(522)
Gains/ (losses) on change of financial assumptions	1,007	(2,553)
Losses on change of demographic assumptions	–	(66)
Experience gains	98	272
Foreign currency translation	(14)	30
Benefits paid	346	279
Actual member contributions	(11)	(11)
Transfer to disposal group classified as held for sale	166	–
Closing defined benefit pension obligation	**(13,477)**	**(14,519)**

The amounts that have been charged to the Group Income Statement and Group Statement of Comprehensive Income, excluding all movements relating to Korean operations, for the year ended 27 February 2016 are set out below:

	2016 £m	2015 £m
Analysis of the amount charged to operating profit:		
Current service cost	(555)	(605)
Past service credit	535	–
Total charge to operating profit	**(20)**	**(605)**
Analysis of the amount credited/(charged) to finance income/ (cost):		
Interest on defined benefit pension assets	358	383
Interest on defined benefit pension obligation	(513)	(517)
Net pension finance cost (Note 5)	**(155)**	**(134)**
Total charge to the Group Income Statement	**(175)**	**(739)**
Analysis of the amount recognised in the Group Statement of Comprehensive Income:		
Return on plan assets greater than discount rate	59	874
Experience gains on defined benefit pension obligation	95	274
Demographic assumption losses on defined benefit pension obligation	–	(66)
Financial assumption gains/ (losses) on defined benefit pension obligation	1,006	(2,536)
Foreign currency translation	(12)	18
Total gains/ (losses) recognised in the Group Statement of Comprehensive Income	**1,148**	**(1,436)**

Summary of movements in Group deficit during the financial year

Changes in the Group deficit, including movements of Korean operations up to classification as held for sale, are as follows:

	2016 £m	2015 £m
Deficit in schemes at beginning of the year	**(4,842)**	**(3,193)**
Current service cost	(570)	(631)
Past service credit	535	–
Net pension finance cost*	(155)	(136)
Contributions by employer**	433	563
Additional contribution by employer	223	13
Foreign currency translation	(8)	15
Remeasurements	1,164	(1,473)
Transfer to disposal group classified as held for sale	45	–
Deficit in schemes at the end of the year	**(3,175)**	**(4,842)**
Deferred tax asset (Note 6)	563	957
Deficit in schemes at the end of the year, net of deferred tax	**(2,612)**	**(3,885)**

* Includes £nil (2015: £2m) in Korea.
** Contributions by employer include £125m (2015: £167m) of salaries paid as pension contributions.

Note 26 Post-employment benefits continued

History of movements
The historical movement in defined benefit pension schemes' assets and liabilities and history of experience gains and losses are as follows:

	2016 £m	2015 £m	2014 £m	2013 £m	2012 £m
Total market value of assets	10,302	9,677	8,124	7,206	6,169
Present value of liabilities relating to unfunded pension schemes	(117)	(134)	(111)	(91)	(60)
Present value of liabilities relating to partially funded pension schemes	(13,360)	(14,385)	(11,206)	(9,493)	(7,981)
Pension deficit	**(3,175)**	**(4,842)**	**(3,193)**	**(2,378)**	**(1,872)**
Remeasurements on defined benefit pension assets	59	874	253	94	(168)
Experience gains/ (losses) on defined benefit pension obligation	95	272	(22)	1	43

Post-employment benefits other than pensions
The Group operates a scheme offering post-retirement healthcare benefits. The cost of providing these benefits has been accounted for on a similar basis to that used for defined benefit pension schemes.

The liability as at 27 February 2016 of £11m (2015: £11m) was determined in accordance with the advice of independent actuaries. During the year, £nil (2015: £1m) has been charged to the Group Income Statement and £1m (2015: £1m) of benefits were paid.

Expected contributions
A plan to pay £270m a year has been agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the scheme.

Note 27 Called up share capital

	2016 Ordinary shares of 5p each		2015 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,122,991,499**	**406**	**8,095,821,091**	**405**
Share options exercised	591,615	–	5,080,408	–
Share bonus awards issued	17,500,000	1	22,090,000	1
At end of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**

During the financial year, 1 million (2015: 5 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2015: £14m).

