Statement of Directors' responsibilities

The Directors are required by the Companies Act 2006 to prepare financial statements for each financial year that give a true and fair view of the state of affairs of the Group and the Company as at the end of the financial year, and of the profit or loss of the Group for the financial year. Under that law, the Directors are required to prepare the Group financial statements in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union (EU) and have elected to prepare the Parent Company financial statements in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework' (UK Accounting Standards and applicable law).

In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether IFRSs as adopted by the EU and applicable UK Accounting Standards have been followed, subject to any material departures disclosed and explained in the Group and Parent Company financial statements respectively;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;
- provide additional disclosures when compliance with the specific requirements in IFRS are insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance; and
- prepare the financial statements on the going concern basis, unless it is inappropriate to presume that the Group and the Company will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and the Company, and which enable them to ensure that the financial statements and the Directors' remuneration report comply with the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation. They also have general responsibility for taking such steps as are reasonably open to them to safeguard the assets of the Group and the Company, and to prevent and detect fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the Company's website. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

The Directors consider that the Annual Report and Financial Statements, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Group's and the Company's performance, business model and priorities.

Each of the Directors, whose names and functions are set out on pages 34 and 35 confirm that, to the best of their knowledge:

- the financial statements, which have been prepared in accordance with the relevant financial reporting framework, give a true and fair view of the assets, liabilities, financial position and profit or loss of the Group and the undertakings included in the consolidation taken as a whole; and
- the Strategic report contained within this document includes a fair review of the development and performance of the business and the position of the Group and the undertakings included in the consolidation taken as a whole, together with a description of the principal risks and uncertainties that the Group faces.

Financial statements

Independent auditor's report to the members of Tesco PLC

Opinion on financial statements of Tesco PLC

In our opinion:

- **the financial statements give a true and fair view of the state of the Group's and of the Parent Company's affairs as at 25 February 2017 and of the Group's loss for the year then ended;**
- **the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;**
- **the Parent Company financial statements have been properly prepared in accordance with United Kingdom Generally Accepted Accounting Practice, including FRS 101 'Reduced Disclosure Framework'; and**
- **the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.**

The financial statements that we have audited comprise the:

- Group income statement;
- Group statement of comprehensive income;
- Group and Parent Company balance sheets;
- Group and Parent Company statements of changes in equity;
- Group cash flow statement; and
- related Notes 1 to 36 of the Group financial statements and Notes 1 to 17 of the Parent Company financial statements.

The financial reporting framework that has been applied in the preparation of the Group financial statements is applicable law and IFRSs as adopted by the European Union. The financial reporting framework that has been applied in the preparation of the Parent Company financial statements is applicable law and United Kingdom Accounting Standards (United Kingdom Generally Accepted Accounting Practice), including FRS 101 "Reduced Disclosure Framework".

Summary of our audit approach

Key risks

The key risks we identified which had the greatest impact on our audit scope are:

- store impairment review;
- recognition of commercial income;
- inventory valuation;
- pension obligation valuation;
- contingent liabilities;
- management override of controls;
- Tesco Bank payment fraud; and
- retail technology environment, including IT security.

Within this report, any new risks are identified with ↑ and any risks which are the same as the prior year, updated where required, are identified with ↔.

Materiality

The materiality that we used was £50m (2015/16: £50m), based on 5% of a normalised profit before tax. Refer to page 83 for further details.

Scoping

Our audit scoping provides full scope audit coverage of 97% (2015/16: 97%) of revenue and 91% (2015/16: 88%) of net assets.

Significant changes in our approach

In our 2016/17 report the following changes to the risks identified have been made compared to our 2015/16 report:

- we have included a new risk relating to the Bank's November 2016 external payment fraud;
- provisions and reserves relating to the Bank are identified as a significant risk for the audit, however it has not required the same level of focus as those matters included in our report and therefore we no longer report on this risk here;
- we continue to report on the pension obligation valuation risk, however accounting for the pension curtailment was only applicable to 2015/16;
- the inventory valuation risk has been revised and does not include the capitalisation of directly attributable costs due to the reduced level of judgement exercised by management; and
- the risk relating to compliance with laws and regulations has been refined to only relate to contingent liabilities since this is where the key risk lies.

Going concern and the Directors' assessment of the principal risks that would threaten the solvency or liquidity of the Group

As required by the Listing Rules we have reviewed the Directors' statement regarding the appropriateness of the going concern basis of accounting contained within Note 1 to the financial statements and the Directors' statement on the longer-term viability of the Group contained within the strategic report on page 31.

We are required to state whether we have anything material to add or draw attention to in relation to:

- the Directors' confirmation on page 26 that they have carried out a robust assessment of the principal risks facing the Group, including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures on pages 27 to 30 that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in Note 1 to the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least 12 months from the date of approval of the financial statements; and
- the Directors' explanation on page 31 as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

We confirm that we have nothing material to add or draw attention to in respect of these matters.

We agreed with the Directors' adoption of the going concern basis of accounting and we did not identify any such material uncertainties. However, because not all future events or conditions can be predicted, this statement is not a guarantee as to the Group's ability to continue as a going concern.

Independence

We are required to comply with the Financial Reporting Council's Ethical Standards for Auditors and confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards.

We confirm that we are independent of the Group and we have fulfilled our other ethical responsibilities in accordance with those standards. We also confirm we have not provided any of the prohibited non-audit services referred to in those standards.

Our assessment of risks of material misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

The description of the risks below should be read in conjunction with the significant matters considered by the Audit Committee discussed on pages 53 to 54.

These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Risk description	How the scope of our audit responded to the risk	Key observations
Store impairment review		
As described in Note 1 (Accounting policies) and Note 11 (Property, plant and equipment), the Group held £18,108m (2015/16: £17,900m) of property, plant and equipment at 25 February 2017. Under IFRS, the Group is required to complete an impairment review of its store portfolio where there are indicators of impairment or impairment reversal. There continues to be judgement required in identifying indicators of impairment and determining the fair value of the Group's store portfolio. Additionally, there is judgement in relation to triggering the reversals of impairments recognised in previous periods. In light of the continued competitive environment in which the Group operates and changes in the macro environment, there is a risk that the carrying value of stores and related fixed assets may be higher than the recoverable amount. Where a review for impairment, or reversal of impairment, is conducted, the recoverable amount is determined based on the higher of 'value in use' and 'fair value less costs of disposal': · value in use is calculated from cash flow projections and relies upon the Directors' assumptions and estimates of future trading performance, longer-term growth rates and discount rates utilised; and · fair value less costs of disposal is determined by reference to a sample of valuations completed by independent valuation specialists where applicable. As a result of the Group's impairment review completed during the year, an impairment release of £6m (2015/16: charge of £18m) was recognised. Refer to page 54 for the Audit Committee's discussion of this risk.	Our audit procedures included assessing the design and implementation of key controls around the impairment review processes, assessing the appropriateness of the methodology applied by the Directors in calculating the impairment charges and reversals, and the judgements applied in determining the cash-generating units (CGUs) of the business, which the Group has determined as being individual stores and, in the United Kingdom (UK), the general merchandising online business. As part of our procedures we have used data analytics to assist us in determining the completeness of the impairment indicator assessment. In relation to the completeness of the Group's impairment review process, we have assessed the completeness of the Group's impairment charges and impairment reversals with reference to CGU performance. In relation to the Group's 'value in use' valuations, we have assessed the review completed by the Group by: · assessing the methodology applied in determining the value in use compared with the requirements of IAS 36 Impairment of Assets and checking the integrity of the impairment model utilised by the Group; · challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance, market expectations and our understanding of the Group's strategic initiatives; · assessing the long-term growth rates and discount rates applied to the impairment review for each country, comparing the rates utilised to third party evidence and in relation to the discount rate, our independently estimated discount rates; and · completing sensitivity analysis in relation to key assumptions to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired, in particular property fair values, long-term growth rates and discount rates applied. In relation to the Group's 'fair value less costs of disposal', we have challenged the assumptions used by the Group in determining the fair market value of the assets, including those completed by external valuers, using internal property valuation specialists and assessing whether appropriate valuation methodologies have been applied. Additionally, we assess the adequacy of the store impairment related disclosures.	Whilst we note actions are required by the Group to achieve these forecasts over the medium term, we concluded that the assumptions in the impairment models were within an acceptable range, and that the overall level of net reversal of impairment was reasonable. We also agree that the disclosure of the net impairment as an exceptional item is in accordance with the Group's policy on exceptional items.

Risk description	How the scope of our audit responded to the risk	Key observations
Recognition of commercial income As described in Note 1 (Accounting policies) and Note 20 (Commercial income), the Group has agreements with suppliers whereby volume-related allowances, promotional and marketing allowances and various other fees and discounts are received in connection with the purchase of goods for resale from those suppliers. As such, the Group recognises a reduction in cost of sales as a result of amounts receivable from suppliers. In accordance with IFRS, commercial income should only be recognised as income within the income statement when the performance conditions associated with it have been met, for example where the marketing campaign has been held. The variety and number of the buying arrangements with suppliers can make it complex to determine the performance conditions associated with the income, giving rise to a requirement for management judgement and scope for error in accounting for such income. As such we have identified this as a key risk. Refer to page 54 for the Audit Committee's discussion of this risk.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to commercial income. In addition, our substantive audit procedures across the Group's retail operations included a combination of the following: · we tested whether amounts recognised were accurate and recorded in the correct period based on the contractual performance obligations by agreeing a sample of individual supplier agreements; · commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables have been tested via balance sheet reconciliation procedures; · we circularised a sample of suppliers to test whether the arrangements recorded were complete and held discussions with a sample of buyers to further understand the buying processes where required. Where responses from suppliers were not received, we completed alternative procedures such as agreement to underlying contractual arrangements; · we used data analytics to profile commercial income, identifying deals which exhibited characteristics of audit interest upon which we completed detailed testing; · we reviewed the steps taken by the Group to address the recommendations made by the Groceries Code Adjudicator (GCA) and reviewed the Group's ongoing compliance with the Groceries Supplier Code of Practice (GSCOP). Additionally, we reviewed the reporting and correspondence to the supplier hotline in order to help identify any areas where further investigation was required; and · we also considered the adequacy of the commercial income related disclosure within the Group's financial statements.	The results of our testing were satisfactory. We consider the disclosure given around supplier rebates to provide an appropriate understanding of the types of rebate income received and impact on the Group's balance sheet as at 25 February 2017.
Pension obligation valuation As described in Note 1 (Accounting policies) and Note 27 (Post-employment benefits), the Group has a defined benefit pension plan in the UK. At 25 February 2017, the Group recorded a net retirement obligation before deferred tax of £6,621m (2015/16: £3,175m), comprising scheme assets of £13,196m (2015/16: £10,302m) and scheme liabilities of £19,817m (2015/16: £13,477m). The pension valuation is dependent on market conditions and assumptions made. The risk specifically relates to the following key assumptions: discount rate, inflation expectations and life expectancy assumptions. The setting of these assumptions is complex and requires the exercise of significant management judgement with the support of third party actuaries. Refer to page 54 for the Audit Committee's discussion of this risk.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to the pension obligation valuation process. In testing the pension valuation, we have utilised internal pension actuarial specialists to review the key actuarial assumptions used, both financial and demographic, and considered the methodology utilised to derive these assumptions. Furthermore, we have benchmarked and performed a sensitivity analysis on the key assumptions determined by the Directors.	We are satisfied that the methodology and assumptions applied in relation to determining the pension valuation are within an acceptable range.
Contingent liabilities The Group has been under investigation by the Serious Fraud Office (SFO) in the UK following the commercial income misstatements identified in 2014/15. On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had reached a Deferred Prosecution Agreement (DPA) with the SFO. In addition, Tesco PLC and Tesco Stores Limited accepted a finding of market abuse from the FCA, arising from the same circumstances and as a result will implement a compensation scheme, as described in Note 35. This brings greater certainty to the Group's exposure and a £235m liability has been recognised accordingly. Additionally, in 2016/17 UK shareholder actions were initiated against the Group linked to the commercial income misstatements identified in 2014/15 which may result in legal exposures. Separately, the Group has other ongoing legal matters relating to previous corporate transactions which require management judgement to be applied in order to determine the likely outcome. As a result, judgement is required in assessing the nature of these exposures and their accounting and disclosure requirements. Refer to page 54 for the Audit Committee's discussion of this risk.	In assessing the potential exposures to the Group, we have completed a range of procedures including: · assessing the design and implementation of controls in relation to the monitoring of known exposures; · reading Board and other meeting minutes to identify areas subject to Group consideration; · meeting with the Group's internal legal advisors in understanding ongoing and potential legal matters impacting the Group; · reviewing third party correspondence and reports; and · reviewing the proposed accounting and disclosure of actual and potential legal liabilities, drawing on third party assessment of open matters.	We concur that the liability recognised by management in respect of the DPA and FCA compensation scheme and the disclosures in relation to the ongoing UK shareholder actions are appropriate. In relation to other ongoing legal matters in respect of previous corporate transactions, we are satisfied no specific disclosure is required.

Independent auditor's report to the members of Tesco PLC continued

Risk description	How the scope of our audit responded to the risk	Key observations
Inventory valuation		
As described in Note 1 (Accounting policies) and Note 15 (Inventories), the Group carries inventory at the lower of cost and net realisable value. As at 25 February 2017, the Group held inventories of £2,301m (2015/16: £2,430m). The Group provides for obsolescence based on forecast inventory usage. This methodology relies upon assumptions made in determining appropriate provisioning percentages to estimates of future sales.	We obtained a detailed understanding and evaluated the design and implementation of controls that the Group has established in relation to inventory valuation. We obtained assurance over the appropriateness of management's assumptions applied in calculating the value of inventory provisions by: · critically assessing the Group's inventory provisioning policy, with specific consideration given to aged inventory (especially for non-food and general merchandising products) as well as stock turn calculations, including the impact of seasonality; · verifying the value of a sample of inventory to confirm whether it is held at the lower of cost and net realisable value, through comparison to vendor invoices and sales prices; · within the UK business, using data analytics to identify unusual inventory usage characteristics, completing assumption tolerance testing and recalculating the provision in totality based on the Group's policy; and · reviewing historical accuracy of inventory provisioning with reference to inventory write-offs during the year in relation to stock loss or other inventory adjustments.	We concur that the total level of provision is within an acceptable range.
Management override of controls		
There are a number of areas within the Group financial statements which comprise accounting estimates by management and accordingly there is a risk that the Group's results are influenced through management bias in determining such estimates. Additionally, the Group's processes continue to be complex and reliant on legacy IT systems which lead to an increased risk of management override of controls. Specifically this risk lies in those areas with high levels of judgement such as commercial income, value in use calculations within the impairment reviews, inventory accounting and provisioning, which are included in Note 1. Management also exercises judgement in the presentation of the Group's income statement and the quality of the Group's earnings. A risk exists that invalid journal entries are recorded to influence the results and/or the financial position as desired through the override of controls implemented to prevent the recording of inappropriate journals.	In order to address this risk, in addition to the procedures set out in the commercial income, impairment and inventory risks above, we have completed audit procedures including: · assessing the design and implementation of controls which address the risk of management override, such as the 'entity level' controls which underpin the overall control environment for the Group; · auditing key areas of management estimate and judgement, including consideration of exceptional items disclosed by the Group and the existence of any further potential exceptional items included within the Group's underlying profit measures; · using data analytics, testing journal entries for fraud characteristics by testing the completeness of the journal population reviewed and risk profiling the population to focus our work on journals of interest; · assessing transactions completed outside of the normal course of business; and · obtaining an understanding of the work of internal audit so as to assist us in directing our audit effort and obtaining greater understanding of the controls in place across the Group.	We have no matters to highlight in these areas. However, we note that consistent with other businesses of a similar scale to the Group, there are non-recurring income and expense items included within profit before exceptional items which do not meet the Group's definition of exceptional items and which largely offset. We concur that these have been appropriately included within profit before exceptional items.
Tesco Bank payment fraud		
In November 2016, Tesco Bank's debit cards were the subject of an online fraudulent attack. The Group continues to work closely with the authorities and regulators on this incident. There is a risk that the Group has not identified and accounted for any liabilities which may arise from the incident. Refer to page 53 for the Audit Committee's discussion of this risk.	In assessing the potential exposures to the Bank, we have completed a range of procedures including: · understanding the cause of the issue, reviewing the incident reports prepared by external consultants and understanding management's response to findings; · understanding the status of discussions with authorities and regulators; · assessing the fraud losses and the treatment of associated recoveries from merchants; and · assessing whether the Group has appropriately identified and accounted for any other liabilities related to the payment fraud.	We are satisfied that the Group has appropriately accounted for liabilities associated with the incident.

Risk description	How the scope of our audit responded to the risk	Key observations
Retail technology environment, including IT security		
The Group's retail operations utilise a range of information systems where in 2015/16 we identified deficiencies in certain IT controls. These deficiencies could have an adverse impact on the Group's controls and financial reporting systems. As described on page 50 within the Audit Committee report, the Group is undergoing the replacement of a number of the Group's key systems and changes to key elements of the Group's IT infrastructure.	We have understood the Group's replacement programme and the planned enhancements to the retail technology environment, including IT security. During the year we have assessed the design and implementation of the Group's controls over the information systems that are important to financial reporting, including the changes made as part of the Group's replacement programme. Where we noted deficiencies which affected applications and databases within the scope of our audit, we extended the scope of our substantive audit procedures.	Although we note progress has been made during the year in enhancing the Group's controls over the information systems described above, given the complexity of the underlying systems the remediation process is not yet complete and therefore weaknesses remain in the control environment. The historical weaknesses we noted last year in relation to user access and change management controls linked to the Group's financial reporting systems are in the process of being remediated.

Our application of materiality

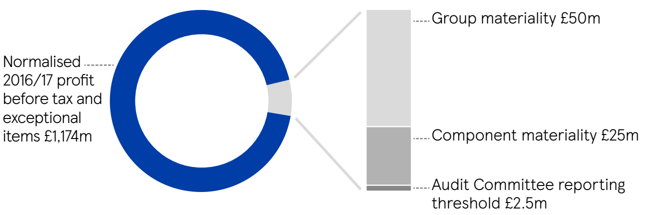
We define materiality as the magnitude of misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality both in planning the scope of our audit work and in evaluating the results of our work.

We determined materiality for the Group to be £50m (2015/16: £50m).

We have concluded it to be appropriate to determine materiality with reference to the Group's historical and projected profitability as we consider the Group's most recent profitability is not reflective of normal profitability as the Group continues to undergo a transformation process.

Materiality has therefore been determined as 5% of a normalised profit before tax and capped at £50m so not to exceed the 2015/16 materiality. The materiality applied by the component auditors was £25m.

In our professional judgement, we believe that the use of an adjusted profit measure as set out above is acceptable, as the basis on which the materiality has been determined may otherwise skew the level of materiality determined in a manner not reflective of the Group's long-term trading activity. In making this judgement, we considered a number of profit based and other measures with reference to the Group's performance. The materiality selected represents 0.8% (2015/16: 0.6%) of the Group's net assets.



We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £2.5m (2015/16: £2.5m), as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

An overview of the scope of our audit

Our Group audit was scoped by obtaining an understanding of the Group and its environment, including Group-wide controls, and assessing the risks of material misstatement at the Group level. The Group has wholly owned grocery retail operations in nine countries, together with interests in a number of other businesses both in the UK and internationally.

The Group's accounting process is structured around local finance functions and is further supported by a shared service centre in Bengaluru, India which provides accounting and administrative support for the Group's core retail operations. Each local finance function reports into the central Group finance function based at the Group's head office. Based on our assessment of the Group, we focused our Group audit scope primarily on the audit work on eight retail locations (UK, Republic of Ireland, Czech Republic, Hungary, Poland, Slovakia, Malaysia and Thailand) and Tesco Bank. All of these were subject to a full audit and represent 97% (2015/16: 97%) of the Group's revenue and 91% (2015/16: 88%) of net assets.

In addition, four other businesses were subject to specific audit procedures on material account balances, where the extent of our testing was based on our assessment of the risks of material misstatement and of the materiality of the Group's operations at those locations. The four locations accounted for 2% (2015/16: 2%) of the Group's revenue and 6% (2015/16: 4%) of net assets. In the current year, Turkey and dunnhumby were subject to specific audit procedures on certain financial statement lines, whilst in 2015/16 were full scope audits. The change in scope is due to only certain financial statement lines being considered to be significant context of the Group in 2016/17.

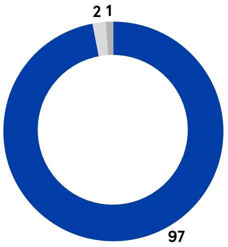
At the parent entity level we also tested the consolidation process and carried out analytical procedures to confirm our conclusion that there were no significant risks of material misstatement of the aggregated financial information of the remaining components not subject to audit or audit of specified account balances.

The most significant component of the Group is its retail business in the UK. As such, there is extensive overlap between the Group and UK audit team to ensure an appropriate level of involvement in this audit work. During the course of our audit, we visited 50 (2015/6: 75) retail stores in the UK to attend either inventory counts or in order to complete store control visits, and 6 (2015/16: 7) distribution centre inventory counts.

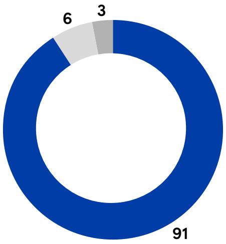
We visited 7 (2015/16: 10) of the 9 (2015/16: 11) significant locations set out above, in addition to the Group's shared service centre in Bengaluru, with the Group Audit Partner visiting 4 (2015/16: 4) of these locations. We also had a dedicated audit partner focused on overseeing the role of the component audit teams located outside of the UK and the Republic of Ireland, ensuring that we applied a consistent audit approach to the operations in the Group's international business. The audit visits by the Group audit team were timed to enable us to be involved during the planning and risk assessment process in addition to during the completion of detailed audit procedures. During our visits, we attended key meetings with component management and auditors, and reviewed detailed component auditor work papers.

In addition, all key component audit teams were represented during a centralised two-day planning meeting held in the UK prior to the commencement of our detailed audit work. The purpose of this planning meeting was to ensure a good level of understanding of the Group's businesses, its core strategy and a discussion of the significant risks and workshops on our planned audit approach. Group financial management also attended part of the meeting to support these planning activities.