During the financial year, 18 million (2015: 22 million) ordinary shares of 5p each were issued in relation to share bonus awards for an aggregate consideration of £1m (2015: £1m).

Between 28 February 2016 and 6 April 2016 options over 17,969 ordinary shares were exercised under the terms of the Savings-related Share Options Scheme (1981). Between 28 February 2016 and 6 April 2016, no options have been exercised under the Discretionary Share Option Plan (2004) and the Irish Savings-related Share Option Scheme (2000).

As at 27 February 2016, the Directors were authorised to purchase up to a maximum in aggregate of 812.3 million (2015: 810.1 million) ordinary shares.

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at general meetings of the Company.

Notes to the Group financial statements continued

Note 28 Related party transactions

Transactions between the Company and its subsidiaries, which are related parties, have been eliminated on consolidation and are not disclosed in this note. Transactions between the Group and its joint ventures and associates are disclosed below:

Transactions

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Sales to related parties	**408**	430	**–**	–
Purchases from related parties	**496**	549	**14**	14
Injection of equity funding	**–**	14	**–**	10
Dividends received	**32**	79	**9**	9

Sales to related parties consists of services/management fees and loan interest.

Purchases from related parties include £379m (2015: £430m) of rentals payable to the Group's joint ventures (including those joint ventures formed as part of the sale and leaseback programme).

Transactions between the Group and the Group's pension plans are disclosed in Note 26.

Balances

	Joint ventures		Associates	
	2016 £m	2015 £m	2016 £m	2015 £m
Amounts owed to related parties	**13**	22	**1**	1
Amounts owed by related parties	**28**	17	**3**	26
Loans to related parties (net of deferred profits)*	**149**	207	**–**	–
Loans from related parties	**6**	16	**–**	–

* Loans to related parties of £149m (2015: £207m) are presented net of deferred profits of £57m (2015: £67m) historically arising from the sale of property assets to joint ventures.

A number of the Group's subsidiaries are members of one or more partnerships to whom the provisions of the Partnerships (Accounts) Regulations 2008 ('Regulations') apply. The financial statements for those partnerships have been consolidated into these financial accounts pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

Members of the Board of Directors and Executive Committee of Tesco PLC are deemed to be key management personnel.

Key management personnel compensation for the financial year was as follows:

	2016 £m	2015 £m
Salaries and short-term benefits	**20**	14
Pensions and cash in lieu of pensions	**3**	3
Share-based payments	**9**	4
Joining costs and loss of office costs	**5**	8
	37	**29**

Of the total remuneration to key management personnel, £26m (2015: £16m) relates to Executive Committee members who are not on the PLC Board.

Of the key management personnel who had transactions with Tesco Bank during the financial year, the following are the balances at the year end:

	Credit card and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 27 February 2016	**11**	**1**	**8**	**–**
At 28 February 2015	19	1	16	1

Note 29 Analysis of changes in net debt

	At 28 February 2015 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Debt acquired on business combinations £m	Debt disposed – Korean operations £m	Reclassi-fications of movements in net debt disposal group £m	At 27 February 2016 £m
Total Group									
Cash and cash equivalents	2,165	907	1	–	–	–	–	9	3,082
Short-term investments	593	2,894	(24)	–	–	–	–	–	3,463
Joint venture loans	207	1	–	–	(30)	(29)	–	–	149
Interest and other receivables	1	(26)	–	26	–	–	–	–	1
Bank and other borrowings	(12,358)	742	(253)	(23)	–	(1,455)	94	–	(13,253)
Interest payables	(160)	426	–	(444)	–	(10)	3	–	(185)
Finance lease payables	(141)	17	1	–	(5)	29	–	–	(99)
Net derivative financial instruments	610	(154)	314	8	–	(80)	–	–	698
Net derivative interest	54	23	–	(18)	–	–	–	–	59
Net debt of the disposal groups	9	–	–	–	–	–	–	(9)	–
Total Group	**(9,020)**	**4,830**	**39**	**(451)**	**(35)**	**(1,545)**	**97**	**–**	**(6,085)**
Tesco Bank									
Cash and cash equivalents	616	(62)	–	–	–	–	–	–	554
Joint venture loans	34	–	–	–	–	–	–	–	34
Bank and other borrowings	(1,133)	(300)	(8)	–	–	–	–	–	(1,441)
Interest payables	(1)	4	–	(4)	–	–	–	–	(1)
Net derivative financial instruments	(55)	–	(66)	–	–	–	–	–	(121)
Tesco Bank	**(539)**	**(358)**	**(74)**	**(4)**	**–**	**–**	**–**	**–**	**(975)**
Retail									
Cash and cash equivalents	1,549	969	1	–	–	–	–	9	2,528
Short-term investments	593	2,894	(24)	–	–	–	–	–	3,463
Joint venture loans	173	1	–	–	(30)	(29)	–	–	115
Interest and other receivables	1	(26)	–	26	–	–	–	–	1
Bank and other borrowings	(11,225)	1,042	(245)	(23)	–	(1,455)	94	–	(11,812)
Interest payables	(159)	422	–	(440)	–	(10)	3	–	(184)
Finance lease payables	(141)	17	1	–	(5)	29	–	–	(99)
Net derivative financial instruments	665	(154)	380	8	–	(80)	–	–	819
Net derivative interest	54	23	–	(18)	–	–	–	–	59
Net debt of the disposal groups	9	–	–	–	–	–	–	(9)	–
Net debt	**(8,481)**	**5,188**	**113**	**(447)**	**(35)**	**(1,545)**	**97**	**–**	**(5,110)**

Net debt excludes the net debt of Tesco Bank but includes that of discontinued operations. Balances and movements in respect of the total Group and Tesco Bank are presented to allow reconciliation between the Group Balance Sheet and the Group Cash Flow Statement.

Reconciliation of net cash flow to movement in net debt

	2016 £m	2015 £m
Net increase/ (decrease) in cash and cash equivalents	907	(717)
Elimination of Tesco Bank movement in cash and cash equivalents	62	(131)
Retail cash movement in other net debt items		
Net increase/ (decrease) in short-term investments	2,894	(423)
Net increase/ (decrease) in joint ventures loans	1	(40)
Net decrease/ (increase) in borrowings and lease financing	1,059	(1,058)
Net cash flows from derivative financial instruments	(154)	6
Net interest paid on components of net debt	419	505
Change in net debt resulting from cash flow	**5,188**	**(1,858)**
Retail net interest charge on components of net debt	(447)	(443)
Retail fair value and foreign exchange movements	113	241
Debt disposed on disposal of Chinese operations	–	255
Debt disposed on disposal of Korean operations	97	–
Debt acquired on business combinations	(1,545)	–
Retail other non-cash movements	(35)	(79)
Decrease/ (increase) in net debt for the year	**3,371**	**(1,884)**
Opening net debt	**(8,481)**	**(6,597)**
Closing net debt	**(5,110)**	**(8,481)**

Notes to the Group financial statements continued

Note 30 Business combinations

During the year, the Group obtained sole control of three separate property partnerships, previously accounted for as joint ventures, through acquisition of the other partners' 50% interests in each of the partnerships. The acquisitions increased the Group's owned property portfolio by £1,714m, comprising 70 stores and 2 distribution centres, reduced the Group's undiscounted lease commitments by £852m (discounted £563m) and increased borrowings and derivative liabilities by £1,545m.

On 20 March 2015 the Group received British Land Co PLC's ('British Land') share of the Tesco Aqua Limited partnership ('Aqua') and cash of £96m in exchange for British Land taking sole ownership of three shopping centres, three retail parks and three standalone stores which were previously held in two joint ventures between the two companies. Further information received after the interim results August 2015 and within the measurement period resulted in the recognition of a deferred tax liability of £18m and associated goodwill of £22m, together with re-allocation of cash flows within investment activities to better reflect the facts and circumstances that existed at the acquisition date. The net profit of £28m on these transactions comprises a loss on acquisition of Aqua of £175m offset by a profit of £203m. The profit arises largely on the sale of the Group's shares in the two joint ventures together with releases of related deferred income balances.