Revenue (%)



Net assets (%)



Full audit scope
Specified audit procedures
Review

Opinion on other matters prescribed by the Companies Act 2006

In our opinion, based on the work undertaken in the course of the audit:

- the part of the Directors' Remuneration report to be audited has been properly prepared in accordance with the Companies Act 2006;
- the information given in the Strategic report and the Directors' report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic report and the Directors' report have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified any material misstatements in the Strategic report and the Directors' report.

Matters on which we are required to report by exception

Adequacy of explanations received and accounting records

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- we have not received all the information and explanations we require for our audit; or
- adequate accounting records have not been kept by the Parent Company, or returns adequate for our audit have not been received from branches not visited by us; or
- the Parent Company financial statements are not in agreement with the accounting records and returns.

We have nothing to report in respect of these matters.

Directors' remuneration

Under the Companies Act 2006 we are also required to report if in our opinion certain disclosures of directors' remuneration have not been made or the part of the Directors' Remuneration report to be audited is not in agreement with the accounting records and returns.

We have nothing to report arising from these matters.

Corporate Governance statement

Under the Listing Rules we are also required to review part of the Corporate Governance statement relating to the Company's compliance with certain provisions of the UK Corporate Governance Code.

We have nothing to report arising from our review.

Our duty to read other information in the annual report

Under International Standards on Auditing (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to consider whether we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable and whether the annual report appropriately discloses those matters that we communicated to the Audit Committee which we consider should have been disclosed.

We confirm that we have not identified any such inconsistencies or misleading statements.

Respective responsibilities of Directors and auditor

As explained more fully in the Statement of Directors' responsibilities, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). We also comply with the International Standard on Quality Control 1 (UK and Ireland). Our audit methodology and tools aim to ensure that our quality control procedures are effective, understood and applied. Our quality controls and systems include our dedicated professional standards review team and independent partner reviews.

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Group's and the Parent Company's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the directors; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Panos Kakoullis (Senior statutory auditor)
for and on behalf of Deloitte LLP
Chartered Accountants and Statutory Auditor
London, United Kingdom
11 April, 2017

Group income statement

	Notes	52 weeks ended 25 February 2017 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m	52 weeks ended 27 February 2016 Before exceptional items £m	Exceptional items (Note 4) £m	Total £m
Continuing operations							
Revenue	2	**55,917**	**–**	**55,917**	**53,933**	**–**	**53,933**
Cost of sales		(52,899)	(116)	(53,015)	(51,124)	35	(51,089)
Gross profit/(loss)		**3,018**	**(116)**	**2,902**	**2,809**	**35**	**2,844**
Administrative expenses		(1,734)	(261)	(1,995)	(1,836)	22	(1,814)
Profits/(losses) arising on property-related items		(4)	114	110	12	30	42
Operating profit/(loss)		**1,280**	**(263)**	**1,017**	**985**	**87**	**1,072**
Share of post-tax profits/(losses) of joint ventures and associates	13	(30)	(77)	(107)	(21)	–	(21)
Finance income	5	109	–	109	29	–	29
Finance costs	5	(630)	(244)	(874)	(658)	(220)	(878)
Profit/(loss) before tax		**729**	**(584)**	**145**	**335**	**(133)**	**202**
Taxation	6	(185)	98	(87)	(8)	62	54
Profit/(loss) for the year from continuing operations		**544**	**(486)**	**58**	**327**	**(71)**	**256**
Discontinued operations							
Profit/(loss) for the year from discontinued operations	7	(37)	(75)	(112)	26	(153)	(127)
Profit/(loss) for the year		**507**	**(561)**	**(54)**	**353**	**(224)**	**129**
Attributable to:							
Owners of the parent		515	(555)	(40)	359	(221)	138
Non-controlling interests		(8)	(6)	(14)	(6)	(3)	(9)
		507	**(561)**	**(54)**	**353**	**(224)**	**129**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9	6.32p		(0.49)p	4.42p		1.70p
Diluted	9	6.31p		(0.49)p	4.40p		1.69p
Earnings/(losses) per share from continuing operations							
Basic	9	6.76p		0.81p	4.06p		3.24p
Diluted	9	6.75p		0.81p	4.05p		3.22p

The notes on pages 91 to 149 form part of these financial statements.

Group statement of comprehensive income/(loss)

	Notes	52 weeks 2017 £m	52 weeks 2016 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes	27	(3,567)	1,164
Tax on items that will not be reclassified	6	579	(300)
		(2,988)	**864**
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		80	5
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		764	168
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement		–	(88)
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		385	318
Reclassified and reported in the Group income statement		(384)	(292)
Change in hedge relationship		–	186
Tax on items that may be reclassified	6	(23)	(30)
		822	267
Total other comprehensive income/(loss) for the year		**(2,166)**	**1,131**
Profit/(loss) for the year		(54)	129
Total comprehensive income/(loss) for the year		**(2,220)**	**1,260**
Attributable to:			
Owners of the parent		(2,206)	1,270
Non-controlling interests		(14)	(10)
Total comprehensive income/(loss) for the year		**(2,220)**	**1,260**
Total comprehensive income/(loss) attributable to owners of the parent arises from:			
Continuing operations		(2,096)	1,485
Discontinued operations		(110)	(215)
		(2,206)	**1,270**

The notes on pages 91 to 149 form part of these financial statements.

Group balance sheet

	Notes	25 February 2017 £m	27 February 2016 £m
Non-current assets			
Goodwill, software and other intangible assets	10	2,717	2,874
Property, plant and equipment	11	18,108	17,900
Investment property	12	64	78
Investments in joint ventures and associates	13	739	785
Other investments	14	823	1,078
Trade and other receivables	16	180	201
Loans and advances to customers	17	5,795	4,723
Derivative financial instruments	22	1,303	1,532
Deferred tax assets	6	707	49
		30,436	**29,220**
Current assets			
Other investments	14	284	57
Inventories	15	2,301	2,430
Trade and other receivables	16	1,475	1,406
Loans and advances to customers	17	4,166	3,819
Derivative financial instruments	22	286	176
Current tax assets		13	15
Short-term investments	18	2,727	3,463
Cash and cash equivalents	18	3,821	3,082
		15,073	**14,448**
Assets of the disposal group and non-current assets classified as held for sale	7	344	236
		15,417	**14,684**
Current liabilities			
Trade and other payables	19	(8,875)	(8,293)
Borrowings	21	(2,560)	(2,826)
Derivative financial instruments and other liabilities	22	(61)	(62)
Customer deposits and deposits from banks	24	(6,687)	(5,906)
Current tax liabilities	6	(613)	(419)
Provisions	25	(438)	(360)
		(19,234)	**(17,866)**
Liabilities of the disposal group classified as held for sale	7	(171)	–
Net current liabilities		**(3,988)**	**(3,182)**
Non-current liabilities			
Trade and other payables	19	(324)	(275)
Borrowings	21	(9,433)	(10,711)
Derivative financial instruments and other liabilities	22	(607)	(889)
Customer deposits and deposits from banks	24	(2,276)	(1,573)
Post-employment benefit obligations	27	(6,621)	(3,175)
Deferred tax liabilities	6	(88)	(135)
Provisions	25	(685)	(664)
		(20,034)	**(17,422)**
Net assets		**6,414**	**8,616**
Equity			
Share capital	28	409	407
Share premium		5,096	5,095
All other reserves		601	(141)
Retained earnings		332	3,265
Equity attributable to owners of the parent		**6,438**	**8,626**
Non-controlling interests		(24)	(10)
Total equity		**6,414**	**8,616**

The notes on pages 91 to 149 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The financial statements on pages 86 to 149 were authorised for issue by the Directors on 11 April 2017 and are subject to the approval of the shareholders at the Annual General Meeting on 16 June 2017.

Group statement of changes in equity

	Share capital £m	Share premium £m	All other reserves: Other reserves £m	All other reserves: Capital redemption reserve £m	All other reserves: Hedging reserve £m	All other reserves: Translation reserve £m	All other reserves: Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 27 February 2016	**407**	**5,095**	**40**	**16**	**211**	**(401)**	**(7)**	**3,265**	**8,626**	**(10)**	**8,616**
Profit/(loss) for the year	–	–	–	–	–	–	–	(40)	(40)	(14)	(54)
Other comprehensive income/(loss)											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	80	80	–	80
Currency translation differences	–	–	–	–	–	764	–	–	764	–	764
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	(3,567)	(3,567)	–	(3,567)
Gains/(losses) on cash flow hedges	–	–	–	–	1	–	–	–	1	–	1
Tax relating to components of other comprehensive income	–	–	–	–	5	(13)	–	564	556	–	556
Total other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**6**	**751**	**–**	**(2,923)**	**(2,166)**	**–**	**(2,166)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**6**	**751**	**–**	**(2,963)**	**(2,206)**	**(14)**	**(2,220)**
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(24)	–	(24)	–	(24)
Share-based payments	–	–	–	–	–	–	9	28	37	–	37
Issue of shares	2	1	–	–	–	–	–	–	3	–	3
Dividends	–	–	–	–	–	–	–	–	–	–	–
Tax on items charged to equity	–	–	–	–	–	–	–	2	2	–	2
Total transactions with owners	**2**	**1**	**–**	**–**	**–**	**–**	**(15)**	**30**	**18**	**–**	**18**
At 25 February 2017	**409**	**5,096**	**40**	**16**	**217**	**350**	**(22)**	**332**	**6,438**	**(24)**	**6,414**

	Share capital £m	Share premium £m	All other reserves: Other reserves £m	All other reserves: Capital redemption reserve £m	All other reserves: Hedging reserve £m	All other reserves: Translation reserve £m	All other reserves: Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 28 February 2015	**406**	**5,094**	**40**	**16**	**35**	**(488)**	**(17)**	**1,985**	**7,071**	**–**	**7,071**
Profit/(loss) for the year	–	–	–	–	–	–	–	138	138	(9)	129
Other comprehensive income/(loss)											
Change in fair value of available-for-sale financial assets and investments	–	–	–	–	–	–	–	5	5	–	5
Currency translation differences	–	–	–	–	–	81	–	–	81	(1)	80
Remeasurements of defined benefit pension schemes	–	–	–	–	–	–	–	1,164	1,164	–	1,164
Gains/(losses) on cash flow hedges	–	–	–	–	212	–	–	–	212	–	212
Tax relating to components of other comprehensive income	–	–	–	–	(36)	6	–	(300)	(330)	–	(330)
Total other comprehensive income/(loss)	**–**	**–**	**–**	**–**	**176**	**87**	**–**	**869**	**1,132**	**(1)**	**1,131**
Total comprehensive income/(loss)	**–**	**–**	**–**	**–**	**176**	**87**	**–**	**1,007**	**1,270**	**(10)**	**1,260**
Transactions with owners											
Purchase of treasury shares	–	–	–	–	–	–	(5)	–	(5)	–	(5)
Share-based payments	–	–	–	–	–	–	15	273	288	–	288
Issue of shares	1	1	–	–	–	–	–	–	2	–	2
Dividends	–	–	–	–	–	–	–	–	–	–	–
Total transactions with owners	**1**	**1**	**–**	**–**	**–**	**–**	**10**	**273**	**285**	**–**	**285**
At 27 February 2016	**407**	**5,095**	**40**	**16**	**211**	**(401)**	**(7)**	**3,265**	**8,626**	**(10)**	**8,616**

The notes on pages 91 to 149 form part of these financial statements.

Group cash flow statement

	Notes	52 weeks 2017 £m	52 weeks 2016 £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		1,017	1,072
Operating profit/(loss) of discontinued operations		(117)	102
Depreciation and amortisation		1,304	1,334
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(78)	164
(Profit)/loss arising on sale of subsidiaries and other investments		3	–
(Profit)/loss arising on sale of joint ventures and associates		(5)	(1)
Impairment loss on goodwill		46	18
Net impairment loss/(reversal) on other investments		(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates		–	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property		(5)	182
Adjustment for non-cash element of pensions charge	27	7	(395)
Additional contribution into pension schemes	27	(248)	(223)
Share-based payments		15	283
Tesco Bank fair value movements included in operating profit		98	72
Retail (increase)/decrease in inventories		124	251
Retail (increase)/decrease in development stock		16	99
Retail (increase)/decrease in trade and other receivables		(74)	20
Retail increase/(decrease) in trade and other payables		510	260
Retail increase/(decrease) in provisions		11	(280)
Tesco Bank (increase)/decrease in loans and advances to customers		(1,529)	(868)
Tesco Bank (increase)/decrease in trade and other receivables		(24)	(78)
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		1,474	463
Tesco Bank increase/(decrease) in provisions		25	(35)
(Increase)/decrease in working capital		533	(168)
Cash generated from/(used in) operations		**2,558**	**2,434**
Interest received/(paid)		(522)	(426)
Corporation tax received/(paid)		(47)	118
Net cash generated from/(used in) operating activities		**1,989**	**2,126**
Cash flows generated from/(used in) investing activities			
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(1,205)	(871)
Purchase of intangible assets		(169)	(167)
Disposal of subsidiaries, net of cash disposed	31	205	3,237
Acquisition of subsidiaries, net of cash acquired	31	(25)	(325)
Proceeds from sale of joint ventures and associates		–	192
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		512	350
Net (increase)/decrease in loans to joint ventures and associates		15	(1)
Investments in joint ventures and associates		–	(77)
Net (investments in)/proceeds from sale of short-term investments		736	(2,894)
Net (investments in)/proceeds from sale of other investments		141	(103)
Dividends received from joint ventures and associates		28	41
Interest received/(paid)		41	3
Net cash generated from/(used in) investing activities		**279**	**(615)**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital	28	1	1
Increase in borrowings		185	586
Repayment of borrowings		(2,036)	(1,328)
Net cash flows from derivative financial instruments		475	154
Repayments of obligations under finance leases		(12)	(17)
Dividends paid to equity owners	8	–	–
Net cash generated from/(used in) financing activities		**(1,387)**	**(604)**
Net increase/(decrease) in cash and cash equivalents		**881**	**907**
Cash and cash equivalents at beginning of the year		3,082	2,174
Effect of foreign exchange rate changes		(131)	1
Cash and cash equivalents including cash held in disposal group at the end of the year		**3,832**	**3,082**
Cash held in disposal group	7	(11)	–
Cash and cash equivalents at the end of the year	18	**3,821**	**3,082**

The notes on pages 91 to 149 form part of these financial statements.

Notes to the Group financial statements

Note 1 Accounting policies, judgements and estimates

General information
Tesco PLC (the Company) is a public limited company incorporated and domiciled in 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 pension assets that have been measured at fair value.

The Directors have, at the time of approving the financial statements, a reasonable expectation that the Company and the Group have adequate resources to continue in operational existence for the foreseeable future. Thus they continue to adopt the going concern basis of accounting in preparing the financial statements. Further detail is contained within the going concern statement included in the Directors' report on page 76.

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

Presentation changes to the Group balance sheet
The Group balance sheet includes additional line items to better reflect the current and non-current categorisation of trade and other receivables, trade and other payables, other investments and customer deposits and deposits from banks. In the prior year, each of these balances was presented on one line in the balance sheet, with additional information on the current and non-current categorisation included within the notes.

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 25 February 2017 (prior financial year 52 weeks ended 27 February 2016). For the UK and the Republic of Ireland (UK & ROI), the results are for the 52 weeks ended 25 February 2017 (prior financial year 52 weeks ended 27 February 2016). For all other operations, the results are for the calendar year ended 28 February 2017 (prior calendar year ended 29 February 2016).

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

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

Joint ventures and associates
The Group's share of the results of joint ventures and associates is included in the Group income statement and Group statement of other comprehensive income/(loss) using the equity method of accounting. Investments in joint ventures and associates are carried in the Group balance sheet at cost plus post-acquisition changes in the Group's share of the net assets of the entity, less any impairment in value. The carrying values of investments in joint ventures and associates include acquired goodwill.

If the Group's share of losses in a joint venture or associate equals or exceeds its investment in the joint venture or associate, the Group does not recognise further losses, unless it has incurred obligations to do so or made payments on behalf of the joint venture or associate. Dividends received from joint ventures or associates with nil carrying value are recognised in the income statement as part of the Group's share of post-tax profits/(losses) of joint ventures and associates.

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

Revenue
Revenue 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 retail banking and 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.

Note 1 Accounting policies, judgements and estimates continued

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 industry definition, these amounts receivable from suppliers in connection with the purchase of goods for resale are generally termed commercial income.

Commercial income is recognised when earned by the Group, which occurs when all obligations conditional for earning income have been discharged, and the income can be measured reliably based on the terms of the contract. The income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at 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 trade and other receivables, except in cases where the Group currently has a legally enforceable right of set-off and intends to offset amounts due from suppliers against amounts owed to those suppliers, in which case only the net amount receivable or payable is recognised. Accrued commercial income is recognised within accrued income when commercial income earned has not been invoiced at the balance sheet date.

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

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.

Cloud software licence agreements
Licence agreements to use cloud software are treated as service contracts and expensed in the income statement, unless the Group has both a contractual right to take possession of the software at any time without significant penalty, and the ability to run the software independently of the host vendor. In such cases the licence agreement is capitalised as software within intangible assets.

Intangible assets
Intangible assets, such as software 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.

Note 1 Accounting policies, judgements and estimates continued

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 10% to 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 property, plant and equipment.

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 discontinued operations are presented separately in the Group income statement (and the comparatives 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.

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 reacquires the use of the asset by entering into a lease with the buyer.

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.

Note 1 Accounting policies, judgements and estimates continued

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 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

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

Note 1 Accounting policies, judgements and estimates continued

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, management 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.

Loan impairment provisions are established on a portfolio basis using statistical methodology taking into account the level of arrears, security, past loss experience, credit quality and defaults based on portfolio trends.

The portfolios include mortgages, credit card receivables, personal current accounts and personal loans. 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.

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.

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 it 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.

Note 1 Accounting policies, judgements and estimates continued

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.

Judgements and sources of estimation uncertainty
The preparation of the consolidated Group financial statements requires management to make judgements, estimates and assumptions in applying the Group's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements
Critical judgements, apart from those involving estimations, that are applied in the preparation of the consolidated financial statements are discussed below:

Discontinued operations
Management has applied judgement in presenting the Group's retail operations in Turkey as a discontinued operation. Management consider the retail operations in Turkey as an operating segment, one level below the reportable Retail International segment. Management further considered previous treatment of similar disposals in China and Korea as discontinued operations. Refer to Note 7.

Business combinations
The Group is an equity partner in several property joint ventures. Management has applied judgement in accounting for the acquisition of the partner's interests in the joint ventures as business acquisitions instead of asset acquisitions, due to the property management services provided within the joint venture being viewed as significant processes which, together with the property assets, constitute a business. The Group has further applied judgement in determining that where the Group leases properties in the joint venture, any increase in valuation of those properties above vacant possession value is attributed to the value of the lease contract, and does not create goodwill on acquisition.

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.

Management has applied judgement in determining that Gain Land is an associate of the Group. The Group has significant influence by virtual of holding a 20% equity interest which presumes significant influence per IAS 28, together with having a contractual right to appoint two out of 10 directors, whilst taking into account that the remaining 80% interest is held by one other party.

Structured entities
Management has applied judgement in determining whether the Group has control over any structured entities involved in the Group's credit card securitisations and retail property transactions. Refer to Note 13 for additional disclosures.

Leases
Management exercises judgement in determining the classification of leases as finance or operating leases at inception of the lease. Management considers the likelihood of exercising break clauses or extension options in determining the lease term. Where the lease term constitutes substantially all of the economic life of the asset, or where the present value of minimum lease payments amount to substantially all of the fair value of the property, the lease is classified as a finance lease. All other leases are classified as operating leases.

Management further applies judgement in determining the accounting treatment of the sale and leaseback transactions. Factors considered include 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).

Refer to Note 34 for additional disclosures on judgements made relating to operating leases including those arising from sale and leasebacks.

Classification of mall properties
Management 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.

Determination of cash-generating units
The Group has determined each store as a separate cash-generating unit for impairment testing. Refer to Note 11.

Operating segments
The Group's reportable segments are in line with its management reporting structure. Management has assessed the retail operations in different countries and determined that they share similar economic characteristics, products, customers and supply chain operations. The retail operations have therefore been aggregated in the UK & ROI and International segments, in line with the way they are managed below the Chief Operating Decision Maker (CODM). Tesco Bank operates in a different industry and reports separately hence is a separate segment.

Alternative performance measures (APMs): Exceptional items
Management exercises judgement in determining the adjustments to apply to IFRS measurements in order to derive APMs which provide additional useful information on the underlying trends, performance and position of the Group.

Note 1 Accounting policies, judgements and estimates continued

This assessment covers the nature of the item, cause of occurrence and the scale of impact of that item on reported performance. Reversals of previous exceptional items are assessed based on the same criteria. A breakdown of the exceptional items included in the Group income statement, together with the impact of these items to the Group's cash flow statement for the period, is disclosed in Note 4 to the consolidated financial statements.

Refer to page 170 for further detail on APMs.

Sources of estimation uncertainty

The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below:

Impairment

a) Impairment of goodwill

Management tests annually whether goodwill has suffered any impairment through estimating the value in use of the cash-generating units to which goodwill has been allocated. Key estimates and sensitivities for impairment of goodwill are disclosed in Note 10.

b) Impairment of investments

Where there are indicators of impairment or reversals of previous impairment for investments in joint ventures and associates or other investments, management performs an impairment test for the investment based on the higher of value in use and fair value less costs of disposal. Key estimates and sensitivities for impairment of investments are disclosed in Note 13.

c) Impairment of assets

Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on the Group's three year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Key estimates and sensitivities for impairment of assets are disclosed in Note 11. Fair value is determined with the assistance of independent, professional valuers where appropriate.

Commercial income

Management is required to make estimates in determining the amount and timing of recognition of commercial income (as defined on page 92) for some transactions with suppliers. In determining the amount of volume-related allowances recognised in any period, management estimate the probability that the Group will meet contractual target volumes, based on historical and forecast performance. There is limited estimation involved in recognising income for promotional and other allowances.

Management assesses its performance against the obligations conditional on earning the income, with the income recognised either over time as the obligations are met, or recognised at the point when all obligations are met, dependent on the contractual requirements. Commercial income is recognised as a credit within cost of sales. Where the income earned relates to inventories which are held by the Group at period ends, the income is included within the cost of those inventories, and recognised in cost of sales upon sale of those inventories. Management views that the cost of inventories sold (which is inclusive of commercial income) provides a consistent and complete measure of the income statement impact of the overall supplier relationships.

Management considers the best indicator of the estimation undertaken is by reference to commercial income balances not settled at the balance sheet date and has therefore provided additional disclosures of commercial income amounts reflected in the balance sheet. Refer to Note 20 for commercial income disclosures.