On 25 February 2016, the Group obtained sole control of the Tesco Red Limited Partnership ('Red') and Tesco Property Limited Partnership ('TPLP') from British Airways Pension Fund and Phoenix Life Assurance Limited respectively, realising a net loss of £53m on acquisition. The Group additionally released previously recognised impairments, onerous leases and deferred income balances relating to these entities totalling £84m, resulting in a net profit of £31m from the two transactions.

The overall profit of £59m from these transactions has been classified as an exceptional item in 'Property transactions' included within 'Profits/ (losses) arising on property-related items'. The profit includes a £14m gain on remeasuring the Group's 50% interest in the three joint ventures immediately prior to the acquisition to a fair value asset of £24m. Across the three transactions, goodwill balances totalling £41m have been recognised on recognition of deferred tax liability balances on land, due to the Group controlling the reversal of a portion of these tax liabilities, and not expecting them to be realised. This goodwill is not deductible for tax purposes.

The table below sets out the provisional values to the Group in respect of these acquisitions.

	Aqua £m	Red £m	TPLP £m	Total £m
Plant, Property & Equipment	466	410	838	**1,714**
Cash	4	9	2	**15**
Other receivables	–	–	97	**97**
Borrowings	(474)	(400)	(591)	**(1,465)**
Derivative financial instruments	(57)	–	(23)	**(80)**
Deferred tax	(18)	(25)	(80)	**(123)**
Other liabilities	(70)	(77)	(4)	**(151)**
Total	**(149)**	**(83)**	**239**	**7**
Goodwill	22	19	–	**41**
Carrying value of investment in joint ventures immediately prior to acquisition	–	–	10	**10**
Purchase consideration*	48	69	149	**266**
Profit on related disposals and other items	203	50	34	**287**

* Additional cash payments of £67m were made to novate loans previously held by the other joint venture partners.

The acquisitions above have increased profit for the period by £12m; there has been no impact on revenues in the period.

In addition, the Group obtained sole control of Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland) for total consideration of £7m.

The overall cash outflow of £325m on acquisition of subsidiaries comprises the £273m purchase consideration for Aqua, Red, TPLP, Euphorium Group Limited and Harris + Hoole Holdings Ltd (Ireland), together with the £67m novated loans, net of £15m cash acquired.

Note 31 Commitments and contingencies

Capital commitments

At 27 February 2016, there were commitments for capital expenditure contracted for, but not provided for, of £215m (2015: £182m), principally relating to £151m store buy-back commitments of seven stores.

Contingent liabilities

There are a number of contingent liabilities that arise in the normal course of business which if realised are not expected to result in a material liability to the Group. The Group recognises provisions for liabilities when it is more likely than not that a settlement will be required and the value of such a payment can be reliably estimated.

On 22 September 2014, the Group announced that it had identified an overstatement of its expected profit for the first half of the year, as contained in guidance it had issued in August 2014, relating to the recognition of commercial income and the deferral of costs. The Serious Fraud Office ('SFO') commenced an investigation into accounting practices at the Group on 29 October 2014. It is not possible to predict the timescale or outcome of the SFO investigation, but the SFO could decide to prosecute individuals and the Group, and there is the possibility of fines and/or other consequences. The Group is cooperating with the SFO.

In November 2015 the Group reached agreement in principle to settle a class action by US investors who dealt through the American Depository Receipts ('ADRs') programme which represented approximately 2.3% of issued share capital. This consisted of a settlement of US$12 million with no admission of liability. The Group is also facing a claim in Ohio by the remaining holders of ADRs, which is equivalent to 0.16% of the total issued ordinary shares of the Group. The Group is defending this claim. In addition, law firms in the UK have announced the intention of forming claimant groups to commence litigation against the Group for matters arising out of or in connection with its overstatement, and purport to have secured third party funding for such litigation. No such litigation has yet been formally threatened or commenced and the Group is consequently unable to make any assessment of the likely outcome or quantum.