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.

Key estimates and sensitivities for property provisions are disclosed in Note 25.

Uncertain tax provisions

Tax provisions are recognised for uncertain tax positions where a risk of an additional tax liability has been identified and it is probable that the Group will be required to settle that tax. Measurement is dependent on management's expectation of the outcome of decisions by tax authorities in the various tax jurisdictions in which the Group operates. This is assessed on a case by case basis using in-house tax experts, professional firms and previous experience. Refer to Note 6.

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. Management has estimated the inventory provisioning percentage for different product categories based on various factors, including the expected sales profiles of the items, the prevailing sales prices, the item's seasonality pattern and expected 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 and sensitivities for post-employment benefit obligations are disclosed in Note 27.

Contingent liabilities

Contingent liabilities are possible obligations whose existence will be confirmed only on the occurrence or non-occurrence of uncertain future events outside the Group's control, or present obligations that are not recognised because it is not probable that a settlement will be required or the value of such a payment cannot be reliably estimated. The Group does not recognise contingent liabilities but discloses them. Refer to Note 32 for the disclosures.

Note 1 Accounting policies, judgements and estimates 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. 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' replaces IAS 39 'Financial instruments: Recognition and Measurement' with the exception of macro hedge accounting. The standard is effective for accounting periods beginning on or after 1 January 2018. The standard covers three elements:
  - Classification and measurement: Changes to a more principle based approach to classify financial assets as either held at amortised cost, fair value through other comprehensive income (FVOCI) or fair value through profit or loss, dependent on the business model and cash flow characteristics of the financial asset;
  - Impairment: Moves to an impairment model based on expected credit losses based on a three stage approach; and
  - Hedge accounting: The IFRS 9 hedge accounting requirements are designed to allow hedge accounting to be more closely aligned with the Group's underlying risk management. A new International Accounting Standards Board (IASB) project is in progress to develop an approach to better reflect dynamic risk management in entities' financial statements.

  The Group expects to continue applying the existing hedge accounting requirements of IAS 39 for its portfolio hedge accounting until this new approach is implemented.

  The Group intends to quantify the potential impact of IFRS 9 once it is practicable to provide reliable estimates, which will be no later than in the Annual Report and Financial Statements for the year ended 24 February 2018. IFRS 9 is expected to result in a more significant impact for Tesco Bank than for the Retail business.

- IFRS 15, 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. IFRS 15 introduces a five-step approach to the timing of revenue recognition based on performance obligations in customer contracts.

  The Group recognises revenue from the following principal activities:
  - Retailing and associated activities; and
  - Retail banking and insurance services through Tesco Bank.

  An assessment of the impact of IFRS 15 has been completed. Revenue recognition under IFRS 15 is expected to be consistent with current practice for the Group's revenue, with the exception of Clubcard loyalty points, certain telecommunication contracts and certain bespoke contracts fulfilled by dunnhumby, where the timing of revenue recognition will change. Had the principles of IFRS 15 been applied in the current reporting period, it would not have had a significant impact on the financial statements.

- IFRS 16 'Leases' is effective for annual periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 provides a single lessee accounting model, requiring lessees to recognise right of use assets and lease liabilities for all applicable leases.

  IFRS 16 is expected to have a significant impact on the amounts recognised in the Group's consolidated financial statements. On adoption of IFRS 16 the Group will recognise within the balance sheet a right of use asset and lease liability for all applicable leases. Within the income statement, rent expense will be replaced by depreciation and interest expense. This will result in a decrease in cost of sales and an increase in finance costs. The standard will also impact a number of statutory measures such as operating profit and cash generated from operations, and alternative performance measures used by the Group.

  The full impact of IFRS 16 is currently under review, including understanding the practical application of the principles of the standard. It is therefore not practical to provide a reasonable estimate of the financial effect until this review is complete.

Alternative performance measures (APMs)

In the reporting of financial information, the Directors have adopted various APMs, previously termed 'Non-GAAP measures', of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive setting purposes and have remained consistent with the prior year.

The key APMs that the Group has focused on this year are as follows:

- Group sales (previously termed 'Revenue exc. fuel'): This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.

- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates.

- 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 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 by virtue of their size and nature in order to reflect management's view of the performance of the Group.

Note 1 Accounting policies, judgements and estimates continued

- Retail operating cash flow: This is the operating cash flow of continuing operations, excluding the effects of Tesco Bank's cash flows.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs: This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

Some of our IFRS measures are translated at constant exchange rates. Constant exchange rates are the average actual periodic exchange rates for the previous financial year and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial year.

Refer to the Glossary (page 170) for a full list and comprehensive descriptions and purpose of the Group's APMs.

Note 2 Segmental reporting

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

The principal activities of the Group are therefore presented in the following segments:

- Retailing and associated activities (Retail) in:
  - UK & ROI – the United Kingdom and Republic of Ireland; and
  - International – Czech Republic, Hungary, Poland, Slovakia, Malaysia, and Thailand; 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.

Excluded from the current year segmental information below are the retailing and associated activities of Turkey which have been classified as discontinued operations. Turkey's performance in the comparative year has been excluded from segmental information. Refer to Note 7 for further detail.

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 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.

Income statement

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

52 weeks ended 25 February 2017 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						
Group sales	37,424	9,892	1,012	48,328	1,539	49,867
Revenue	43,248	10,084	1,012	54,344	1,573	55,917
Operating profit before exceptional items*	**793**	**280**	**157**	**1,230**	**50**	**1,280**
Exceptional items	(291)	87	(80)	(284)	21	(263)
Operating profit/(loss)	502	367	77	946	71	1,017
Operating margin	**1.8%**	**2.8%**	**15.5%**	**2.3%**	**–**	**2.3%**

52 weeks ended 25 February 2017 At actual exchange rates	UK & ROI £m	International £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations				
Group sales	37,692	11,163	1,012	49,867
Revenue	43,524	11,381	1,012	55,917
Operating profit before exceptional items*	**803**	**320**	**157**	**1,280**
Exceptional items	(284)	101	(80)	(263)
Operating profit/(loss)	519	421	77	1,017
Operating margin	**1.8%**	**2.8%**	**15.5%**	**2.3%**
Share of post-tax profits/(losses) of joint ventures and associates				(107)
Finance income				109
Finance costs				(874)
Profit/(loss) before tax				**145**

* Intercompany recharges totalling £2m (2016: £2m) between continuing operations and the Turkey discontinued operations have been eliminated.

Note 2 Segmental reporting continued

Income statement continued

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				
Group sales	37,189	9,715	955	47,859
Revenue	43,080	9,898	955	53,933
Operating profit before exceptional items*	**503**	**320**	**162**	**985**
Exceptional items	94	(6)	(1)	87
Operating profit/(loss)	597	314	161	1,072
Operating margin	**1.2%**	**3.2%**	**17.0%**	**1.8%**
Share of post-tax profits/(losses) of joint ventures and associates				(21)
Finance income				29
Finance costs				(878)
Profit/(loss) before tax				**202**

* Refer to previous table for footnote.

Balance sheet

The following tables showing segment assets and liabilities exclude those balances that make up Net debt (cash and cash equivalents, short-term investments, joint venture loans and other receivables, bank and other borrowings, finance lease payables, derivative financial instruments and net debt of the disposal group). 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 25 February 2017	UK & ROI £m	International £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,293	322	1,102	–	2,717
Property, plant and equipment and investment property	12,893	5,206	73	–	18,172
Investments in joint ventures and associates	11	657	71	–	739
Non-current other investments	–	–	810	13	823
Non-current trade and other receivables[(a)]	23	20	–	–	43
Non-current loans and advances to customers	–	–	5,795	–	5,795
Deferred tax asset	601	106	–	–	707
Non-current assets[(b)]	**14,821**	**6,311**	**7,851**	**13**	**28,996**
Inventories and current trade and other receivables[(c)]	2,389	1,048	338	–	3,775
Current loans and advances to customers	–	–	4,166	–	4,166
Current other investments	–	–	156	128	284
Total trade and other payables	(7,006)	(1,951)	(242)	–	(9,199)
Total customer deposits and deposits from banks	–	–	(8,963)	–	(8,963)
Total provisions	(914)	(125)	(84)	–	(1,123)
Deferred tax liability	(7)	(67)	(14)	–	(88)
Net current tax	(579)	(13)	(8)	–	(600)
Post-employment benefits	(6,600)	(21)	–	–	(6,621)
Assets held for sale and of the disposal group[(d)]	100	46	–	187	333
Liabilities of the disposal group[(d)]	–	–	–	(95)	(95)
Net debt (including Tesco Bank)[(e)]	–	–	(722)	(3,729)	(4,451)
Net assets	**2,204**	**5,228**	**2,478**	**(3,496)**	**6,414**

(a) Excludes loans to joint ventures of £137m (2016: £149m) which forms part of Net debt.
(b) Excludes derivative financial instrument non-current assets of £1,303m (2016: £1,532m).
(c) Excludes net interest and other receivables of £1m (2016: £1m) which forms part of Net debt.
(d) Excludes Net debt of the disposal group of £(65)m. Refer to Note 7.
(e) Refer to Note 30.

Note 2 Segmental reporting continued

Balance sheet continued

At 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software 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
Non-current other investments	–	–	927	151	1,078
Non-current trade and other receivables[a]	31	21	–	–	52
Non-current loans and advances to customers	–	–	4,723	–	4,723
Deferred tax asset	–	49	–	–	49
Non-current assets[b]	**14,242**	**6,168**	**6,978**	**151**	**27,539**
Inventories and current trade and other receivables[c]	2,526	995	314	–	3,835
Current loans and advances to customers	–	–	3,819	–	3,819
Current other investments	–	–	57	–	57
Total trade and other payables	(6,580)	(1,736)	(252)	–	(8,568)
Total 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 group[d]	165	71	–	–	236
Liabilities of the disposal group[d]	–	–	–	–	–
Net debt (including Tesco Bank)[e]	–	–	(975)	(5,110)	(6,085)
Net assets	**5,896**	**5,305**	**2,374**	**(4,959)**	**8,616**

[a]–[e] Refer to previous table for footnotes.

Other segment information

52 weeks ended 25 February 2017	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations[b] £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[a]	995	386	12	1,393	2	1,395
Investment property	–	–	–	–	–	–
Goodwill, software and other intangible assets	111	16	34	161	–	161
Depreciation and amortisation:						
Property, plant and equipment	(687)	(349)	(17)	(1,053)	(5)	(1,058)
Investment property	(1)	–	–	(1)	–	(1)
Software and other intangible assets	(117)	(26)	(101)	(244)	(1)	(245)
Impairment:						
Property, plant and equipment loss	(12)	(155)	–	(167)	(106)	(273)
Property, plant and equipment reversal	118	161	–	279	–	279
Investment property loss	(2)	(1)	–	(3)	–	(3)
Investment property reversal	3	1	–	4	–	4
Goodwill, software and other intangible assets loss	(54)	–	–	(54)	–	(54)
Goodwill, software and other intangible assets reversal	–	1	–	1	–	1

[a] Includes £nil (2016: £1,742m) of property, plant and equipment acquired through business combinations.
[b] Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises those of Turkey in the first four months of the year ended 25 February 2017 and the 12 months of the year ended 27 February 2016. In the year ended 27 February 2016, discontinued operations also comprises the results of Korea for the first six months of the year.

Note 2 Segmental reporting continued

Other segment information continued

52 weeks ended 27 February 2016	UK & ROI £m	International £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations[b] £m	Total £m
Capital expenditure (including acquisitions through business combinations):						
Property, plant and equipment[a]	2,300	231	8	2,539	60	2,599
Investment property	5	–	–	5	–	5
Goodwill, software and other intangible assets	188	17	32	237	4	241
Depreciation and amortisation:						
Property, plant and equipment	(688)	(279)	(16)	(983)	(94)	(1,077)
Investment property	(2)	–	–	(2)	–	(2)
Software and other intangible assets	(145)	(26)	(75)	(246)	(9)	(255)
Impairment:						
Property, plant and equipment loss	(164)	(98)	–	(262)	(1)	(263)
Property, plant and equipment reversal	126	105	–	231	14	245
Investment property loss	–	(2)	–	(2)	–	(2)
Investment property reversal	7	–	–	7	–	7
Goodwill, software and other intangible assets loss	(177)	(10)	–	(187)	–	(187)

[a]–[b] Refer to previous table for footnotes.

Note 2 Segmental reporting continued

Cash flow statement

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

	Retail		Tesco Bank		Tesco Group	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Operating profit/(loss) of continuing operations*	**940**	**911**	**77**	**161**	**1,017**	**1,072**
Operating profit/(loss) of discontinued operations	(117)	102	–	–	(117)	102
Depreciation and amortisation	1,186	1,243	118	91	1,304	1,334
ATM net income	(43)	(38)	43	38	–	–
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(80)	165	2	(1)	(78)	164
(Profit)/loss arising on sale of subsidiaries and other investments	7	–	(4)	–	3	–
(Profit)/loss arising on sale of joint ventures and associates	(5)	(1)	–	–	(5)	(1)
Impairment loss on goodwill	46	18	–	–	46	18
Net impairment loss/(reversal) on other investments	(12)	(7)	–	–	(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates	–	1	–	–	–	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property	(5)	182	–	–	(5)	182
Adjustment for non-cash element of pensions charge	7	(395)	–	–	7	(395)
Additional contribution into pension schemes	(248)	(223)	–	–	(248)	(223)
Share-based payments	14	273	1	10	15	283
Tesco Bank fair value movements included in operating profit	–	–	98	72	98	72
Cash flows generated from operations excluding working capital	**1,690**	**2,231**	**335**	**371**	**2,025**	**2,602**
(Increase)/decrease in working capital	588	350	(55)	(518)	533	(168)
Cash generated from/(used in) operations	**2,278**	**2,581**	**280**	**(147)**	**2,558**	**2,434**
Interest received/(paid)	(518)	(422)	(4)	(4)	(522)	(426)
Corporation tax received/(paid)	(64)	125	17	(7)	(47)	118
Net cash generated from/(used in) operating activities	**1,696**	**2,284**	**293**	**(158)**	**1,989**	**2,126**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,199)	(858)	(6)	(13)	(1,205)	(871)
Purchase of intangible assets	(129)	(146)	(40)	(21)	(169)	(167)
Alternative performance measure: Free cash flow	**368**	**1,280**	**247**	**(192)**	**615**	**1,088**
Disposal of subsidiaries, net of cash disposed	205	3,237	–	–	205	3,237
Acquisition of subsidiaries, net of cash acquired	(25)	(325)	–	–	(25)	(325)
Proceeds from sale of joint ventures and associates	–	192	–	–	–	192
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	509	350	3	–	512	350
Net (increase)/decrease in loans to joint ventures and associates	15	(1)	–	–	15	(1)
Investments in joint ventures and associates	–	(77)	–	–	–	(77)
Net (investments in)/proceeds from sale of short-term investments	736	(2,894)	–	–	736	(2,894)
Net (investments in)/proceeds from sale of other investments	111	17	30	(120)	141	(103)
Dividends received from joint ventures and associates	28	41	–	–	28	41
Interest received/(paid)	41	3	–	–	41	3
Net cash generated from/(used in) investing activities	**292**	**(461)**	**(13)**	**(154)**	**279**	**(615)**
Proceeds from issue of ordinary share capital	1	1	–	–	1	1
Increase in borrowings	185	286	–	300	185	586
Repayment of borrowings	(2,036)	(1,328)	–	–	(2,036)	(1,328)
Net cash flows from derivative financial instruments	475	154	–	–	475	154
Repayment of obligations under finance leases	(12)	(17)	–	–	(12)	(17)
Dividends paid to equity owners	–	–	–	–	–	–
Net cash generated from/(used in) financing activities	**(1,387)**	**(904)**	**–**	**300**	**(1,387)**	**(604)**
Intra-Group funding and intercompany transactions	**45**	**50**	**(45)**	**(50)**	**–**	**–**
Net increase/(decrease) in cash and cash equivalents	**646**	**969**	**235**	**(62)**	**881**	**907**
Cash and cash equivalents at the beginning of the year	2,528	1,558	554	616	3,082	2,174
Effect of foreign exchange rate changes	(131)	1	–	–	(131)	1
Cash and cash equivalents including cash held in disposal group at the end of the year	**3,043**	**2,528**	**789**	**554**	**3,832**	**3,082**
Cash held in disposal group	(11)	–	–	–	(11)	–
Cash and cash equivalents at the end of the year	**3,032**	**2,528**	**789**	**554**	**3,821**	**3,082**

* Tesco Bank operating profit as per Bank income statement excluding ATM net income segmental adjustment. Refer to page 169.

Note 2 Segmental reporting continued

Cash flow statement continued

	Continuing operations		Discontinued operations		Retail	
	2017 £m	2016 £m	2017 £m	2016 £m	2017 £m	2016 £m
Operating profit/(loss)	**940**	**911**	**(117)**	**102**	**823**	**1,013**
Depreciation and amortisation	1,180	1,140	6	103	1,186	1,243
ATM net income	(43)	(38)	–	–	(43)	(38)
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(84)	167	4	(2)	(80)	165
(Profit)/loss arising on sale of subsidiaries and other investments	7	–	–	–	7	–
(Profit)/loss arising on sale of joint ventures and associates	(5)	(1)	–	–	(5)	(1)
Impairment loss on goodwill	46	18	–	–	46	18
Net impairment loss/(reversal) on other investments	(12)	(7)	–	–	(12)	(7)
Net impairment loss/(reversal) on loans/investments in joint ventures and associates	–	1	–	–	–	1
Net impairment loss/(reversal) on property, plant and equipment, software and other intangible assets and investment property	(106)	195	101	(13)	(5)	182
Adjustment for non-cash element of pensions charge	6	(401)	1	6	7	(395)
Additional contribution into pension schemes	(248)	(223)	–	–	(248)	(223)
Share-based payments	14	271	–	2	14	273
Cash flows generated from operations excluding working capital	**1,695**	**2,033**	**(5)**	**198**	**1,690**	**2,231**
(Increase)/decrease in working capital	584	55	4	295	588	350
Cash generated from/(used in) operations	**2,279**	**2,088**	**(1)**	**493**	**2,278**	**2,581**
Interest received/(paid)	(499)	(379)	(19)	(43)	(518)	(422)
Corporation tax received/(paid)	(64)	167	–	(42)	(64)	125
Net cash generated from/(used in) operating activities	**1,716**	**1,876**	**(20)**	**408**	**1,696**	**2,284**
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale	(1,193)	(770)	(6)	(88)	(1,199)	(858)
Purchase of intangible assets	(129)	(145)	–	(1)	(129)	(146)
Alternative performance measure: Free cash flow	**394**	**961**	**(26)**	**319**	**368**	**1,280**

Included within net impairment loss/(reversal) of property, plant and equipment and intangible assets for discontinued operations is £99m of impairment loss representing remeasurement to fair value less costs to sell of the Group's Turkish operations. Refer to Note 7.

Note 3 Income and expenses

Continuing operations	2017 £m	2016 £m
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £38m (2016: £39m) relates to investment properties	(358)	(316)
Other rental income	(50)	(53)
Direct operating expenses arising on rental earning investment properties	20	20
Costs of inventories recognised as an expense	41,140	39,534
Inventory losses and provisions	1,337	1,252
Depreciation and amortisation	1,298	1,231
Operating lease expenses, of which £84m (2016: £102m) relates to hire of plant and machinery	1,043	1,142
Net impairment loss/(reversal) on property, plant and equipment and investment property	(113)	26
Net impairment loss/(reversal) of goodwill, software and other intangible assets	53	187
Net impairment loss/(reversal) of investments in and loans to joint ventures and associates	–	1

Auditor's remuneration	2017 £m	2016 £m
Fees payable to the Company's auditor and its associates for the audit of the Company and Group financial statements	1.5	1.5
The audit of the financial statements of the Company's subsidiaries	4.0	4.4
Total audit services	**5.5**	**5.9**
Audit-related assurance services	0.5	0.6
Total audit and audit-related services	**6.0**	**6.5**
Fees payable to the Company's auditor and its associates for other services:		
Taxation compliance services	–	0.3
Taxation advisory services	0.3	0.9
All other non-audit services	5.5	8.8
Total non-audit services	**5.8**	**10.0**
Total auditor's remuneration	**11.8**	**16.5**

Other non-audit services of £5.5m (2016: £8.8m) represents: transaction-related services £1.9m (2016: £nil); retail consultancy services £1.5m (2016: £4.6m); forensic services £1.2m (2016: £2.3m); international employee services £0.6m (2016: £0.9m); pension advisory services of £nil (2016: £0.6m); and other £0.3m (2016: £0.4m). In addition to the amounts shown above, the auditor received fees of £0.2m (2016: £0.2m) for the audit of the main Group pension scheme. More detail on non-audit services, along with a description of the work of the Audit Committee, is set out in the Corporate Governance Report on page 50 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	2017 £m	2016 £m
Wages and salaries	6,051	5,932
Social security costs	473	395
Post-employment defined benefits (Note 27)[a]	35	10
Post-employment defined contributions (Note 27)[b]	341	175
Share-based payments expense (Note 26)	294	308
Termination benefits[c]	168	77
Total	**7,362**	**6,897**

[a] Includes £nil (2016: £538m) of exceptional past service credit. Refer to Note 4.
[b] Includes £nil (2016: £58m) of additional exceptional costs. Refer to Note 4.
[c] Includes £146m (2016: £58m) of exceptional redundancy costs. Refer to Note 4.

Post-employment expenses include £135m (2016: £168m) 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	
Continuing operations	2017	2016	2017	2016
UK & ROI	327,601	335,068	218,522	225,378
International	133,041	136,699	120,692	122,557
Tesco Bank	3,878	3,632	3,556	3,354
Total	**464,520**	**475,399**	**342,770**	**351,289**

Note 4 Exceptional items

Income statement

52 weeks ended 25 February 2017

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	Share of JV and associates profits/ (losses) £m	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Net restructuring and redundancy costs[a]	(153)	(26)	(20)	(199)	–	–	39	–
Net impairment (loss)/reversal of non-current assets and onerous lease provisions[b]	25	–	(31)	(6)	(54)	–	20	–
Provision for customer redress[c]	(45)	–	–	(45)	–	–	–	–
Interchange settlement[d]	57	–	–	57	–	–	(11)	–
Amounts provided in relation to DPA and FCA obligations[e]	–	(235)	–	(235)	–	–	–	–
Property transactions[f]	–	–	165	165	–	–	50	–
Insurance reserve adjustment[g]	–	–	–	–	(23)	–	–	–
Foreign exchange losses on GBP short term investments held in overseas entities[h]	–	–	–	–	–	(244)	–	–
Exceptional items related to discontinued operations[i]	–	–	–	–	–	–	–	(75)
Total	**(116)**	**(261)**	**114**	**(263)**	**(77)**	**(244)**	**98**	**(75)**

[a] This includes £164m relating to ongoing UK & ROI changes to the Group's distribution network and to store colleague structures and working practices. It also includes £35m relating to Tesco Bank business simplification and head office relocation costs.
[b] Net impairment (loss)/reversal of non-current assets includes a reversal of £103m in property, plant and equipment and investment property, a net £(53)m loss in goodwill, software and other intangible assets and a net charge of £(56)m of onerous lease provisions. Refer to Notes 10, 11, 12 and 25 for further details on impairment. The £(54)m loss relates to the Group's share of impairment in Gain Land Limited following a fair valuation exercise of its investment properties.
[c] Updated guidance from the Financial Conduct Authority (FCA) proposing an extension to the expected Payment Protection Insurance (PPI) settlement deadline, inclusion of items that had previously been out of scope for settlement and higher operational costs and claim rates than previously estimated, have resulted in a provision of £45m.
[d] This relates to settlement of a legal case in respect of interchange fees.
[e] The Group has taken a total exceptional charge of £235m in respect of the Deferred Prosecution Agreement (DPA) of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event. Refer to Notes 25 and 35 for further details.
[f] As part of the Group's strategy to maximise value from property, the Group generated a profit on disposal of surplus properties and development sites of £74m. In addition, two malls in Central Europe were disposed of, generating a profit of £91m. There is a tax credit of £50m primarily due to a lower book value than tax value of assets disposed. Refer to item (b) overleaf for cash proceeds.
[g] The Group's share of the results for the year of its joint venture, Tesco Underwriting, reflects an adjustment to insurance reserves following a revision to the Ogden tables, which are used to calculate future losses in personal injury and fatal accident claims.
[h] The Group received £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. Over the year, this has generated a £244m loss which 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.
[i] On 10 June 2016, the Group announced the proposed sale of its Turkish operations. This charge includes: an impairment of £(99)m following a remeasurement of the assets and liabilities of the Turkish operations to fair value less costs to sell; £(3)m of costs to sell the Turkish operations and £27m of net adjustments on profits/(losses) of past disposals. Refer to Note 7 for further details.

Note 4 Exceptional items continued

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	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
Net impairment (loss)/reversal of non-current assets and onerous lease provisions	(314)	–	(109)	(423)	–	73	15
Net restructuring and redundancy costs	(75)	(34)	(17)	(126)	–	9	–
Property transactions	–	–	156	156	–	(20)	–
Past service credit and other associated costs	424	56	–	480	–	(86)	–
Foreign exchange losses on GBP balances held in overseas entities	–	–	–	–	(220)	–	–
Release of overprovision of tax liabilities in prior years	–	–	–	–	–	86	–
Loss on disposal of Korean operations	–	–	–	–	–	–	(168)
Total	**35**	**22**	**30**	**87**	**(220)**	**62**	**(153)**

Cash flow statement

The table below shows the impact of exceptional items on the Group cash flow statement:

	Cash flows from operating activities		Cash flows from investing activities	
	2017 £m	2016 £m	2017 £m	2016 £m
Prior year restructuring costs and other exceptional costs including trading store redundancies[a]	(54)	(251)	–	–
Current year restructuring costs and other exceptional costs including trading store redundancies[a]	(78)	(63)	–	–
Utilisation of onerous lease provisions	(113)	(90)	–	–
Property transactions[b]	36	218	490	–
Provision for customer redress[c]	(28)	(34)	–	–
Legal settlement	57	–	–	–
Exceptional cash flows from discontinued operations	2	–	–	–
Defined benefit pension scheme closure cost	–	(58)	–	–
Property transactions – buy-back of property joint ventures, net of £15m cash acquired	–	–	–	(139)
Total	**(178)**	**(278)**	**490**	**(139)**

[a] Cash outflows on settlement of restructuring and redundancy costs.
[b] The proceeds from property transactions totalled £526m comprising £490m net proceeds from the sale of two malls in Central Europe and other properties in the UK & ROI, and £36m for development sites in UK & ROI. Refer to item (f) on the previous page.
[c] Settlement of claims for customer redress in Tesco Bank.

Note 5 Finance income and costs

Continuing operations	2017 £m	2016 £m
Finance income		
Interest receivable and similar income	48	29
Financial instruments – fair value remeasurements	61	–
Total finance income	**109**	**29**
Finance costs		
GBP MTNs and Loans	(227)	(176)
EUR MTNs	(114)	(122)
USD Bonds	(93)	(86)
Finance charges payable under finance leases and hire purchase contracts	(8)	(9)
Other interest payable	(81)	(97)
Capitalised interest (Note 11)*	6	6
Financial instruments – fair value remeasurements	–	(19)
Total finance costs before exceptional items and net pension finance costs	**(517)**	**(503)**
Net pension finance costs (Note 27)	(113)	(155)
Foreign exchange losses on GBP short-term investments held in overseas entities (Note 4)	(244)	(220)
Total finance costs	**(874)**	**(878)**
Net finance cost	**(765)**	**(849)**

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

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	2017 £m	2016 £m
Current tax (credit)/charge		
UK corporation tax	70	81
Release of UK provisions for uncertain tax positions – exceptional credit	–	(86)
Foreign tax	111	73
Adjustments in respect of prior years	19	(191)
	200	**(123)**
Deferred tax (credit)/charge		
Origination and reversal of temporary differences	(43)	(69)
Adjustments in respect of prior years*	(36)	169
Change in tax rate	(34)	(31)
	(113)	**69**
Total income tax (credit)/charge	**87**	**(54)**

* Prior year adjustments include a tax credit of £24m in relation to an impairment reversal classified as exceptional.

The Finance Act 2016 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. These rate reductions were substantively enacted by the balance sheet date and therefore included 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

	2017 £m	2016 £m
Profit/(loss) before tax	**145**	**202**
Tax credit/(charge) at 20% (2016: 20.1%)	(29)	(41)
Effect of:		
Non-qualifying depreciation	(33)	(49)
Other non-deductible items[(a)]	(82)	(4)
Unrecognised tax losses	(48)	(103)
Release of provisions for uncertain tax positions – exceptional credit	–	86
Property items taxed on a different basis to accounting entries[(b)]	77	114
Banking surcharge tax	(17)	(3)
Differences in overseas taxation rates	15	5
Adjustments in respect of prior years	17	22
Share of losses of joint ventures and associates	(21)	(4)
Change in tax rate	34	31
Total income tax credit/(charge) for the year	**(87)**	**54**
Effective tax rate	**60.0%**	**(26.6)%**

(a) This includes expenses not qualifying for tax relief including DPA and FCA obligations provision, impairments and movements in uncertain tax positions partially offset by non-taxable income.
(b) 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

Reconciliation of effective tax charge on alternative performance measures

	2017 £m	2016 £m
Profit/(loss) before tax before exceptional items	**729**	**335**
Tax credit/(charge) at 20% (2016: 20.1%)	(146)	(67)
Effect of:		
Non-qualifying depreciation	(33)	(30)
Other non-deductible items[a]	(50)	(4)
Unrecognised tax losses	(14)	(59)
Property items taxed on a different basis to accounting entries[b]	(1)	102
Banking surcharge tax	(17)	(3)
Differences in overseas taxation rates	(7)	8
Adjustments in respect of prior years	39	22
Share of losses of joint ventures and associates	(5)	(4)
Change in tax rate	49	27
Total income tax credit/(charge) for the year	**(185)**	**(8)**
Effective tax rate before exceptional items	**25.4%**	**2.4%**
Net pension finance costs	113	155
Tax charge at 20% (2016: 20.1%)	(23)	(31)
Change in tax rate	4	3
Total income tax credit/(charge) before exceptional items and net pension finance cost for the year	**(204)**	**(36)**
Effective tax rate before exceptional items and net pension finance cost	**24.2%**	**7.3%**

[a] This includes expenses not qualifying for tax relief, impairments and movements in uncertain tax positions partially offset by non-taxable income.
[b] 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.

Tax on items credited directly to the Group statement of changes in equity

	2017 £m	2016 £m
Current tax credit/(charge) on:		
Share-based payments	–	–
Deferred tax credit/(charge) on:		
Share-based payments	2	–
Total tax on items credited/(charged) to the Group statement of changes in equity	**2**	**–**

Tax relating to components of the Group statement of comprehensive income

	2017 £m	2016 £m
Current tax credit/(charge) on:		
Foreign exchange movements	(13)	6
Fair value of movement on available-for-sale investments	–	–
Fair value movements on cash flow hedges	–	–
Deferred tax credit/(charge) on:		
Pensions	579	(300)
Fair value of movement on available-for-sale investments	(15)	–
Fair value movements on cash flow hedges	5	(36)
Total tax on items credited/(charged) to Group statement of comprehensive income	**556**	**(330)**

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[a] £m	Retirement benefit obligation[c] £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 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 changes in equity	–	–	–	–	–	–	–	–
(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[b]	(5)	2	–	3	–	–	–	–
At 27 February 2016	**(816)**	**563**	**6**	**143**	**50**	**(32)**	**–**	**(86)**

Note 6 Taxation continued

	Property-related items[a] £m	Retirement benefit obligation[c] £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 27 February 2016	**(816)**	**563**	**6**	**143**	**50**	**(32)**	**–**	**(86)**
(Charge)/credit to the Group income statement	162	(20)	14	(6)	(41)	4	–	113
(Charge)/credit to the Group statement of changes in equity	–	–	2	–	–	–	–	2
(Charge)/credit to the Group statement of comprehensive income	–	579	–	–	–	(10)	–	569
Discontinued operations	18	–	–	–	–	–	–	18
Business combinations	–	–	–	1	–	–	–	1
Foreign exchange and other movements[b]	(8)	–	1	10	(1)	–	–	2
At 25 February 2017	**(644)**	**1,122**	**23**	**148**	**8**	**(38)**	**–**	**619**

(a) Property-related items include a deferred tax liability on rolled over gains of £277m (2016: £321m) and deferred tax assets on capital losses of £185m (2016: £137m). The remaining balance relates to accelerated tax depreciation. It is not anticipated these will reverse materially in the foreseeable future.
(b) The deferred tax charge for foreign exchange and other movements is a £2m credit (2016: £nil) 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.
(c) 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 27.

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

	2017 £m	2016 £m
Deferred tax assets	707	49
Deferred tax liabilities	(88)	(135)
	619	**(86)**

No deferred tax liability is recognised on temporary differences of £3.2bn (2016: £2.9bn) 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 25 February 2017 is estimated to be £192m (2016: £141m) which relates to taxes payable on repatriation and dividend withholding taxes levied by overseas tax jurisdictions. UK tax legislation relating to company distributions provides for exemption from tax for most repatriated profits, subject to certain exceptions.

Unrecognised deferred tax assets

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

	2017 £m	2016 £m
Deductible temporary differences	108	155
Tax losses	202	89
	310	**244**

As at 25 February 2017, the Group has unused trading tax losses from continuing operations of £859m (2016: £728m) available for offset against future profits. A deferred tax asset has been recognised in respect of £45m (2016: £274m) of such losses. No deferred tax asset has been recognised in respect of the remaining £814m (2016: £454m) due to the unpredictability of future profit streams. Included in unrecognised tax losses are losses of £18m that will expire in 2021 (2016: £32m in 2020) and £92m that will expire between 2022 and 2037 (2016: £2m between 2021 and 2036). Other losses will be carried forward indefinitely.

The 2016 balance for unrecognised deferred tax assets has been restated to exclude amounts in respect of discontinued operations. These include unrecognised deferred tax assets of £161m in respect of tax losses and £8m in relation to deductible temporary differences.

Current tax

Within the Group current tax liability of £613m is £383m of capital gains tax liabilities which may arise in respect of the sale of the Korea and China businesses.

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. We monitor income tax developments in these territories (which include the OECD Base Erosion and Profit Shifting (BEPS) initiative and European Union's state aid investigations) which could affect the Group's tax liabilities.

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

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

	25 February 2017 £m	27 February 2016 £m
Assets of the disposal group	198	–
Non-current assets classified as held for sale	146	236
Total assets of the disposal group and non-current assets classified as held for sale	**344**	**236**
Total liabilities of the disposal group	(171)	–
Total net assets of the disposal group and non-current assets classified as held for sale	**173**	**236**

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 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gıda Sanayi A.Ş. (referred to as Turkish operations or Turkey) to Migros Ticaret A.Ş. (Migros). In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale within the period. Local regulatory approval was granted on 9 February 2017 and the sale completed on 1 March 2017.

At year end, an impairment charge of £99m has been recognised in property, plant and equipment primarily based on the latest completion statement as at 1 March 2017 reflecting fair value less costs to sell. This impairment has been included as an exceptional item within discontinued operations. The gain/(loss) on disposal at completion will also reflect the impact of the recycling of Turkey's currency translation reserve; at the year end the recycling would have increased the loss on sale by £119m. The equivalent amount for the recycling of the currency translation reserve at the date of disposal will be recorded as a non-cash loss within discontinued operations in the year ending 24 February 2018.

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. The comparative includes the Korean operations, which were sold on 22 October 2015 and disclosed as discontinued in the 2016 Annual Report.

Income statement

	2017	2016		
	Total[a] £m	Turkey £m	Korea £m	Total £m
Revenue	543	500	3,526	4,026
Expenses[b]	(580)	(555)	(3,404)	(3,959)
Profit/(loss) before tax before exceptional items	**(37)**	**(55)**	**122**	**67**
Taxation	–	–	(41)	(41)
Profit/(loss) after tax before exceptional items	**(37)**	**(55)**	**81**	**26**
Net impairment (loss)/reversal of non-current assets and onerous lease provisions	(99)	15	–	15
Costs to sell and other provisions – Turkey	(3)	–	–	–
Loss after tax on disposal of Korean operations	–	–	(168)	(168)
Net adjustments to profit/(loss) of past disposals	27	–	–	–
Total profit/(loss) after tax of discontinued operations[c]	**(112)**	**(40)**	**(87)**	**(127)**

[a] These figures represent the income statement of Turkey for the current year and the net adjustments to profit/(loss) of past disposals of £27m.
[b] Intercompany recharges totalling £2m (2016: £2m) between continuing operations and the Turkey discontinued operation have been eliminated and intercompany recharges and intercompany loan interest totalling £48m between continuing operations and the Korea discontinued operation have been eliminated in 2016. These eliminations impact the performance of continuing and discontinued operations, reducing the profit/(loss) before tax of continuing operations by £2m (2016: £50m), whilst increasing the profit/(loss) before tax of Turkey and Korea discontinued operations by the same respective amounts.
[c] Total profit/(loss) after tax of discontinued operations includes a loss of £6m attributable to non-controlling interests (2016: loss of £2m).

Loss per share impact from discontinued operations

	2017 Pence/share	2016 Pence/share
Basic	(1.30)	(1.54)
Diluted	(1.30)	(1.53)

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

Balance sheet

	Turkey 2017 £m
Assets of the disposal group	
Goodwill, software and other intangible assets	9
Property, plant and equipment	121
Inventories	43
Trade and other receivables	14
Cash and cash equivalents	11
Total assets of the disposal group	**198**
Trade and other payables	(88)
Borrowings	(76)
Other liabilities	(7)
Total liabilities of the disposal group	**(171)**
Total net assets of the disposal group	**27**

Cash flow statement

	Turkey 2017 £m	Korea and Turkey 2016 £m
Net cash flows from operating activities	(20)	408
Net cash flows from investing activities	13	(20)
Net cash flows from financing activities	21	8
Net cash flows from discontinued operations	**14**	**396**
Intra-Group funding and intercompany transactions	(2)	(108)
Net cash flows from discontinued operations, net of intercompany	**12**	**288**
Net cash flows from disposal of subsidiary	–	(366)
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**12**	**(78)**

On 22 October 2015, the Group completed the sale of its Korean operations to a group of investors led by MBK Partners. There remains 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 was recorded in 2016 for potential additional capital gains tax on the disposal, payable in Korean Won. The impact of foreign exchange movements has increased this provision to £329m as at 25 February 2017.

The Group is vigorously contesting this interpretation through the Korean legal process. During the year ended 27 February 2016, the Group filed a claim for a refund of the capital gains tax withheld by the purchasers and the Korean National Tax Service commenced an investigation into this claim. As the investigation is ongoing, the Group has not recognised the benefit of this claim in its financial statements for the current or prior years.

Note 8 Dividends

No dividend has been paid or is proposed in respect of the financial year ended 25 February 2017 (2016: £nil).

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

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

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

For the 52 weeks ended 25 February 2017 there were 20 million (2016: 26 million) potentially dilutive share options. As the Group has recognised a profit for the period from its continuing operations dilutive effects have been considered in calculating diluted earnings per share.

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

	2017			2016		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations[a]	66	–	66	263	–	263
Discontinued operations[b]	(106)	–	(106)	(125)	–	(125)
Total	**(40)**	**–**	**(40)**	**138**	**–**	**138**
Weighted average number of shares (millions)	**8,148**	**20**	**8,168**	**8,126**	**26**	**8,152**
Earnings/(losses) per share (pence)						
Continuing operations	0.81	–	0.81	3.24	(0.02)	3.22
Discontinued operations	(1.30)	–	(1.30)	(1.54)	0.01	(1.53)
Total	**(0.49)**	**–**	**(0.49)**	**1.70**	**(0.01)**	**1.69**

[a] Excludes losses from non-controlling interest of £8m (2016: £7m).
[b] Excludes losses from non-controlling interest of £6m (2016: £2m).

Alternative performance measure: Earnings/(losses) per share and diluted earnings/(losses) per share from continuing operations before exceptional items

	2017			2016		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations[a]	551	–	551	330	–	330
Discontinued operations[b]	(36)	–	(36)	29	–	29
Total	**515**	**–**	**515**	**359**	**–**	**359**
Weighted average number of shares (millions)	**8,148**	**20**	**8,168**	**8,126**	**26**	**8,152**
Earnings/(losses) per share (pence)						
Continuing operations	6.76	(0.01)	6.75	4.06	(0.01)	4.05
Discontinued operations	(0.44)	–	(0.44)	0.36	(0.01)	0.35
Total	**6.32**	**(0.01)**	**6.31**	**4.42**	**(0.02)**	**4.40**

[a] Excludes losses from non-controlling interest of £7m (2016: £3m).
[b] Excludes losses from non-controlling interest of £1m (2016: £3m).

Alternative performance measure: Diluted earnings/(losses) per share from continuing operations before exceptional items and net pension finance costs

	2017	2016
Profit before tax from continuing operations before exceptional items (£m)	729	335
Add: Net pension finance costs (£m)	113	155
Profit before tax from continuing operations before exceptional items and net pension finance costs (£m)	842	490
Profit before tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	845	494
Taxation on profit from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	(200)	(37)
Profit after tax from continuing operations before exceptional items and net pension finance costs attributable to the owners of the parent (£m)	**645**	**457**
Diluted weighted average number of shares (millions)	**8,168**	**8,152**
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs (pence)	**7.90**	**5.61**

Refer to page 170 for further detail on the Group's APMs.

Note 10 Goodwill, software and other intangible assets

	Goodwill £m	Software* £m	Other intangible assets £m	Total £m
Cost				
At 27 February 2016	2,517	2,861	372	5,750
Foreign currency translation	71	28	5	104
Additions	–	156	5	161
Reclassification	–	(15)	2	(13)
Disposals	(123)	(43)	(10)	(176)
Transfer to disposal group classified as held for sale	(39)	(16)	(11)	(66)
At 25 February 2017	**2,426**	**2,971**	**363**	**5,760**
Accumulated amortisation and impairment losses				
At 27 February 2016	690	1,886	300	2,876
Foreign currency translation	36	21	2	59
Charge for the year	–	216	29	245
Impairment losses	46	5	3	54
Reversal of impairment losses	–	(1)	–	(1)
Reclassification	–	12	(12)	–
Disposals	(99)	(34)	(1)	(134)
Transfer to disposal group classified as held for sale	(39)	(13)	(4)	(56)
At 25 February 2017	**634**	**2,092**	**317**	**3,043**
Net carrying value				
At 25 February 2017	**1,792**	**879**	**46**	**2,717**
At 27 February 2016	1,827	975	72	2,874

* Software includes £422m of internally generated development costs (2016: £464m).

	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	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**

Note 10 Goodwill, software and other intangible assets continued

Impairment of goodwill

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

	Balances £m		Pre-tax discount rates		Post-tax discount rates		Long-term growth rates	
	2017	2016	2017	2016	2017	2016	2017	2016
Tesco Bank	802	802	12.0%	11.0%	9.1%	8.2%	3.0%	4.0%
UK*	735	796	9.3%	9.1%	7.5%	7.2%	2.0%	2.0%
Thailand	181	159	10.0%	10.1%	8.0%	8.1%	2.7%	2.6%
Malaysia	74	70	12.4%	12.3%	9.4%	9.4%	2.3%	2.1%
	1,792	**1,827**						

* Included in the UK prior year balance is £29m previously disclosed as Other.

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 the higher of fair value less costs of disposal, and value in use. The key estimates 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. The pre-tax discount rates used to calculate value in use 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.

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates as shown above. These long-term growth rates for the Retail business are based on inflation forecasts by recognised bodies. The long-term growth rate for Tesco Bank is based on inflation and GDP growth forecasts by recognised bodies.

Goodwill related to the Sociomantic acquisition of £46m, within the UK balance, was fully impaired in the year due to lower forecast cash flows for the business. This charge has been classified as an exceptional item within 'Net impairment of non-current assets and onerous lease provisions' 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. A reasonably possible increase in the discount rate or reduction in the long-term growth rate by one percentage point, would not indicate impairment in any group of cash-generating units apart from Malaysia where an increase in the discount rate by one percentage point would reduce the recoverable value by £90m to its carrying value of £74m.

Impairment of software and other intangible assets

A net impairment loss of £7m has been recognised against software and other intangible assets as part of the impairment review discussed in Note 11. This loss has been classified as an exceptional item within 'Net impairment of non-current assets and onerous lease provisions' within cost of sales. Of the prior year impairment loss of £169m, a loss of £154m was recognised principally as a result of an evaluation of the cash-generating unit for technology relating to online general merchandising as the Group moved towards a single online platform for customers.