Note 31 Commitments and contingencies continued

For details of assets held under finance leases, which are pledged as security for the finance lease liabilities, see Note 11.

Tesco PLC has irrevocably guaranteed the liabilities of the following Irish subsidiary undertakings, which undertakings have been exempted pursuant to Section 357 of the Companies Act, 2014 of Ireland from the provisions of Section 347 & 348 of that Act:

Monread Developments Limited; Edson Properties Limited; Edson Investments Limited; Cirrus Finance (2009) Limited; Commercial Investments Limited; Chirac Limited; Clondalkin Properties Limited; Tesco Ireland Pension Trustees Limited; Orpingford; Tesco Trustee Company of Ireland Limited; WSC Properties Limited; Thundridge; Pharaway Properties Limited; R.J.D. Holdings; Nabola Development Limited; PEJ Property Investments Limited; Cirrus Finance Limited; Tesco Ireland Limited; Wanze Properties (Dundalk) Limited; Tesco Ireland Holdings Limited; Golden Island Management Services Limited.

Prior to the disposal of its Korean operations ('Homeplus'), Tesco PLC provided guarantees in respect of thirteen Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus's default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus. The maximum potential liability as at 27 February 2016 under these guarantees is approximately KRW627bn (£357m). This liability decreases over time with all relevant leases expiring in the period between 2026 and 2033. Tesco PLC has the benefit of an indemnity from the purchasers of Homeplus for any claims made under such guarantees.

Tesco Bank

At 27 February 2016, Tesco Bank had commitments of formal standby facilities, credit lines and other commitments to lend, totalling £11.9bn (2015: £11.5bn). The amount is intended to provide an indication of the potential volume of business and not of the underlying credit or other risks.

Note 32 Tesco Bank capital resources

The following tables analyse the regulatory capital resources of Tesco Personal Finance PLC ('TPF'), being the regulated entity at the balance sheet date:

	2016 £m	2015 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,218	1,041
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	44	36
Total tier 2 regulatory adjustments	(27)	(24)
Total regulatory capital	**1,470**	**1,288**

On 27 June 2013 the final CRD IV rules were published in the Official Journal of the European Union. Following the publication of the CRD IV rules the Prudential Regulation Authority (PRA) issued a policy statement on 19 December 2013 detailing how the rules will be enacted within the UK with corresponding timeframes for implementation. The CRD IV rules will be phased in. The following tables analyse the regulatory capital resources of the Company (being the regulated entity) applicable as at the year end and also the "end point" position, once all of the rules contained within CRD IV have come into force.

The movement of tier 1 capital during the financial year is analysed as follows:

	2016 £m	2015 £m
At beginning of the year	**1,041**	**913**
Share capital and share premium	–	–
Profit attributable to shareholders	190	131
Other reserves	8	14
Ordinary dividends	(50)	(50)
Movement in material holdings	3	3
Increase in intangible assets	39	25
Other – Tier 1	(2)	(1)
At end of the year, excluding CRD IV adjustments	**1,229**	**1,035**
CRD IV adjustment – deferred tax liabilities related to intangible assets	(11)	6
At end of the year, including CRD IV adjustments	**1,218**	**1,041**

It is the Group's policy to maintain a strong capital base, to expand it as appropriate and to utilise it efficiently throughout its activities to optimise the return to shareholders while maintaining a prudent relationship between the capital base and the underlying risks of the business. In carrying out this policy, the Group has regard to the supervisory requirements of the PRA.

Notes to the Group financial statements continued

Note 33 Lease commitments

Finance lease commitments – Group as lessee

The Group has finance leases for various items of plant, equipment, fixtures and fittings. There are also a small number of buildings that are held under finance leases. The fair value of the Group's lease obligations approximate to their carrying value.