Note 11 Property, plant and equipment

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 27 February 2016	22,557	10,468	33,025
Foreign currency translation	727	327	1,054
Additions[b]	816	579	1,395
Reclassification	(103)	58	(45)
Classified as held for sale	(316)	(6)	(322)
Disposals	(674)	(594)	(1,268)
Transfer to disposal group classified as held for sale	(317)	(151)	(468)
At 25 February 2017	**22,690**	**10,681**	**33,371**
Accumulated depreciation and impairment losses			
At 27 February 2016	7,198	7,927	15,125
Foreign currency translation	258	239	497
Charge for the year	419	639	1,058
Impairment losses	246	27	273
Reversal of impairment losses	(246)	(33)	(279)
Reclassification	(58)	11	(47)
Classified as held for sale	(137)	(1)	(138)
Disposals	(353)	(539)	(892)
Transfer to disposal group classified as held for sale	(232)	(102)	(334)
At 25 February 2017	**7,095**	**8,168**	**15,263**
Net carrying value			
At 25 February 2017	**15,595**	**2,513**	**18,108**
At 27 February 2016	15,359	2,541	17,900
Construction in progress included above[c]			
At 25 February 2017	**57**	**66**	**123**
At 27 February 2016	121	63	184

[a] Other assets consist of fixtures and fittings with a net carrying value of £2,023m (2016: £2,145m), office equipment with a net carrying value of £161m (2016: £144m) and motor vehicles with a net carrying value of £329m (2016: £252m).
[b] Includes £6m (2016: £7m) 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 4.9% (2016: 4.6%). Interest capitalised is deducted in determining taxable profit in the financial year in which it is incurred.
[c] Construction in progress does not include land.

Assets held under finance leases

Net carrying value includes assets held under finance leases, which are analysed below. These assets are pledged as security for the finance lease liabilities.

	2017		2016	
	Land and buildings £m	Other £m	Land and buildings £m	Other £m
Net carrying value	**66**	**27**	**55**	**21**

Land and buildings

The net carrying value of land and buildings comprises:

	2017 £m	2016 £m
Freehold	13,175	13,005
Long leasehold – 50 years or more	404	491
Short leasehold – less than 50 years	2,016	1,863
Net carrying value	**15,595**	**15,359**

In the current year the Group reclassified property, plant and equipment with a net book value of £nil (2016: £8m) to development properties in inventories.

Note 11 Property, plant and equipment continued

	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**

[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 the higher of fair value less costs of disposal, and value in use.

The key estimates 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. The 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 and predominately range from 9% to 13% (2016: 9% to 12%). On a post-tax basis, the discount rates predominately range from 7% to 10% (2016: 7% to 9%).

Cash flow projections are based on the Group's three year internal forecasts, the results of which are reviewed by the Board. Estimates of selling prices and direct costs are based on past experience and expectations of future changes in the market. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term average growth rates. These long-term growth rates are based on inflation forecasts by recognised bodies and range from 1% to 3% (2016: 2% to 6%).

Fair values are determined with regard to the market rent for the stores or for alternative uses with investment yields appropriate to reflect the physical characteristics of the property, location, infrastructure, redevelopment potential and other factors. In some cases, fair values include residual valuations where stores may be viable for redevelopment. 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. Fair values for the Group's properties were determined with the assistance of independent, professional valuers where appropriate.

The net carrying value of £18,108m (2016: £17,900m) above comprises £13,338m (2016: £13,731m) of unimpaired assets and £4,770m (2016: £4,169m) of impaired assets. Of the impaired assets, £2,196m (2016: £1,805m) carrying value was supported by value in use and £2,574m (2016: £2,364m) 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.

The total net impairment reversal of £6m includes an impairment loss of £106m relating to the Group's decision to sell its Turkish operations. This impairment has been classified as an exceptional item relating to discontinued operations; refer to Note 4 and Note 7 for further details.

The remaining net impairment reversal of £112m (£279m reversal offset by £167m losses) relating to continuing operations largely reflects normal fluctuations expected from store level performance within the continuing challenging economic environment. These losses and reversals have been largely presented net at a country level to reflect the underlying trends in the businesses. The impairment reversal of £279m (2016: £231m) relates to properties in the UK & ROI of £118m (2016: £126m) and International of £161m (2016: £105m), whilst the impairment losses of £167m (2016: £263m) relate to properties in the UK & ROI of £12m (2016: £164m) and International of £155m (2016: £99m).

Note 11 Property, plant and equipment continued

Of the £112m net reversal relating to continuing operations, a £134m reversal within exceptional items related to trading stores has been classified as 'Net impairment of non-current assets and onerous lease provisions' included within cost of sales. In addition, a £30m charge within exceptional items related to construction in progress and closed stores has been classified as 'Net impairment of non-current assets and onerous lease provisions' included within profits/(losses) arising on property-related items. The remaining £8m reversal has not been included within exceptional items as it relates to the ongoing management of the property portfolio.

The prior period net impairment charge of £18m included a £14m reversal relating to the Turkish operations, which were classified as discontinued in the current financial year. Of the remaining £32m impairment charge related to continuing operations, an £80m release within exceptional items related to trading stores and online general merchandising hardware, which was classified as 'Net impairment of non-current assets and onerous lease provisions' included within cost of sales. In addition, a £90m charge within exceptional items related to construction in progress and closed stores was classified as 'Net impairment of non-current assets and onerous lease provisions' included within profits/(losses) arising on property-related items. An additional £34m charge within exceptional items relating to business rationalisation in the UK & ROI was classified as 'Net restructuring and redundancy costs' included within cost of sales. The remaining £12m reversal was not included within exceptional items.

The Group has carried out a sensitivity analysis on the impairment tests for its trading stores portfolio. A reasonably possible increase of one percentage point in the post-tax discount rates for each geographic region would increase impairment by £278m. A decrease by one percentage point would decrease impairment by £243m.

Note 12 Investment property

	2017 £m	2016 £m
Cost		
At beginning of the year	170	285
Foreign currency translation	7	5
Additions	–	5
Reclassification	56	48
Classified as held for sale	(25)	(91)
Disposals	(37)	(43)
Transfer to disposal group classified as held for sale	–	(39)
At end of the year	**171**	170
Accumulated depreciation and impairment losses		
At beginning of the year	92	121
Foreign currency translation	6	6
Charge for the year	1	2
Impairment losses for the year	3	2
Reversal of impairment losses for the year	(4)	(7)
Reclassification	45	31
Classified as held for sale	(12)	(47)
Disposals	(24)	(7)
Transfer to disposal group classified as held for sale	–	(9)
At end of the year	**107**	92
Net carrying value at end of the year	**64**	78

The estimated fair value of the Group's investment property is £0.2bn (2016: £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 158 to 164 for a complete list of Group entities.

Subsidiaries

The accounting year ends of the subsidiaries consolidated in these financial statements are on or around 25 February 2017.

Consolidated structured entities

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

These entities have financial year ends of 31 December. The management accounts of these entities are used to consolidate the results to 25 February 2017 within these financial statements.

Note 13 Group entities continued

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

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

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

Interests in joint ventures and associates

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

	Nature of relationship	Business activity	Share of issued share capital, loan capital and debt securities	Country of incorporation	Principal area of operation
Gain Land Limited	Associate	Retail	20%	British Virgin Islands	People's Republic of China/ Hong Kong
Included in 'UK property joint ventures':					
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
Included in 'Other joint ventures and associates':					
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
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	Associate	Property investment	25%	Thailand	Thailand

* On 6 April 2017, the Group purchased the remaining 50% equity interest in BLT Properties Limited. Refer to Note 35 for further details.

The accounting period end dates of the joint ventures and associates consolidated in these financial statements range from 31 December 2016 to 25 February 2017. 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, and for Tesco Underwriting Limited, regulatory capital requirements.

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 other contractual arrangements between the Group and the entities.

The Group made a number of judgements in arriving at this determination, the key ones being:

- since the provisions of the joint venture agreements require the relevant decisions impacting investor returns to be either unanimously agreed by both joint venturers at the same time, or in some cases to be agreed sequentially by each venturer at different stages, there is joint decision making within the joint venture;

Note 13 Group entities continued

- 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.

Summarised financial information for joint ventures and associates

The summarised financial information below reflects the amounts presented in the financial statements of the relevant joint ventures and associates, and not the Group's share of those amounts. These amounts have been adjusted to conform to the Group's accounting policies where required. The summarised financial information for UK property joint ventures has been aggregated in order to provide useful information to users without excessive detail since these entities have similar characteristics and risk profiles largely based on their nature of activities and geographic market.

	UK property joint ventures		Gain Land Limited	
	2017 £m	2016 £m	12 months to Dec 2016 £m	12 months to Dec 2015 £m
Summarised balance sheet				
Non-current assets[a]	4,060	4,158	4,471	4,712
Current assets (excluding cash and cash equivalents)	99	58	2,261	2,047
Cash and cash equivalents	48	38	631	581
Current liabilities[b]	(301)	(327)	(6,208)	(5,550)
Non-current liabilities[b]	(4,831)	(4,572)	(169)	(153)
Net (liabilities)/assets	**(925)**	**(645)**	**986**	**1,637**
Summarised income statement				
Revenue	292	296	9,081	8,408
Profit/(loss) after tax	**–**	**(36)**	**(626)**	**(341)**
Reconciliation to carrying amounts:				
Opening balance	–	49	511	582
Additions/(disposals)	–	(10)	–	–
Foreign currency translation	–	–	47	(3)
Share of profits/(losses)[c]	14	22	(125)	(68)
Dividends received from joint ventures and associates	(14)	(29)	–	–
Deferred profits offset against carrying amounts[d]	–	(32)	–	–
Closing balance	**–**	**–**	**433**	**511**
Group's share in ownership	50%	50%	20%	20%
Group's share of net assets/(liabilities)	(463)	(323)	197	327
Goodwill	–	–	236	184
Deferred property profits offset against carrying amounts[d]	(63)	(64)	–	–
Cumulative unrecognised losses[e]	175	143	–	–
Cumulative unrecognised hedge reserves[f]	351	244	–	–
Carrying amount	**–**	**–**	**433**	**511**

(a) The non-current asset balances of UK property joint ventures are reflected at historic depreciated cost to conform to the Group's accounting policies. The aggregate fair values in the financial statements of the joint ventures are £5,242m (2016: £5,415m).
(b) The current and non-current liabilities of UK property joint ventures largely comprise loan balances of £4,121m (2016: £4,151m) and derivative swap balances of £703m (2016: £487m) entered into to hedge the cash flow variability exposures of the joint ventures. The 2016 derivative balance of £487m reflects a £159m reduction due to valuation adjustments for credit risk not included in the prior year.
(c) The profit for the year for UK property joint ventures related to £14m dividends received from joint ventures with £nil carrying amounts. £21m of losses and £107m of decreases in the fair values of derivatives arising from these entities have been included in cumulative unrecognised losses and cumulative unrecognised hedge reserves respectively. The loss of £(125)m for Gain Land Limited includes an impairment loss of £(54)m treated as an exceptional item. Refer to Note 4.
(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. £1m relating to The Brookmaker Limited Partnership has been released during the year as a result of the disposal.
(e) Cumulative unrecognised losses of £3m were disposed of relating to The Brookmaker Limited Partnership.
(f) The 2016 cumulative unrecognised hedge reserves balances have been reduced by £79m to reflect valuation adjustments for credit risks.

At 25 February 2017, the Group has £103m (2016: £115m) loans to UK property joint ventures and £nil (2016: £nil) to Gain Land Limited.

Note 13 Group entities continued

Other joint ventures and associates
The Group also has interests in a number of other joint ventures and associates, excluding UK property joint ventures and Gain Land Limited. These are not considered to be individually material to the Group.

	Joint ventures		Associates	
	2017 £m	2016 £m	2017 £m	2016 £m
Aggregate carrying amount of other joint ventures and associates	245	219	61	55
Group's share of profits/(losses) for the year	(7)	23	11	2

Impairment
Management has performed impairment tests and sensitivity analysis on its investments in Gain Land Limited, Trent Hypermarket Limited and Tesco Underwriting Limited. The carrying values of Trent Hypermarket Limited of £112m (2016: £96m) and Tesco Underwriting Limited of £71m (2016: £76m) are included within 'Other joint ventures and associates' as discussed above.

The recoverable values of these investments were estimated taking into account forecast cash flows, equity valuations of comparable entities and/or recent transactions for comparable businesses. No impairment was recognised in the period for these investments. Sensitivity tests for reasonably possible increases in the discount rates of one percentage point would not indicate impairment in any of the investments.

Future changes in estimated cash flows, discount rates, competitive landscape, retail market conditions and other factors may result in impairment losses or reversals of impairment in future periods.

Note 14 Other investments

	2017 £m	2016 £m
Loans receivable	13	30
Available-for-sale financial assets	1,094	1,105
Total other investments	**1,107**	**1,135**
Of which:		
Current	284	57
Non-current	823	1,078
	1,107	**1,135**

The Group holds an 8.8% investment stake in Lazada Group S.A. (2016: 21%), which is also included within available-for-sale financial assets. Refer to Note 31 for details of the disposal of part of this investment during the year.

Note 15 Inventories

	2017 £m	2016 £m
Goods held for resale	2,276	2,390
Development properties	25	40
	2,301	**2,430**

Goods held for resale are net of commercial income (refer to Note 20).

Note 16 Trade and other receivables

	2017 £m	2016 £m
Trade receivables	490	496
Prepayments	322	319
Accrued income	207	121
Other receivables	483	491
Amounts owed by joint ventures and associates (Note 29)	153	180
Total trade and other receivables	**1,655**	**1,607**
Of which:		
Current	1,475	1,406
Non-current	180	201
	1,655	**1,607**

Trade and other receivables include commercial income (refer to Note 20).

Trade and other receivables are generally non interest-bearing. Credit terms vary by country and the nature of the debt, ranging from 7 to 60 days.

Note 16 Trade and other receivables continued

At 25 February 2017, trade and other receivables of £16m (2016: £37m) were past due and impaired. The gross amount of trade and other receivables was £68m (2016: £67m) with a provision of £52m (2016: £30m).

The ageing analysis of these receivables is as follows:

	2017 £m	2016 £m
Up to three months past due	–	14
Three to six months past due	3	4
Over six months past due	13	19
	16	**37**

At 25 February 2017, trade and other receivables of £130m (2016: £149m) were past due but not impaired. The ageing analysis of these receivables is as follows:

	2017 £m	2016 £m
Up to three months past due	119	129
Three to six months past due	10	15
Over six months past due	1	5
	130	**149**

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:

	2017 £m	2016 £m
Non-current	5,795	4,723
Current	4,166	3,819
	9,961	**8,542**

The maturity of these loans and advances is as follows:

	2017 £m	2016 £m
Repayable on demand or at short notice	3	3
Within three months	4,107	3,758
Greater than three months but less than one year	155	146
Greater than one year but less than five years	2,419	2,181
After five years	3,471	2,608
	10,155	**8,696**
Provision for impairment of loans and advances	(194)	(154)
	9,961	**8,542**

At 28 February 2017, £2.5bn (2016: £2.6bn) of the credit card portfolio had its beneficial interest assigned to a securitisation structured entity, Delamare Cards Receivables Trustee Limited, for use as collateral in securitisation transactions. The total encumbered portion of this portfolio is £1.9bn (2016: £2.0bn).

At 28 February 2017, Delamare Cards MTN Issuer plc had £1.8bn (2016: £1.8bn) notes in issue in relation to securitisation transactions, of which £0.8bn (2016: £0.8bn) was externally issued. The Group owned £1.0bn (2016: £1.0bn) of Credit Card backed notes issued by Delamare Cards MTN Issuer plc.

Of the total £0.8bn (2016: £0.8bn) class A retained Credit Card backed notes, £0.6bn (2016: £nil) is held in a distinct pool for the purposes of collateralising the Bank of England's Term Funding Scheme drawings. All other prepositioned assets with the Bank of England are held within their single collateral pool.

Note 17 Loans and advances to customers continued

Provision for impairment of loans and advances

	£m
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)**
Increase in allowance, net of recoveries, charged to the Group income statement	(103)
Amounts written off	60
Unwinding of discount	3
At 25 February 2017	**(194)**

Note 18 Cash and cash equivalents and short-term investments

Cash and cash equivalents	2017 £m	2016 £m
Cash at bank and in hand	3,498	2,334
Short-term deposits	323	748
	3,821	**3,082**

Short-term investments	2017 £m	2016 £m
Money market funds	2,727	3,463

Included in cash and cash equivalents is an amount of £777m that has been set aside for completion of the merger with Booker Group Plc. This cash is not available to the Group and must be held in ring-fenced accounts until released jointly by the Group and its advisors on satisfaction of the completion terms of the merger as set out in the offering circular dated 27 January 2017. Until that time, or if the merger is not completed, it remains an asset of the Group. At the balance sheet date it was invested with a single financial institution at a floating rate of interest. Interest accrues and is payable to the Group.

Note 19 Trade and other payables

	2017 £m	2016 £m
Trade payables	4,914	4,545
Other taxation on social security	310	388
Other payables	2,422	2,091
Amounts payable to joint ventures and associates (Note 29)	17	14
Accruals and deferred income	1,536	1,530
Total trade and other payables	**9,199**	**8,568**
Of which:		
Current	8,875	8,293
Non-current	324	275
	9,199	**8,568**

Trade and other payables are net of commercial income (refer to Note 20).

Note 20 Commercial income

Below are the commercial income balances included within inventories and trade and other receivables, or netted against trade and other payables. Amounts received in advance of income being earned are included in accruals and deferred income.

	2017 £m	2016 £m
Current assets		
Inventories	(75)	(75)
Trade and other receivables		
Trade/other receivables	215	201
Accrued income	150	100
Current liabilities		
Trade and other payables		
Trade payables	213	305
Accruals and deferred income	(22)	(43)

The 27 February 2016 accruals and deferred income disclosure, previously disclosed in Note 19 of the 2016 Annual Report and Financial Statements, included amounts that were unrelated to commercial income and has therefore been amended accordingly.

Note 21 Borrowings

Current

	Par value	Maturity	2017 £m	2016 £m
Bank loans and overdrafts	–	–	912	845
Loans from joint ventures (Note 29)	–	–	6	6
4% RPI MTN	£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
LIBOR + 0.5% Term Loan	£488m	Oct 2017	484	–
1.250% MTN	€500m	Nov 2017	423	–
5.5% USD Bond	$850m	Nov 2017	709	–
5.5457% Secured Bond[(a)(b)]	£366m	Feb 2029	15	14
Finance leases (Note 34)	–	–	11	11
			2,560	**2,826**

Non-current

	Par value	Maturity	2017 £m	2016 £m
LIBOR + 0.5% Term Loan	£488m	Oct 2017	–	478
1.250% MTN	€500m	Nov 2017	–	394
5.5% USD Bond	$850m	Nov 2017	–	666
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	129	132
3.375% MTN	€750m	Nov 2018	641	595
LIBOR + 0.45% Tesco Bank Bond	£150m	May 2019	150	150
1.375% MTN	€1,250m	Jul 2019	1,063	990
5.5% MTN	£350m	Dec 2019	353	353
1% RPI Tesco Bank Retail Bond[(c)]	£67m	Dec 2019	67	66
LIBOR + 0.65% Tesco Bank Bond	£300m	Apr 2020	299	299
2.125% MTN	€500m	Nov 2020	423	394
5% Tesco Bank Retail Bond	£200m	Nov 2020	210	211
LIBOR + 0.65% Tesco Bank Bond	£350m	May 2021	349	349
6.125% MTN	£900m	Feb 2022	896	896
5% MTN	£389m	Mar 2023	411	411
2.5% MTN	€750m	Jul 2024	640	595
3.322% LPI MTN[(d)]	£323m	Nov 2025	326	320
5.5457% Secured Bond[(a)(b)]	£366m	Feb 2029	339	353
6.067% Secured Bond[(a)]	£200m	Feb 2029	190	189
LIBOR + 1.2% Secured Bond[(a)]	£50m	Feb 2029	31	30
6% MTN	£200m	Dec 2029	253	257
5.5% MTN	£200m	Jan 2033	255	259
1.982% RPI MTN[(e)]	£268m	Mar 2036	270	265
6.15% USD Bond	$1,150m	Nov 2037	1,063	1,035
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN	€600m	Apr 2047	522	486
5.2% MTN	£279m	Mar 2057	275	275
Finance leases (Note 34)	–	–	103	88
			9,433	**10,711**

(a) 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 £788m (2016: £838m).
(b) This is an amortising bond which matures in February 2029. £15m (2016: £14m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.
(c) The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.
(d) 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%.
(e) The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.

Note 21 Borrowings continued

Borrowing facilities

The Group has the following undrawn committed facilities available at 25 February 2017, in respect of which all conditions precedent had been met as at that date:

	2017 £m	2016 £m
Expiring in less than one year	–	100
Expiring between one and two years	–	2,200
Expiring in more than two years	4,427	2,700
	4,427	**5,000**

The current year undrawn committed facilities include £1.8bn (2016: £2.4bn) of bilateral facilities and a £2.6bn (2016: £2.6bn) syndicated revolving credit facility. During the year, £1.8bn equivalent of bilateral facilities were refinanced in a tenor of three years to a final maturity of August 2019.

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

Note 22 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 income of £43m (2016: net finance cost of £53m) 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 £126m on hedging instruments was recognised during the year, offset by a loss of £26m on hedged items (2016: a gain of £45m on hedging instruments was offset by a loss of £48m 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 £57m during the year (2016: a loss of £50m).

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 (2016: £nil) that was recorded as resulting from net investment hedge ineffectiveness.

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

Note 22 Financial instruments continued

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:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	286	(61)	176	(62)
Non-current	1,303	(607)	1,532	(889)
	1,589	**(668)**	**1,708**	**(951)**

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

	2017				2016			
	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	29	543	(116)	3,050	30	320	(129)	3,241
Cross-currency swaps	386	791	(26)	408	280	1,377	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	(38)	598	–	–	(263)	998
Cross-currency swaps	334	2,384	–	–	651	1,713	(63)	1,379
Index-linked swaps	152	651	–	–	108	950	–	–
Forward contracts	75	1,174	(1)	947	76	1,173	(15)	292
Derivatives not in a formal hedge relationship								
Interest rate swaps and similar instruments	3	71	(6)	1,156	5	70	(14)	2,234
Cross-currency swaps	1	27	(9)	44	4	25	(4)	40
Index-linked swaps	592	3,589	(446)	3,589	529	3,589	(421)	3,589
Forward contracts	17	1,126	(26)	741	25	1,107	(42)	958
Total	**1,589**	**10,356**	**(668)**	**10,533**	**1,708**	**10,324**	**(951)**	**12,731**

Note 22 Financial instruments continued

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

	2017		2016	
	Carrying value £m	Fair value £m	Carrying value £m	Fair value £m
Assets				
Cash and cash equivalents	3,821	3,821	3,082	3,082
Loans and advances to customers – Tesco Bank	9,961	10,178	8,542	8,822
Short-term investments	2,727	2,727	3,463	3,463
Other investments	1,107	1,107	1,135	1,135
Joint venture and associates loan receivables (Note 29)*	137	158	149	163
Other receivables	–	–	1	1
Derivative financial instruments:				
Interest rate swaps and similar instruments	32	32	35	35
Cross-currency swaps	721	721	935	935
Index-linked swaps	744	744	637	637
Forward contracts	92	92	101	101
Total financial assets	**19,342**	**19,580**	**18,080**	**18,374**
Liabilities				
Short-term borrowings:				
Amortised cost	(2,246)	(2,269)	(1,938)	(1,936)
Bonds in fair value hedge relationships	(303)	(291)	(877)	(865)
Long-term borrowings:				
Amortised cost	(7,977)	(8,414)	(9,512)	(9,136)
Bonds in fair value hedge relationships	(1,353)	(1,248)	(1,111)	(800)
Finance leases (Note 34)	(114)	(125)	(99)	(101)
Customer deposits – Tesco Bank	(8,463)	(8,485)	(7,397)	(7,405)
Deposits from banks – Tesco Bank	(500)	(500)	(82)	(82)
Derivative financial instruments:				
Interest rate swaps and similar instruments	(160)	(160)	(406)	(406)
Cross-currency swaps	(35)	(35)	(67)	(67)
Index-linked swaps	(446)	(446)	(421)	(421)
Forward contracts	(27)	(27)	(57)	(57)
Total financial liabilities	**(21,624)**	**(22,000)**	**(21,967)**	**(21,276)**
Total	**(2,282)**	**(2,420)**	**(3,887)**	**(2,902)**

* Joint venture and associates loan receivables carrying amounts of £137m (2016: £149m) are presented on the Group balance sheet net of deferred profits of £54m (2016: £57m) 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. The expected maturity of the financial assets and liabilities is not considered to be materially different to their current and non-current classification.

Financial assets and liabilities by category

The accounting classifications of each class of financial assets and liabilities at 25 February 2017 and 27 February 2016 are as follows:

At 25 February 2017	Available-for-sale £m	Loans and receivables/ other financial liabilities £m	Fair value through profit or loss £m	Total £m
Cash and cash equivalents	–	3,821	–	3,821
Loans and advances to customers – Tesco Bank	–	9,961	–	9,961
Short-term investments	–	2,727	–	2,727
Other investments	1,094	13	–	1,107
Joint venture and associates loan receivables (Note 29)	–	137	–	137
Customer deposits – Tesco Bank	–	(8,463)	–	(8,463)
Deposits from banks – Tesco Bank	–	(500)	–	(500)
Short-term borrowings	–	(2,549)	–	(2,549)
Long-term borrowings	–	(9,330)	–	(9,330)
Finance leases (Note 34)	–	(114)	–	(114)
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	–	(128)	(128)
Cross-currency swaps	–	–	686	686
Index-linked swaps	–	–	298	298
Forward contracts	–	–	65	65
	1,094	**(4,297)**	**921**	**(2,282)**

Note 22 Financial instruments continued

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 ventures and associates loan receivables (Note 29)	–	149	–	149
Other receivables	–	1	–	1
Customer deposits – Tesco Bank	–	(7,397)	–	(7,397)
Deposits from banks – Tesco Bank	–	(82)	–	(82)
Short-term borrowings	–	(2,815)	–	(2,815)
Long-term borrowings	–	(10,623)	–	(10,623)
Finance leases (Note 34)	–	(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)**

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

Fair value measurement

The following table presents the Group's financial assets and liabilities that are measured at fair value at 25 February 2017 and 27 February 2016, 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 25 February 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	964	–	130	1,094
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	32	–	32
Cross-currency swaps	–	721	–	721
Index-linked swaps	–	744	–	744
Forward contracts	–	92	–	92
Total assets	**964**	**1,589**	**130**	**2,683**
Liabilities				
Derivative financial instruments:				
Interest rate swaps and similar instruments	–	(160)	–	(160)
Cross-currency swaps	–	(35)	–	(35)
Index-linked swaps	–	(446)	–	(446)
Forward contracts	–	(27)	–	(27)
Total liabilities	**–**	**(668)**	**–**	**(668)**
Total	**964**	**921**	**130**	**2,015**

Note 22 Financial instruments continued

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 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**

The following table presents the changes in Level 3 instruments for the year ended 25 February 2017.

	2017 £m	2016 £m
At beginning of the year	**125**	**112**
Gains/(losses) recognised in finance costs in the Group income statement	(4)	–
Gains/(losses) recognised in the Group statement of comprehensive income	90	9
Disposal of available-for-sale financial asset	(81)	–
Purchase of non-controlling interests	–	4
At end of the year	**130**	**125**

During the financial year, there were no transfers (2016: £nil) between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements (2016: £nil). £128m of Level 3 assets relate to an investment in an unlisted entity measured at cost (2016: £121m). At the time of the partial disposal, the remaining investment was revalued, resulting in a gain of £88m recognised in the Group statement of comprehensive income.

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.

				Related amounts not offset in the Group balance sheet		
At 25 February 2017	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Financial instruments £m	Collateral £m	Net amount £m
Financial assets offset						
Cash and cash equivalents	4,085	(264)	3,821	–	–	3,821
Derivative financial instruments	1,589	–	1,589	(308)	(11)	1,270
Total trade and other receivables	1,894	(239)	1,655	–	–	1,655
Total	**7,568**	**(503)**	**7,065**	**(308)**	**(11)**	**6,746**
Financial liabilities offset						
Bank loans and overdrafts	(1,176)	264	(912)	–	–	(912)
Repurchases, securities lending and similar agreements*	(100)	–	(100)	100	–	–
Derivative financial instruments	(668)	–	(668)	308	115	(245)
Total trade and other payables	(9,438)	239	(9,199)	–	–	(9,199)
Total	**(11,382)**	**503**	**(10,879)**	**408**	**115**	**(10,356)**

* Repurchases, securities lending and similar agreements are included within the deposits from banks balance of £500m (2016: £82m) on the Group balance sheet (Note 24).

Note 22 Financial instruments continued

At 27 February 2016	Gross amounts of recognised financial assets/ (liabilities) £m	Gross amounts of financial assets/ (liabilities) offset in the Group balance sheet £m	Net amounts presented in the Group balance sheet £m	Related amounts not offset in the Group balance sheet: Financial instruments £m	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
Total 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)
Total trade and other payables	(8,877)	309	(8,568)	–	–	(8,568)
Total	**(11,086)**	**640**	**(10,446)**	**448**	**120**	**(9,878)**

* Refer to previous table for footnote.

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 23 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 target fixing a minimum of 50%–70% of interest costs for senior unsecured debt of the Group excluding Tesco Bank. At the year end, the percentage of interest-bearing debt at fixed rates was 88% (2016: 88%). The weighted average rate of interest paid on senior unsecured debt this year, excluding joint ventures and associates, was 4.08% (2016: 3.94%).

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.

For interest rate risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on pages 134 and 135. During 2017 and 2016, net debt was managed using derivative instruments to hedge interest rate risk.

Note 23 Financial risk factors continued

	2017			2016		
	Fixed £m	Floating £m	Total £m	Fixed £m	Floating £m	Total £m
Cash and cash equivalents	–	3,821	3,821	–	3,082	3,082
Loans and advances to customers – Tesco Bank	5,738	4,223	9,961	4,725	3,817	8,542
Short-term investments	–	2,727	2,727	–	3,463	3,463
Other investments	1,022	85	1,107	1,059	76	1,135
Joint ventures and associates loan receivables (Note 29)	74	63	137	83	66	149
Other receivables	–	–	–	1	–	1
Finance leases (Note 34)	(114)	–	(114)	(99)	–	(99)
Bank and other borrowings	(9,324)	(2,555)	(11,879)	(10,729)	(2,709)	(13,438)
Customer deposits – Tesco Bank	(3,984)	(4,479)	(8,463)	(3,165)	(4,232)	(7,397)
Deposits from banks – Tesco Bank	(500)	–	(500)	(82)	–	(82)
Derivative effect:						
Interest rate swaps	(5,288)	5,288	–	(6,732)	6,732	–
Cross-currency swaps	1,199	(1,199)	–	1,898	(1,898)	–
Index-linked swaps	(328)	328	–	(633)	633	–
Total	**(11,505)**	**8,302**	**(3,203)**	**(13,674)**	**9,030**	**(4,644)**

Credit risk
Credit risk arises from cash and cash equivalents, trade and other receivables, customer deposits, financial instruments and deposits from 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 (2016: £1.3bn). The Group considers its maximum credit risk to be £20.1bn (2016: £18.7bn) 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 134 and 135.

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 maintain a prudent level of cash together with sufficient committed bank facilities to meet liquidity needs as they arise. The Group retains 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 undrawn committed facilities totalling £4.4bn (2016: £5.0bn), consisting of a syndicated revolving credit facility and bilateral facilities, which mature between 2019 and 2021.

The Group has a £15.0bn Euro Medium Term Note programme, of which £6.8bn was in issue at 25 February 2017 (2016: £7.4bn), plus a Euro Commercial Paper programme of £2.0bn, £nil of which was in issue at 25 February 2017 (2016: £nil), and a US Commercial Paper programme of $4.0bn, £nil of which was in issue at 25 February 2017 (2016: £nil). The Group also has £1.7bn equivalent of USD denominated notes issued under 144A documentation (2016: £nil).

For liquidity risk relating to Tesco Bank, refer to the separate section on Tesco Bank financial risk factors on page 134.

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 £18.4bn is considered acceptable as it is offset by financial assets of £20.1bn (2016: £17.1bn offset by financial assets of £18.7bn).

The undiscounted cash flows will differ from both the carrying values and fair values. 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 (2016: 3%).

Note 23 Financial risk factors continued

At 25 February 2017	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	(2,634)	(1,076)	(1,850)	(645)	(926)	(4,771)
Interest payments on borrowings	(349)	(352)	(379)	(288)	(268)	(2,906)
Customer deposits – Tesco Bank	(6,658)	(1,147)	(423)	(167)	(174)	–
Deposits from banks – Tesco Bank	(100)	(301)	(1)	(100)	–	–
Finance leases	(19)	(16)	(23)	(9)	(9)	(126)
Trade and other payables*	(8,875)	(27)	(17)	(11)	(11)	(258)
Derivative and other financial liabilities						
Net settled derivative contracts – receipts	34	23	19	14	10	1,430
Net settled derivative contracts – payments	(96)	(59)	(251)	(414)	(86)	(197)
Gross settled derivative contracts – receipts	1,402	105	105	528	96	2,878
Gross settled derivative contracts – payments	(1,118)	(83)	(85)	(506)	(130)	(2,248)
Total	**(18,413)**	**(2,933)**	**(2,905)**	**(1,598)**	**(1,498)**	**(6,198)**

* Trade and other payables includes £268m (2016: £435m) of deferred income.

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)**

* Refer to previous table for footnote.

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 £2.1bn were outstanding (2016: £1.4bn). The notional and fair values of these contracts are shown in Note 22;
- 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 £751m (2016: increase by £168m). 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 25 February 2017. 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.

Note 23 Financial risk factors continued

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.

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:

	2017		2016	
	Income gain/(loss) £m	Equity gain/(loss) £m	Income gain/(loss) £m	Equity gain/(loss) £m
1% increase in interest rates (2016: 1%)	80	(39)	88	(44)
5% appreciation of the Czech Koruna (2016: 5%)	(2)	1	(1)	–
10% appreciation of the Euro (2016: 10%)	(83)	(108)	(285)	(94)
5% appreciation of the Hungarian Forint (2016: 5%)	(2)	–	(1)	(1)
10% appreciation of the US Dollar (2016: 10%)	6	170	(1)	95
5% appreciation of the Polish Zloty (2016: 5%)	–	–	(2)	–

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.

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 raises finance in the public debt markets and borrows from financial institutions. The policy for debt is to smooth the debt maturity profile with the objective of ensuring continuity of funding. This policy continued during the financial year, with bonds redeemed of £1.9bn (2016: £nil) and new bonds issued of £nil (2016: £nil). 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 30 for the value of the Group's net debt (£3.7bn; 2016: £5.1bn), and the Group statement of changes in equity for the value of the Group's equity (£6.4bn; 2016: £8.6bn).

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.

Note 23 Financial risk factors continued

Tesco Bank

Interest rate risk

Interest rate risk arises mainly where assets and liabilities in Tesco Bank's banking activities have different repricing dates and from unexpected changes to the yield curve. Tesco Bank is exposed to interest rate risk through dealings with retail customers as well as through lending to and borrowing from the wholesale market. Tesco Bank has established limits for risk appetite and stress tests are performed using sensitivity to fluctuations in underlying interest rates in order to monitor this risk. Tesco Bank also use the Capital at Risk (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 assess impacts across a suitable range of severe but plausible movements in interest rates. Interest rate risk is primarily managed using interest rate swaps as the main hedging instrument.

Liquidity and funding risk

Liquidity risk is the risk that Tesco Bank has insufficient liquidity resources to meet its obligations as they fall due. Funding risk is the risk that Tesco Bank does not have sufficiently stable and diverse sources of funding.

Tesco Bank operates within a Liquidity Risk Management Policy Framework (LRMP) to ensure that sufficient funds are available at all times to meet demands from depositors; to fund agreed advances; to meet other commitments as and when they fall due; and to ensure the Board's risk appetite is met.

Liquidity and funding risks are 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 regular basis. Tesco Bank maintains a conservative liquidity and funding profile to confirm that it is able to meet its financial obligations under normal, and stressed, market conditions.

Credit risk

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

Retail credit policy is managed through the credit risk policy framework with minimum requirements for management of credit activities defined across the customer life cycle. Customer lending decisions are managed principally through the deployment of appropriate credit scoring and associated rules, which exclude specific areas of lending, and an affordability assessment which determines a customer's ability to repay the advances they are seeking. 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 risk 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 25 February 2017	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
Less than 90 days past due	32	–	–	32
90–179 days past due	48	–	–	48
180 days plus past due	99	–	–	99
Past due but not impaired				
Less than 29 days past due	48	1	–	49
30–59 days past due	15	–	–	15
60–119 days past due	10	–	–	10
Neither past due nor impaired				
Low risk[a]	7,440	2,154	140	9,734
High risk[b]	152	16	–	168
Total	**7,844**	**2,171**	**140**	**10,155**

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

Note 23 Financial risk factors continued

As at 27 February 2016	Retail unsecured lending £m	Retail mortgage lending £m	Retail instalment lending £m	Total £m
Past due and impaired				
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 impaired				
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 impaired				
Low risk[a]	6,566	1,673	146	8,385
High risk[b]	86	10	–	96
Total	**6,865**	**1,684**	**147**	**8,696**

[a] Low risk is defined as an asset with a probability of default of less than 10%.
[b] 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 in 2017, mainly undrawn contractual lending commitments, was £12.1bn (2016: £11.9bn).

Insurance risk

Tesco Bank is indirectly exposed to insurance risks through its ownership of 49.9% of Tesco Underwriting Limited (TU), an authorised insurance company. Insurance risk is defined as the risk accepted through the provision of insurance products in return for a premium. The timing and quantum of the risks are uncertain and determined by events outside the control of Tesco Bank. The key insurance risks within TU relate to underwriting risk and reserving risk. TU operates a separate framework to ensure that the TU insurance portfolio operates within agreed risk appetite. The Bank closely monitors performance of the portfolio against specific thresholds and limits.

Note 24 Customer deposits and deposits from banks

	2017 £m	2016 £m
Customer deposits	8,463	7,397
Deposits from banks	500	82
	8,963	**7,479**
Of which:		
Current	6,687	5,906
Non-current	2,276	1,573
	8,963	**7,479**

Deposits from banks include liabilities of £100m (2016: £82m) that have been sold under sale and repurchase agreements.

Note 25 Provisions

	Property provisions £m	Restructuring provisions £m	Other provisions £m	Total £m
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**
Foreign currency translation	12	4	–	16
Amount released in the year	(38)	(18)	–	(56)
Amount provided in the year	99	196	136	431
Amount utilised in the year	(141)	(162)	(28)	(331)
Transfer to disposal group classified as held for sale	–	(5)	–	(5)
Unwinding of discount	44	–	–	44
At 25 February 2017	**851**	**98**	**174**	**1,123**

Note 25 Provisions continued

The balances are analysed as follows:

	2017 £m	2016 £m
Current	438	360
Non-current	685	664
	1,123	**1,024**

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 charge in the year of £61m (2016: £150m), largely relating to onerous lease contracts for fully impaired properties and other onerous contracts relating to properties. The Group has performed sensitivity analysis on the onerous lease provisions. A reasonably possible increase of one percentage point in the risk-free rate would reduce the provision by £43m. A decrease of one percentage point would increase the provision by £50m.

Of the net onerous property provision charge, a £76m charge (2016: £151m) has been recognised as an exceptional item; £56m in cost of sales and £20m in property-related items. This is made up of £56m classified as 'Net impairment (loss)/reversal of non-current assets and onerous lease provisions' and £20m classified as 'Net restructuring and redundancy costs'.

Onerous lease provisions will be utilised over the relevant lease terms, predominantly within the next 25 years.

Restructuring provisions

Of the £178m net charge (£196m charge, £18m release) recognised in the year, £135m relating to ongoing UK & ROI changes to the distribution network and to store colleague structures and working practices has been classified as an exceptional item. Refer to Note 4 for further details. The exceptional charges are expected to be utilised in the next financial year.

Other provisions

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco Ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

Of the £235m, £91m is included within other current provisions to cover the cost of the compensation scheme and related costs. The remaining £144m has been recorded within accruals. These charges have been classified as an exceptional item within administrative expenses.

Other current provisions also include provisions for Tesco Bank customer redress in respect of potential complaints arising from the historic sales of Payment Protection Insurance (PPI), 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. A charge of £45m has been recognised in the year as an exceptional item in cost of sales. Refer to Note 4 for further details.

Note 26 Share-based payments

For continuing operations, the Group income statement charge for the year recognised in respect of share-based payments is £294m (2016: £308m), which is made up of share option schemes and share bonus payments. Of this amount, £36m (2016: £283m) will be settled in equity and £258m (2016: £25m) in cash. The movement between cash and equity settled charge with reference to the prior year is predominantly due to a one-off award which was previously disclosed as equity settled. During the year, colleagues were offered a choice of cash settlement, which resulted in a reclassification from equity to cash.

Note 26 Share-based payments continued

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 vesting of options will normally be conditional upon the achievement of specified performance targets over a three year period and/or continuous employment.

vi) The 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 vesting 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 vesting 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 25 February 2017

	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 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**	**–**
Granted	32,923,969	190.00	1,681,721	190.00	–	–	–	–	–	–	14,449,336	–
Forfeited	(53,597,182)	205.10	(3,587,857)	207.57	(1,495,505)	361.29	(8,009,380)	360.37	(6,039,761)	354.89	(6,880,744)	–
Exercised	(831,771)	150.11	(17,668)	150.03	–	–	–	–	–	–	(731,078)	–
Outstanding at 25 February 2017	**256,862,881**	**168.91**	**6,339,307**	**179.46**	**5,019,454**	**420.87**	**24,450,586**	**395.84**	**18,495,050**	**397.17**	**27,640,320**	**–**
Exercisable at 25 February 2017	**10,596,827**	**339.47**	**443,702**	**330.95**	**5,019,454**	**420.87**	**24,450,586**	**395.84**	**18,495,050**	**397.17**	**3,517,971**	**–**
Exercise price range (pence)		282.00 to 364.00		322.00 to 364.00		338.40 to 473.75		338.40 to 473.75		338.40 to 473.75		–
Weighted average remaining contractual life (years)		0.43		0.43		1.10		1.45		1.43		7.70

Note 26 Share-based payments continued

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

Share options were exercised on a regular basis throughout the financial year. The average share price during the financial year ended 25 February 2017 was 184.26p (2016: 196.55p).

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.

	2017		2016	
	SAYE	Nil cost	SAYE	Nil Cost
Expected dividend yield (%)	1.4%	–	1.3%	–
Expected volatility (%)	29–32%	29–36%	25–26%	23–25%
Risk-free interest rate (%)	0.4–0.7%	0.2–0.5%	0.9–1.3%	0.6–1.6%
Expected life of option (years)	3 or 5	3–6	3 or 5	3–6
Weighted average fair value of options granted (pence)	53.14	61.00 to 159.64	52.58	129.90 to 221.06
Probability of forfeiture (%)	10–11%	–	9–11%	–
Share price (pence)	211.00	159.04 to 196.84	188.50	218.60 to 221.06
Weighted average exercise price (pence)	190.00	–	151.00	–

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

Share bonus schemes

Selected executives participate in the Group Bonus Plan, a performance-related bonus scheme. The amount paid is based on a percentage of salary and is paid partly in cash and partly in shares. Bonuses are awarded to 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.

Eligible UK colleagues were able to participate in Shares In Success, an all-employee profit-sharing scheme. Until May 2015, shares were awarded as a percentage of earnings, up to a statutory maximum permitted under the Share Incentive Plan at the time of the award. Shares awarded through Shares In Success are held in trust on behalf of employees for a period of at least three years. 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. Shares awarded to colleagues through the Share Bonus Scheme are held in trust on behalf of employees for a period of at least two years and for a maximum period of three years.

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.

Note 26 Share-based payments continued

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

	2017		2016	
	Number of shares	WAFV pence	Number of shares	WAFV pence
Shares In Success	–	–	15,979,321	221.79
Irish Share Bonus Scheme	–	–	–	–
Group Bonus Plan	33,293,571	159.04	8,762,915	215.65
Performance Share Plan	61,533,740	161.82	33,338,199	215.01
Long Term Incentive Plan	–	–	529,292	216.35

Note 27 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 98% of the Group deficit (2016: 94%).