Future minimum lease payments under finance leases and hire purchase contracts, together with the present value of the net minimum lease payments, are as follows:

	Minimum lease payments	
	2016 £m	2015 £m
Within one year	18	20
Greater than one year but less than five years	46	70
After five years	123	167
Total minimum lease payments	**187**	**257**
Less future finance charges	(88)	(116)
Present value of minimum lease payments	**99**	**141**

	Present value of net minimum lease payments	
	2016 £m	2015 £m
Within one year	11	10
Greater than one year but less than five years	20	35
After five years	68	96
Total minimum lease payments	**99**	**141**
Analysed as:		
Current finance lease payables	11	10
Non-current finance lease payables	88	131
	99	**141**

Operating lease commitments – Group as lessee

Future minimum rentals payable under non-cancellable operating leases are as follows:

	2016 £m	2015 £m
Within one year	1,296	1,324
Greater than one year but less than five years	3,918	4,686
After five years	7,831	9,697
Total minimum lease payments	**13,045**	**15,707**

Future minimum rentals payable under non-cancellable operating leases after five years are analysed further as follows:

	2016 £m	2015 £m
Greater than five years but less than ten years	3,272	4,243
Greater than ten years but less than fifteen years	2,303	2,853
After fifteen years	2,256	2,601
Total minimum lease payments – after five years	**7,831**	**9,697**

Total operating lease commitments in Korea of £1,242m were included in 2015.

The Group has used operating lease commitments discounted at 7% (2015: 7%) of £7,814m (2015: £9,353m) in its calculation of total indebtedness.

Operating lease payments represent rentals payable by the Group 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.

The Group has lease-break options on certain sale and leaseback transactions. These options are exercisable if the Group exercises an existing option to buy back, at market value and at a specified date, either the leased asset or the equity of the other joint venture partner. No commitment has been included in respect of the buy-back option as the option is at the Group's discretion. The Group is not obliged to pay lease rentals after that date, therefore minimum lease payments exclude those falling after the buy-back date. The current market value of these properties is £3.2bn (2015: £4.7bn) and the total lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (2015: £3.9bn) using current rent values. The lease break options are exercisable between 2016 and 2023.

Note 33 Lease commitments continued

The additional lease rentals if incurred following the option exercise date would be as follows:

	2016 £m	2015 £m
Within one year	45	10
Greater than one year but less than five years	72	372
Greater than five years but less than 10 years	686	1,095
Greater than ten years but less than 15 years	718	1,084
After 15 years	1,115	1,349
Total contingent additional lease rentals	**2,636**	**3,910**

Operating lease commitments with joint ventures and associates

Since 1988, the Group has entered into several joint ventures and associates, and sold and leased back properties to and from these joint ventures and associates. The terms of these sale and leasebacks vary. However, common factors include: the sale of the properties to the joint venture or associate at market value; options within the lease for the Group to repurchase the properties at market value; market rent reviews; and 20 to 30 full-year lease terms. The Group reviews the substance as well as the form of the arrangements when determining the classification of leases as operating or finance. All of the leases under these arrangements are operating leases.

Operating lease receivables – Group as lessor

The Group both rents out its properties and also sublets various leased buildings under operating leases. At the balance sheet date, the following future minimum lease payments are contractually receivable from tenants:

	2016 £m	2015 £m
Within one year	198	211
Greater than one year but less than five years	293	314
After five years	230	297
Total minimum lease receivables	**721**	**822**

Note 34 Events after the reporting period

On 12 April 2016 the Group announced the disposal of an 8.6% stake (on a fully diluted basis) in Lazada Group S.A. ('Lazada') to Alibaba Group Holding Limited ('Alibaba') for gross cash consideration of US$129m (£90m). The Group's investment in Lazada was recognised as an available-for-sale financial asset at 27 February 2016 with a total carrying value of £121m which represented a 19.6% stake on a fully diluted basis. Following the transaction, which also involved issue of new capital by Lazada, the Group retains an 8.3% (on a fully diluted basis) investment in Lazada. This investment is subject to a put/call option giving the Group the right to sell and Alibaba the right to buy at fair market value in the following 12 to 18 months.