Defined contribution plans

A 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 £341m (2016: £175m) have been recognised in the Group income statement. This includes £135m (2016: £43m) 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 next triennial actuarial valuation is effective as at 31 March 2017 and work is already underway. The Trustee is aiming to conclude the valuation as soon as is reasonably possible.

The Scheme has a duration of 27 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 were recognised as exceptional items in the prior year. Refer to Note 4.

Note 27 Post-employment benefits continued

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 25 February 2017, 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

UK principal assumptions
The major assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 25 February 2017 were as follows:

	2017 %	2016 %
Discount rate	2.5	3.8
Price inflation	3.2	2.9
Rate of increase in deferred pensions*	2.2	1.9
Rate of increase in pensions in payment*		
Benefits accrued before 1 June 2012	3.0	2.7
Benefits accrued after 1 June 2012	2.2	1.9

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

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 25 February 2017 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:

		2017 Years	2016 Years
Retiring at reporting date at age 65:	Male	23.2	23.1
	Female	24.5	24.5
Retiring at reporting date +25 years at age 65:	Male	25.5	25.4
	Female	26.9	26.8

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 25 February 2017. At the year end, the deficit relating to the Republic of Ireland was £107m (2016: £145m).

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 25 February 2017. The scheme's assets are stated at their market values as at 25 February 2017. The liabilities relating to retirement healthcare benefits have also been determined in accordance with the applicable accounting standard.

Risks
The Group bears a number 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.

Note 27 Post-employment benefits continued

- 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 the Group's Trustee Governance and provide greater oversight and stronger internal control over the Group's 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.

Sensitivity analysis of significant actuarial assumptions

	2017 £m	2016 £m
Decrease in UK defined benefit obligation from a 0.1% increase in discount rate	526	312
Decrease in UK defined benefit obligation from a 1.0% increase in discount rate	4,536	2,691
Increase in UK defined benefit obligation from a 0.1% decrease in discount rate	545	315
Increase in UK defined benefit obligation from a 1.0% decrease in discount rate	6,541	3,754
Increase in UK defined benefit obligation from a 1.0% increase in pensions in payment	3,173	1,797
Increase in UK defined benefit obligation from each additional year of longevity assumed	818	439

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:

	2017 £m	2016 £m
Equities		
UK	365	475
Europe	628	892
Rest of the world	3,894	3,861
	4,887	**5,228**
Bonds		
Government	4,757	1,935
Corporates – investment grade	501	338
Corporates – non-investment grade	–	6
	5,258	**2,279**
Property		
UK	787	707
Rest of the world	373	317
	1,160	**1,024**
Alternative assets		
Hedge funds	489	650
Private equity	707	640
Other	553	204
	1,749	**1,494**
Cash	142	277
Total market value of assets	**13,196**	**10,302**

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 are shown net of such instruments.

The Government Bonds category consists of assets of the value of £6,594m (2016: £2,903m) and associated repurchase agreements and swaps of £(1,837)m (2016: £(968)m). The repurchase agreements and swaps serve to help the scheme reduce exposure to fluctuations in interest rate risk and inflation risk.

Note 27 Post-employment benefits continued

At the year end, 75% (2016: 74%) 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 £176m (2016: £171m) relating to property used by the Group. In addition, Group property with net carrying value of £411m (2016: £412m) 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 all movements of discontinued operations up to classification as held for sale, are as follows:

	2017 £m	2016 £m
Opening fair value of defined benefit pension assets	**10,302**	**9,677**
Interest income	385	360
Return on plan assets greater than discount rate	2,689	59
Contributions by employer*	28	433
Additional contributions by employer	248	223
Actual member contributions	2	11
Foreign currency translation	13	6
Benefits paid	(471)	(346)
Transfer to disposal group classified as held for sale	–	(121)
Closing fair value of defined benefit pension assets	**13,196**	**10,302**

* Contributions by employer include £nil (2016: £125m) of salaries paid as pension contributions.

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

	2017 £m	2016 £m
Opening defined benefit pension obligation	**(13,477)**	**(14,519)**
Current service cost	(35)	(570)
Past service credit	–	535
Interest cost	(498)	(515)
Gains/(losses) on change of financial assumptions	(6,455)	1,007
Experience gains	199	98
Foreign currency translation	(25)	(14)
Benefits paid	471	346
Actual member contributions	(2)	(11)
Transfer to disposal group classified as held for sale	5	166
Closing defined benefit pension obligation	**(19,817)**	**(13,477)**

The amounts that have been charged to the Group income statement and Group statement of comprehensive income, excluding discontinued operations, for the year ended 25 February 2017 are set out below:

	2017 £m	2016 £m
Analysis of the amount charged to operating profit:		
Current service cost	(35)	(555)
Past service credit*	–	545
Total charge to operating profit	**(35)**	**(10)**
Analysis of the amount credited/(charged) to finance income/(cost):		
Interest on defined benefit pension assets	385	358
Interest on defined benefit pension obligation	(498)	(513)
Net pension finance cost (Note 5)	**(113)**	**(155)**
Total charge to the Group income statement	**(148)**	**(165)**
Analysis of the amount recognised in the Group statement of comprehensive income:		
Return on plan assets greater than discount rate	2,689	59
Experience gains on defined benefit pension obligation	199	95
Financial assumption gains/(losses) on defined benefit pension obligation	(6,455)	1,006
Foreign currency translation	(12)	(12)
Total gains/(losses) recognised in the Group statement of comprehensive income	**(3,579)**	**1,148**

* Past service credit in prior year previously included £(10)m in relation to Turkey, which is now classified as discontinued.

Note 27 Post-employment benefits continued

Summary of movements in Group deficit during the financial year

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

	2017 £m	2016 £m
Deficit in schemes at beginning of the year	**(3,175)**	**(4,842)**
Current service cost	(35)	(570)
Past service credit	–	535
Net pension finance cost[(a)]	(113)	(155)
Contributions by employer[(b)]	28	433
Additional contributions by employer	248	223
Foreign currency translation	(12)	(8)
Remeasurements	(3,567)	1,164
Transfer to disposal group classified as held for sale	5	45
Deficit in schemes at the end of the year	**(6,621)**	**(3,175)**
Deferred tax asset (Note 6)	1,122	563
Deficit in schemes at the end of the year, net of deferred tax	**(5,499)**	**(2,612)**

(a) Includes £nil (2016: £nil) discontinued operations up to reclassification as held for sale.
(b) Contributions by employer include £nil (2016: £125m) of salaries paid as pension contributions.

History of movements

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

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Total market value of assets	13,196	10,302	9,677	8,124	7,206
Present value of liabilities relating to unfunded pension schemes	(146)	(117)	(134)	(111)	(91)
Present value of liabilities relating to partially funded pension schemes	(19,671)	(13,360)	(14,385)	(11,206)	(9,493)
Pension deficit	**(6,621)**	**(3,175)**	**(4,842)**	**(3,193)**	**(2,378)**
Remeasurements on defined benefit pension assets	2,689	59	874	253	94
Experience gains/(losses) on defined benefit pension obligation	199	95	272	(22)	1

Remeasurements on defined benefit pension assets of £2,689m represent the growth of assets beyond returns expected by the discount rate. This is due to unusually sharp movements in global equities, global fixed income and currency markets following the EU referendum.

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 25 February 2017 of £13m (2016: £11m) was determined in accordance with the advice of independent actuaries. During the year, £nil (2016: £nil) has been charged to the Group income statement and £1m (2016: £1m) of benefits were paid.

Additional contributions

A plan to pay £270m a year was agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the scheme. The expenses of the scheme were £22m (2016: £27m).

Note 28 Called up share capital

	2017 Ordinary shares of 5p each		2016 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**
Share options exercised	849,439	–	591,615	–
Share bonus awards issued	33,000,000	2	17,500,000	1
At end of the year	**8,174,932,553**	**409**	**8,141,083,114**	**407**

During the financial year, 0.8 million (2016: 0.6 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2016: £1m) and 33.0 million (2016: 17.5 million) ordinary shares of 5p each were issued in relation to share bonus awards.

Between 26 February 2017 and 5 April 2017, options over 110,014 ordinary shares were exercised under the terms of the Savings-related Share Options Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 26 February 2017 and 5 April 2017, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 25 February 2017, the Directors were authorised to purchase up to a maximum in aggregate of 814.1 million (2016: 812.3 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.

Note 29 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	
	2017 £m	2016 £m	2017 £m	2016 £m
Sales to related parties	418	408	–	–
Purchases from related parties	416	496	16	14
Dividends received	17	32	11	9

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

Purchases from related parties include £286m (2016: £379m) 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 27.

Balances

	Joint ventures		Associates	
	2017 £m	2016 £m	2017 £m	2016 £m
Amounts owed to related parties	17	13	–	1
Amounts owed by related parties	16	28	–	3
Loans to related parties (net of deferred profits)*	137	149	–	–
Loans from related parties (Note 21)	6	6	–	–

* Loans to related parties of £137m (2016: £149m) are presented net of deferred profits of £54m (2016: £57m) 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 statements pursuant to Regulation 7 of the Regulations.

Transactions with key management personnel

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

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

	2017 £m	2016 £m
Salaries and short-term benefits	13	20
Pensions and cash in lieu of pensions	2	3
Share-based payments	17	9
Joining costs and loss of office costs	1	5
	33	**37**
Attributable to:		
The Board of Directors (including Non-executive Directors)	12	11
Executive Committee (members not on the Board of Directors)	21	26
	33	**37**

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, mortgage and personal loan balances		Current and saving deposit accounts	
	Number of key management personnel	£m	Number of key management personnel	£m
At 25 February 2017	**6**	**1**	**4**	**–**
At 27 February 2016	11	1	8	–

Note 30 Analysis of changes in net debt

	At 27 February 2016 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest income/ (charge) £m	Other non-cash movements £m	Reclassifications of movements in net debt of the disposal group £m	At 25 February 2017 £m
Total Group							
Cash and cash equivalents	3,082	881	(131)	–	–	(11)	3,821
Short-term investments	3,463	(736)	–	–	–	–	2,727
Joint venture loans	149	(15)	–	–	3	–	137
Interest and other receivables	1	(25)	–	25	–	–	1
Bank and other borrowings	(13,253)	1,851	(372)	(21)	10	73	(11,712)
Interest payables	(185)	522	(18)	(479)	(10)	3	(167)
Finance lease payables	(99)	12	(6)	–	(21)	–	(114)
Net derivative financial instruments	698	(475)	655	15	–	–	893
Net derivative interest	59	(16)	–	(15)	–	–	28
Net debt of the disposal group	–	–	–	–	–	(65)	(65)
Total Group	**(6,085)**	**1,999**	**128**	**(475)**	**(18)**	**–**	**(4,451)**
Tesco Bank							
Cash and cash equivalents	554	235	–	–	–	–	789
Joint venture loans	34	–	–	–	–	–	34
Bank and other borrowings	(1,441)	–	1	–	–	–	(1,440)
Interest payables	(1)	4	–	(3)	–	–	–
Net derivative financial instruments	(121)	–	16	–	–	–	(105)
Tesco Bank	**(975)**	**239**	**17**	**(3)**	**–**	**–**	**(722)**
Retail							
Cash and cash equivalents	2,528	646	(131)	–	–	(11)	3,032
Short-term investments	3,463	(736)	–	–	–	–	2,727
Joint venture loans	115	(15)	–	–	3	–	103
Interest and other receivables	1	(25)	–	25	–	–	1
Bank and other borrowings	(11,812)	1,851	(373)	(21)	10	73	(10,272)
Interest payables	(184)	518	(18)	(476)	(10)	3	(167)
Finance lease payables	(99)	12	(6)	–	(21)	–	(114)
Net derivative financial instruments	819	(475)	639	15	–	–	998
Net derivative interest	59	(16)	–	(15)	–	–	28
Net debt of the disposal group	–	–	–	–	–	(65)	(65)
Net debt	**(5,110)**	**1,760**	**111**	**(472)**	**(18)**	**–**	**(3,729)**

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

	2017 £m	2016 £m
Net increase/(decrease) in cash and cash equivalents	881	907
Elimination of Tesco Bank movement in cash and cash equivalents	(235)	62
Retail cash movement in other Net debt items:		
Net increase/(decrease) in short-term investments	(736)	2,894
Net increase/(decrease) in joint venture loans	(15)	1
Net (increase)/decrease in borrowings and lease financing	1,863	1,059
Net cash flows from derivative financial instruments	(475)	(154)
Net interest paid on components of net debt	477	419
Change in Net debt resulting from cash flow	**1,760**	**5,188**
Retail net interest charge on components of net debt	(472)	(447)
Retail fair value and foreign exchange movements	111	113
Debt disposed of on disposal of Korean operations	–	97
Debt acquired on business combinations	–	(1,545)
Retail other non-cash movements	(18)	(35)
(Increase)/decrease in Net debt for the year	**1,381**	**3,371**
Opening Net debt	**(5,110)**	**(8,481)**
Closing Net debt	**(3,729)**	**(5,110)**

Note 31 Business combinations and disposals

Business combinations
The Group has paid £25m of deferred consideration in the year, related to its obligations under the purchase agreements for the acquisitions of Sociomantic Labs and Bzz Agent Limited from prior years.

Disposals
During the year, the Group sold its interests in Dobbies Garden Centres, Giraffe and Harris + Hoole and closed its Nutricentre business, further enhancing the focus of the UK retail business on its core strengths. The Group received £213m in cash, net of cash disposed, and recognised £1m in deferred consideration. Of the net cash received, £192m related to the sale of Dobbies Garden Centres. In total, the Group disposed of net assets of £243m and incurred costs to sell of £15m, £8m of which had been paid as at the year end.

In addition, the Group disposed of a 6.9% interest (on a fully diluted basis) in Lazada Group S.A. (Lazada) for net cash consideration of US$115m (£81m), retaining an 8.8% shareholding.

The total loss on these transactions amounted to £7m, which is included within operating profit before exceptional items.

On 10 June 2016, the Group announced the proposed sale of its 95.5% controlling interest in its Turkish operations to Migros. The assets and liabilities related to the Turkish operations have been classified as a disposal group held for sale during the year and are presented within discontinued operations. Local regulatory approvals were obtained on 9 February 2017 and the sale completed on 1 March 2017. Refer to Notes 7 and 35 for further information.

Note 32 Commitments and contingencies

Capital commitments
At 25 February 2017, there were commitments for capital expenditure contracted for, but not incurred, of £115m (2016: £215m), principally relating to store development.

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

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

As previously reported, 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 of expected profits in 2014, and purport to have secured third party funding for such litigation. In this regard, the Group has received two High Court claims against Tesco PLC. The first was received on 31 October 2016 from a group of 112 investors and the second was received on 5 December 2016 from an investment company and a trust company. The merit, likely outcome and potential impact on the Group of any such litigation that either has been or might potentially be brought against the Group is subject to a number of significant uncertainties and therefore, the Group cannot make any assessment of the likely outcome or quantum of any such litigation as at the date of this disclosure.

Prior to the disposal of its Korean operations (Homeplus), Tesco PLC provided guarantees in respect of 13 Homeplus lease agreements in Korea in the event of termination of the relevant lease agreement by the landlord due to Homeplus' default. Entities controlled by MBK and CPPIB, as the purchasers of Homeplus, undertook to procure Tesco PLC's release from these guarantees following the disposal of Homeplus, which currently remains outstanding. 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. The maximum potential liability under the lease guarantees as at 25 February 2017 is KRW575bn (£407m).

Subsidiary audit exemptions
The following UK subsidiary undertakings are exempt from the requirements of the Companies Act 2006 relating to the audit of individual accounts by virtue of section 479A of that Act.

Name	Company number
Tapesilver Limited	05205362
Launchgrain Limited	05260856
Armitage Finance ULC	05966324
Tesco (Overseas) Limited	03193632
Buttoncable Limited	05294246
Cheshunt Finance Unlimited	06807552
Dillons Newsagents Limited	00140624
Tesco Mobile Communications Limited	04780729
Tesco Mobile Services Limited	04780734
Tesco International Internet Retailing Limited	00041420

Note 32 Commitments and contingencies continued

Tesco PLC will guarantee all outstanding liabilities that these subsidiaries are subject to as at the financial year ended 25 February 2017 in accordance with section 479C of the Companies Act 2006, as amended by the Companies and Limited Liability Partnerships (Accounts and Audit Exemptions and Change of Accounting Framework) Regulations 2012.

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.

Tesco Bank

At 25 February 2017, Tesco Bank had contractual lending commitments totalling £12.1bn (2016: £11.9bn). The contractual amounts represent the amounts that would be at risk should the available facilities be fully drawn upon and not the amounts at risk at the reporting date.

Note 33 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:

	2017 £m	2016 £m
Tier 1 capital:		
Shareholders' funds and non-controlling interests, net of tier 1 regulatory adjustments	1,381	1,218
Tier 2 capital:		
Qualifying subordinated debt	235	235
Other interests	63	44
Total tier 2 regulatory adjustments	(31)	(27)
Total regulatory capital	**1,648**	**1,470**

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 are currently being phased in. The following tables analyse the regulatory capital resources of TPF (being the regulated entity) applicable as at the year end.

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

	2017 £m	2016 £m
At beginning of the year	**1,218**	**1,041**
Share capital and share premium	–	–
Profit attributable to shareholders	153	190
Other reserves	5	8
Ordinary dividends	(50)	(50)
Movement in material holdings	3	3
Movement in intangible assets	64	39
Other – Tier 1	1	(2)
At end of the year, excluding CRD IV adjustments	**1,394**	**1,229**
CRD IV adjustment – deferred tax liabilities related to intangible assets	(13)	(11)
At end of the year, including CRD IV adjustments	**1,381**	**1,218**

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

Note 34 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 their carrying value.

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

	Minimum lease commitments	
	2017 £m	2016 £m
Within one year	19	18
Greater than one year but less than five years	57	46
After five years	126	123
Total minimum lease commitments	**202**	**187**
Less future finance charges	(88)	(88)
Present value of minimum lease commitments	**114**	**99**

	Present value of net minimum lease commitments	
	2017 £m	2016 £m
Within one year	11	11
Greater than one year but less than five years	30	20
After five years	73	68
Total minimum lease commitments	**114**	**99**
Analysed as:		
Current finance lease commitments	11	11
Non-current finance lease commitments	103	88
	114	**99**

Operating lease commitments – Group as lessee

Future minimum lease commitments under non-cancellable operating leases are as follows:

	2017 £m	2016 £m
Within one year	1,199	1,296
Greater than one year but less than five years	3,767	3,918
After five years	7,395	7,831
Total minimum lease commitments	**12,361**	**13,045**

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

	2017 £m	2016 £m
Greater than five years but less than ten years	3,161	3,272
Greater than ten years but less than fifteen years	2,225	2,303
After fifteen years	2,009	2,256
Total minimum lease commitments – after five years	**7,395**	**7,831**

The Group has used operating lease commitments discounted at 7% (2016: 7%) of £7,440m (2016: £7,814m) in its calculation of total indebtedness. Total operating lease commitments in Turkey of £27m were included in 2016. The discounted operating lease commitment included in total indebtedness is not an appropriate proxy for the expected impact of recognising a lease liability under IFRS 16 'Leases', primarily due to differences in the discount rates used and the treatment of additional lease rentals arising from contracts that contain extend or buy conditions, amongst other differences.

Operating lease commitments 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 commitments exclude those falling after the buy-back date. The current market value of these properties is £2.9bn (2016: £3.2bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (2016: £2.6bn) using current rent values, as shown overleaf.

Note 34 Lease commitments continued

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

	2017 £m	2016 £m
Within one year	23	45
Greater than one year but less than five years	170	72
Greater than five years but less than ten years	709	686
Greater than ten years but less than fifteen years	670	718
After fifteen years	1,019	1,115
Total undiscounted contingent additional lease rentals	**2,591**	**2,636**
Total discounted contingent additional lease rentals at 7%	1,107	1,111

The lease break options are exercisable between 2017 and 2023.

Operating lease commitments with joint ventures and associates

In prior years, the Group 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 varied. However, common factors included: 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 amounts are contractually receivable from tenants:

	2017 £m	2016 £m
Within one year	194	198
Greater than one year but less than five years	298	293
After five years	229	230
Total minimum lease receivables	**721**	**721**

Note 35 Events after the reporting period

On 1 March 2017, the Group announced the completion of the disposal of its 95.5% controlling stake in the Kipa business in Turkey following the receipt of all local regulatory approvals.

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme, which will compensate certain net purchasers of Tesco ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The Group has taken a total exceptional charge of £235m in respect of the DPA of £129m, the expected costs of the compensation scheme of £85m, and related costs. This has been recorded in the financial statements in the year to 25 February 2017 as an adjusting post balance sheet event.

On 6 April 2017, the Group unwound its joint venture with British Land Company PLC (British Land). The Group obtained sole control of BLT Properties Limited through the acquisition of British Land's 50% interest in the joint venture. The acquisition increased the Group's owned property portfolio by £0.2bn, comprising seven stores. British Land obtained sole control of one store and one retail centre, previously held in the joint venture.

Note 36 Proposed Booker Group transaction

On 27 January 2017, the Group announced that it had reached an agreement on the terms of a recommended share and cash merger with Booker Group PLC. The transaction is subject to shareholder and regulatory approvals.

Tesco PLC – Parent Company balance sheet

	Notes	25 February 2017 £m	27 February 2016 £m
Non-current assets			
Investments	6	13,082	13,338
Receivables	7	18	46
Derivative financial instruments	12	1,274	1,502
		14,374	**14,886**
Current assets			
Derivative financial instruments	12	155	83
Receivables	7	7,469	11,815
Short-term investments	8	1,398	622
Cash and cash equivalents	9	790	13
		9,812	**12,533**
Current liabilities			
Borrowings	11	(840)	(1,778)
Derivative financial instruments	12	–	(2)
Payables	10	(4,978)	(6,350)
		(5,818)	**(8,130)**
Net current assets		**3,994**	**4,403**
Non-current liabilities			
Borrowings	11	(5,440)	(5,993)
Derivative financial instruments	12	(466)	(614)
		(5,906)	**(6,607)**
Net assets		**12,462**	**12,682**
Equity			
Share capital	15	409	407
Share premium		5,096	5,095
All other reserves		162	187
Retained earnings (including profit/(loss) for the year of £(247)m (2016: £(222)m))		6,795	6,993
Total equity		**12,462**	**12,682**

The notes on pages 152 to 157 form part of these financial statements.

Dave Lewis
Alan Stewart

Directors
The Parent Company financial statements on pages 150 to 157 were authorised for issue by the Directors on 11 April 2017 and are subject to the approval of the shareholders at the Annual General Meeting on 16 June 2017.

Tesco PLC
Registered number 00445790

Tesco PLC – Parent Company statement of changes in equity

	Share capital £m	Share premium £m	All other reserves: Capital redemption reserves £m	All other reserves: Hedging reserves £m	All other reserves: Treasury shares £m	Retained earnings £m	Total equity £m
At 27 February 2016	**407**	**5,095**	**16**	**178**	**(7)**	**6,993**	**12,682**
Loss for the year	–	–	–	–	–	(247)	(247)
Other comprehensive income/(loss)							
Net fair value gain on cash flow hedges	–	–	–	166	–	–	166
Reclassified and reported in income statement	–	–	–	(162)	–	–	(162)
Tax relating to components of other comprehensive income	–	–	–	(14)	–	–	(14)
Total other comprehensive income	**–**	**–**	**–**	**(10)**	**–**	**–**	**(10)**
Total comprehensive income/(loss)	**–**	**–**	**–**	**(10)**	**–**	**(247)**	**(257)**
Transactions with owners							
Purchase of treasury shares	–	–	–	–	(24)	–	(24)
Share-based payments	–	–	–	–	9	49	58
Issue of shares	2	1	–	–	–	–	3
Dividends	–	–	–	–	–	–	–
Total transactions with owners	**2**	**1**	**–**	**–**	**(15)**	**49**	**37**
At 25 February 2017	**409**	**5,096**	**16**	**168**	**(22)**	**6,795**	**12,462**

	Share capital £m	Share premium £m	All other reserves: Capital redemption reserves £m	All other reserves: Hedging reserves £m	All other reserves: Treasury shares £m	Retained earnings £m	Total equity £m
At 28 February 2015	**406**	**5,094**	**16**	**11**	**(17)**	**6,940**	**12,450**
Loss for the year	–	–	–	–	–	(222)	(222)
Other comprehensive income/(loss)							
Change in hedge relationship	–	–	–	186	–	–	186
Net fair value gain on cash flow hedges	–	–	–	132	–	–	132
Reclassified and reported in income statement	–	–	–	(113)	–	–	(113)
Tax relating to components of other comprehensive income	–	–	–	(38)	–	–	(38)
Total other comprehensive income	**–**	**–**	**–**	**167**	**–**	**–**	**167**
Total comprehensive income/(loss)	**–**	**–**	**–**	**167**	**–**	**(222)**	**(55)**
Transactions with owners							
Purchase of treasury shares	–	–	–	–	(5)	–	(5)
Share-based payments	–	–	–	–	15	275	290
Issue of shares	1	1	–	–	–	–	2
Dividends	–	–	–	–	–	–	–
Total transactions with owners	**1**	**1**	**–**	**–**	**10**	**275**	**287**
At 27 February 2016	**407**	**5,095**	**16**	**178**	**(7)**	**6,993**	**12,682**

The notes on pages 152 to 157 form part of these financial statements.

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

The Parent Company financial statements for the year ended 25 February 2017 were approved by the Board of Directors on 11 April 2017 and the balance sheet was signed on the Board's behalf by Dave Lewis and Alan Stewart.

These financial statements were prepared in accordance with Financial Reporting Standard 101, 'Reduced Disclosure Framework' (FRS 101). The Company meets the definition of a qualifying entity under FRS 100, 'Application of Financial Reporting Requirements' as issued by the Financial Reporting Council.

The Company's financial statements are presented in Pounds Sterling, its functional currency, generally rounded to the nearest million.

The principal accounting policies adopted by the Company are set out in Note 2. The financial statements have been prepared under the historical cost convention, except for certain financial instruments and share-based payments that have been measured at fair value.

Note 2 Accounting policies

Basis of preparation of financial statements

The Parent Company financial statements have been prepared in accordance with FRS 101 and the Companies Act 2006 (the Act). FRS 101 sets out a reduced disclosure framework for a 'qualifying entity' as defined in the standard which addresses the financial reporting requirements and disclosure exemptions in the individual financial statements of qualifying entities that otherwise apply the recognition, measurement and disclosure requirements of EU-adopted IFRS.

The financial year represents the 52 weeks to 25 February 2017 (prior financial year 52 weeks to 27 February 2016).

As permitted by FRS 101, the Company has taken advantage of the disclosure exemptions available under that standard in relation to business combinations, financial instruments, capital management, presentation of comparative information in respect of certain assets, presentation of a cash flow statement, standards not yet effective, impairment of assets and related party transactions. Where required, equivalent disclosures are given in the consolidated financial statements of Tesco PLC.

The Parent Company financial statements are prepared on a going concern basis as set out in Note 1 of the consolidated financial statements of Tesco PLC.

The Directors have taken advantage of the exemption available under Section 408 of the Companies Act 2006 and not presented an income statement or a statement of comprehensive income for the Company alone.

A summary of the Company's significant accounting policies is set out below.

Presentation changes to the Parent Company balance sheet

The Parent Company balance sheet includes an additional line item to better reflect the current and non-current categorisation of receivables. In the prior year the balance was presented on one line in the balance sheet, with additional information on the current and non-current categorisation included within the note.

Short-term investments

Short-term investments are recognised initially at fair value, and subsequently at amortised cost. All income from these investments is included in the income statement as interest receivable and similar income.

Investments in subsidiaries and joint ventures

Investments in subsidiaries and joint ventures are stated at cost less, where appropriate, provisions for impairment.

Foreign currencies

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

Share-based payments

The fair value of employee share option plans is calculated at the grant date using the Black-Scholes or Monte Carlo model. The resulting cost is charged to the income statement over the vesting period. The value of the charge is adjusted to reflect expected and actual levels of vesting. Where the Company awards shares or options to employees of subsidiary entities, this is treated as a capital contribution.

Financial instruments

Financial assets and financial liabilities are recognised on the Company's balance sheet when the Company becomes party to the contractual provisions of the instrument.

Receivables

Receivables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method, less provision for impairment.

Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into. An equity instrument is any contract that gives a residual interest in the assets of the Company after deducting all of its liabilities. Equity instruments issued by the Company are recorded as the proceeds received, net of direct issue costs.

Interest-bearing borrowings

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

Payables

Payables are recognised initially at fair value, and subsequently at amortised cost using the effective interest rate method.

Derivative financial instruments and hedge accounting

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operating, financing and investing activities. The Company does not hold or issue derivative financial instruments for trading purposes; 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 Company income statement. Where derivatives qualify for hedge accounting, recognition of any resultant gain or loss depends on the nature of the hedge relationship and the item being hedged. In order to qualify for hedge accounting, the Company is required to document from inception, the relationship between the item being hedged and the hedging instrument.

Note 2 Accounting policies continued

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

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

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

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

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

Hedge accounting is discontinued when the hedging instrument expires or is sold, terminated or exercised, or 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 Company statement of changes in equity until the forecasted transaction occurs or the original hedged item affects the Company income statement. If a forecast hedged transaction is no longer expected to occur, the net cumulative gain or loss recognised in the Company statement of changes in equity is reclassified to the Company income statement.

Pensions
The Company participates in defined benefit pension schemes and cannot identify its share of the underlying assets and liabilities of the schemes. Accordingly, as permitted by IAS 19 'Employee Benefits', the Company has accounted for the schemes as defined contribution schemes, and the charge for the period is based upon the cash contributions payable.

The Company also participates in a defined contribution scheme open to all UK employees. Payments to this scheme are recognised as an expense as they fall due.

Taxation
The tax expense included in the Company income statement consists of current and deferred tax.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted by the balance sheet date. Tax expense is recognised in the Company income statement except to the extent that it relates to items recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, in which case it is recognised in the Company statement of comprehensive income or directly in the Company statement of changes in equity, respectively.

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

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset realised based on the tax rates that have been enacted or substantively enacted by the balance sheet date. Deferred tax is charged or credited in the Company income statement, except when it relates to items charged or credited directly to equity or other comprehensive income, 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.

Judgements and sources of estimation uncertainty
The preparation of the Company financial statements requires management to make judgements, estimates and assumptions in applying the Company's accounting policies to determine the reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis.

Judgements
Critical judgements, apart from those involving estimations, are not applied in the preparation of the Company financial statements.

Sources of estimation uncertainty
The key assumptions about the future, and other key sources of estimation uncertainty at the reporting period end that may have a significant risk of causing a material adjustment to the carrying amount of assets and liabilities within the next financial year are discussed below.

Impairment of investments
Where there are indicators of impairment, management performs an impairment test. Recoverable amounts for cash-generating units are the higher of fair value less costs of disposal, and value in use. Value in use is calculated from cash flow projections based on three year internal forecasts. The forecasts are extrapolated to five years based on management's expectations, and beyond five years based on estimated long-term growth rates. Fair value is determined with the assistance of independent, professional valuers where appropriate.

Note 3 Auditor remuneration

Fees payable to the Company's auditor for the audit of the Company and Group financial statements are disclosed in Note 3 of the Group financial statements.

Note 4 Employment costs, including Directors' remuneration

	2017 £m	2016 £m
Wages and salaries*	15	21
Social security costs	2	2
Pension costs (Note 14)	3	2
Share-based payment expense (Note 13)	6	7
	26	**32**

* Wages and salaries include recharges from other Group companies for Tesco PLC related activities.

The average number of employees (all Directors of the Company) during the financial year was 11 (2016: 10).

The Schedule 5 requirements of SI 2008/410 for Directors' remuneration are included within the Directors' Remuneration Report on pages 57 to 73.

Note 5 Dividends

For details of dividends see Note 8 in the Group financial statements.

Note 6 Investments

	Shares in Group undertakings £m	Shares in joint ventures £m	Total £m
Cost			
At 27 February 2016	16,403	9	16,412
Additions	32	–	32
Disposals	(9)	–	(9)
At 25 February 2017	**16,426**	**9**	**16,435**
Impairment			
At 27 February 2016	(3,074)	–	(3,074)
Charge for the year	(279)	–	(279)
At 25 February 2017	**(3,353)**	**–**	**(3,353)**
Net carrying value			
At 25 February 2017	**13,073**	**9**	**13,082**
At 27 February 2016	13,329	9	13,338

On 6 April 2017, the Company disposed of its £9m investment in a UK property joint venture. Refer to Note 17.

The list of the Company's subsidiary undertakings and joint ventures is shown on pages 158 to 165.

Note 7 Receivables

	2017 £m	2016 £m
Amounts owed by Group undertakings*	7,428	11,770
Amounts owed by joint ventures and associates	18	46
Other receivables	41	45
	7,487	**11,861**
Of which:		
Current	7,469	11,815
Non-current	18	46
	7,487	**11,861**

* Amounts owed by Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the receivable relationship.

Note 8 Short-term investments

	2017 £m	2016 £m
Short-term investments	1,398	622

Note 9 Cash and cash equivalents

Included in cash and cash equivalents of £790m is an amount of £777m that has been set aside for completion of the merger with Booker Group PLC. This cash is not available to the Company and must be held in ring-fenced accounts until released jointly by the Company and its advisors on satisfaction of the completion terms of the merger as set out in the offering circular dated 27 January 2017. Until that time, or if the merger is not completed, it remains an asset of the Company, and at the balance sheet date it was invested with a single financial institution at a floating rate of interest.

Note 10 Payables

	2017 £m	2016 £m
Amounts owed to Group undertakings[a]	4,889	6,289
Other payables	50	45
Taxation and social security	1	2
Accruals and deferred income	6	6
Deferred tax liability[b]	32	8
	4,978	**6,350**

[a] Amounts owed to Group undertakings are either interest-bearing or non interest-bearing depending on the type and duration of the creditor relationship.
[b] The deferred tax asset/(liability) recognised by the Company, and the movements thereon, during the financial year are as follows:

	Financial instruments £m	Other timing differences £m	Total £m
At 27 February 2016	**(24)**	**16**	**(8)**
Charge to the income statement for the year	–	(10)	(10)
Movement in reserves for the year	(14)	–	(14)
At 25 February 2017	**(38)**	**6**	**(32)**

Note 11 Borrowings

Current

	Par value	Maturity	2017 £m	2016 £m
Bank loans and overdrafts			131	224
4% RPI MTN	£310m	Sep 2016	–	316
5.875% MTN	€1,039m	Sep 2016	–	877
2.7% USD Bond	$500m	Jan 2017	–	361
5.5% USD Bond	$850m	Nov 2017	709	–
			840	**1,778**

Non-current

	Par value	Maturity	2017 £m	2016 £m
5.5% USD Bond	$850m	Nov 2017	–	666
3.375% MTN	€750m	Nov 2018	641	595
5.5% MTN	£350m	Dec 2019	353	353
6.125% MTN	£900m	Feb 2022	896	896
5% MTN	£389m	Mar 2023	411	411
3.322% LPI MTN[a]	£323m	Nov 2025	326	320
6% MTN	£200m	Dec 2029	253	257
5.5% MTN	£200m	Jan 2033	255	259
1.982% RPI MTN[b]	£268m	Mar 2036	270	265
6.15% USD Bond	$1,150m	Nov 2037	1,063	1,035
4.875% MTN	£173m	Mar 2042	175	175
5.125% MTN	€600m	Apr 2047	522	486
5.2% MTN	£279m	Mar 2057	275	275
			5,440	**5,993**

[a] The 3.322% LPI MTN is redeemable at par, including indexation 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%.
[b] The 1.982% RPI MTN is redeemable at par, including indexation for increases in the RPI over the life of the MTN.

Note 12 Derivative financial instruments

The fair value of derivative financial instruments has been disclosed in the Company's balance sheet as:

	2017		2016	
	Asset £m	Liability £m	Asset £m	Liability £m
Current	155	–	83	(2)
Non-current	1,274	(466)	1,502	(614)
Total	**1,429**	**(466)**	**1,585**	**(616)**

	2017				2016			
	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	16	65	–	–	17	65	–	–
Cross currency swaps	386	791	(26)	408	280	1,377	–	–
Cash flow hedges								
Interest rate swaps and similar instruments	–	–	–	–	–	–	(195)	400
Cross currency swaps	296	907	–	–	650	1,713	–	–
Index-linked swaps	162	591	–	–	117	890	–	–
Forward contracts	–	–	–	–	–	–	–	–
Derivatives not in a formal hedge relationship								
Index-linked swaps	569	3,339	(440)	3,339	513	3,339	(419)	3,339
Forward contracts	–	–	–	–	8	232	(2)	65
Total	**1,429**	**5,693**	**(466)**	**3,747**	**1,585**	**7,616**	**(616)**	**3,804**

Note 13 Share-based payments

The Company's equity-settled share-based payment schemes comprise various share schemes designed to reward Executive Directors. For further information on these schemes, including the valuation models and assumptions used, see Note 26 to the Group financial statements.

Share option schemes

The number of options and weighted average exercise price (WAEP) of share option schemes relating to the Company employees are:

For the year ended 25 February 2017

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 27 February 2016	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**5,079,088**	**–**
Granted	–	–	–	–	–	–	5,511,106	–
Forfeited	–	–	–	–	–	–	–	–
Exercised	–	–	–	–	–	–	(41,636)	–
Outstanding at 25 February 2017	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**10,548,558**	**–**
Exercisable at 25 February 2017	**–**	**–**	**–**	**–**	**–**	**–**	**2,250,252**	**–**
Exercise price range (pence)	–	–	–	–	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	–	–	–	–	7.68

For the year ended 27 February 2016

	Savings-related Share Option Scheme		Approved Share Option Scheme		Unapproved Share Option Scheme		Nil cost share options	
	Options	WAEP	Options	WAEP	Options	WAEP	Options	WAEP
Outstanding at 28 February 2015	**–**	**–**	**19,008**	**315.65**	**6,152,817**	**378.20**	**2,821,238**	**–**
Granted	23,840	151.00	–	–	–	–	2,478,657	–
Forfeited	–	–	(19,008)	315.65	(6,152,817)	378.20	–	–
Exercised	–	–	–	–	–	–	(220,807)	–
Outstanding at 27 February 2016	**23,840**	**151.00**	**–**	**–**	**–**	**–**	**5,079,088**	**–**
Exercisable at 27 February 2016	**–**	**–**	**–**	**–**	**–**	**–**	**1,354,714**	**–**
Exercise price range (pence)	–	–	–	–	–	–	–	–
Weighted average remaining contractual life (years)	–	–	–	–	–	–	–	8.61

Note 14 Pensions

The total cost of participation in defined benefit pension schemes (now closed to future accrual and new members) to the Company was £nil (2016: £2.0m). The total cost of participation in the Tesco Retirement Savings Plan (a defined contribution scheme) to the Company was £2.9m (2016: £0.1m). Further disclosure relating to all schemes can be found in Note 27 to the Group financial statements.

Note 15 Called up share capital

	2017 Ordinary shares of 5p each		2016 Ordinary shares of 5p each	
	Number	£m	Number	£m
Allotted, called up and fully paid:				
At beginning of the year	**8,141,083,114**	**407**	**8,122,991,499**	**406**
Share options exercised	849,439	–	591,615	–
Share bonus awards issued	33,000,000	2	17,500,000	1
At end of the year	**8,174,932,553**	**409**	**8,141,083,114**	**407**

During the financial year, 0.8 million (2016: 0.6 million) ordinary shares of 5p each were issued in relation to share options for an aggregate consideration of £1m (2016: £1m) and 33.0 million (2016: 17.5 million) ordinary shares of 5p each were issued in relation to share bonus awards.

Between 26 February 2017 and 5 April 2017, options over 110,014 ordinary shares were exercised under the terms of the Savings-related Share Option Scheme (1981) and the Irish Savings-related Share Option Scheme (2000). Between 26 February 2017 and 5 April 2017, no options have been exercised under the Discretionary Share Option Plan (2004).

As at 25 February 2017, the Directors were authorised to purchase up to a maximum in aggregate of 814.1 million (2016: 812.3 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.

Note 16 Contingent liabilities

In addition to the contingent liabilities shown in Note 32 to the Group financial statements, the Company has entered into financial guarantee contracts to guarantee the indebtedness of Group undertakings amounting to £2,534m (2016: £2,364m). These guarantees are treated as contingent liabilities until it becomes probable they will be called upon.

In addition, the Company has guaranteed the rental payments of certain Group undertakings relating to a portfolio of retail stores, distribution centres and mixed use retail developments.

The likelihood of the above items being called upon is considered remote.

The Company also has joint responsibility for the compensation scheme disclosed in Note 17.

Note 17 Events after the reporting period

On 10 April 2017, the Group announced that its subsidiary, Tesco Stores Limited, had obtained Court approval and entered into a Deferred Prosecution Agreement (DPA) with the UK Serious Fraud Office (SFO) regarding historic accounting practices. On 28 March 2017, the Group also announced that it had agreed with the UK Financial Conduct Authority (FCA) to a finding of market abuse in relation to its trading statement announced on 29 August 2014. In making its finding, the FCA has expressly stated that it is not suggesting that the Tesco PLC Board of Directors knew, or could reasonably be expected to have known, that the information contained in that trading statement was false or misleading. The Group has agreed with the FCA (under its statutory powers) to establish a compensation scheme which will compensate certain net purchasers of Tesco ordinary shares and listed bonds between 29 August 2014 and 19 September 2014 inclusive. The expected costs of the compensation scheme of £85m are the joint responsibility of Tesco PLC and Tesco Stores Limited. These have been recorded in the financial statements of Tesco Stores Limited and therefore no provision has been recorded in the financial statements of Tesco PLC.

On 6 April 2017, the Company disposed of its 50% investment in a UK property joint venture. See Note 35 to the Group financial statements.

Related undertakings of the Tesco Group

In accordance with Section 409 of the Companies Act 2006 and Schedule 4 of The Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008, a full list of related undertakings, registered office address and the percentage of share class owned as at 25 February 2017 are disclosed below. All undertakings are indirectly owned by Tesco PLC unless otherwise stated.

Subsidiary undertakings incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Acklam Management Company Limited	1	Limited by Guarantee	–
Adminstore Limited	1	£0.01 A Ordinary	100
		£0.01 B Ordinary	100
		£0.01 C Ordinary	100
Adsega Limited[†]	1	£1.00 Ordinary	100
Alfred Preedy & Sons (Trustees) Limited	2	£1.00 Ordinary	100
Alfred Preedy & Sons Limited	2	£1.00 Deferred	100
		£1.00 Ordinary	100
Anthony Heagney Limited	2	£1.00 10% Preference (Class B)	100
		£1.00 Ordinary	100
		£1.00 Variable Preference (Class C)	100
Armitage Finance Unlimited	1	£0.90 Ordinary	100
Bath Upper Bristol Road Management Company Limited	1	Limited by Guarantee	–
Beehythe Estates Limited	1	£1.00 Ordinary	100
Berry Lane Management Company Limited	1	Limited by Guarantee	–
Broughton Retail Nominee 1 Limited	1	£1.00 Ordinary	100
Broughton Retail Nominee 2 Limited	1	£1.00 Ordinary	100
Broughton Retail Nominee 3 Limited	1	£1.00 Ordinary	100
Broughton Retail Nominee 4 Limited	1	£1.00 Ordinary	100
Bugden Limited[†]	1	£1.00 Ordinary	100
Buttoncable Limited	1	£1.00 Ordinary	100
Buttoncase Limited[†]	1	£1.00 Cumulative Redeemable Preference	100
		£1.00 Ordinary	100
Canterbury Road Management Limited	1	Limited by Guarantee	–
Cardiff Cathays Terrace Management Company Limited	1	Limited by Guarantee	–
Careneed News Limited	2	£0.001 Non-Cumulative Preference	100
		£0.001 Ordinary	100
		£0.001 Ordinary A	100
Cheshunt Finance Unlimited	1	£0.01053258724 Ordinary	100
Comar Limited[†]	1	£1.00 Ordinary	100
Cullen's Holdings Limited	1	£0.10 Ordinary	100
Cullen's Stores Limited	1	£1.00 Ordinary	100
Daily Wrap Produce Limited[†(i)]	96	£1.00 Ordinary	100
Day and Nite Stores Limited	2	£1.00 Cumulative Convertible Participating Preferred Ordinary	100
		£1.00 Cumulative Redeemable Preference	100
		£1.00 Ordinary	100
Delamare One Limited[†]	1	£0.001 A Ordinary	100
		£0.001 B Ordinary	100
		£0.001 C Ordinary	100
		£0.001 Convertible	100
Dillons Newsagents Limited	2	£0.25 Non-Voting Ordinary	100
dunnhumby Employment Company Limited	5	£1.00 Ordinary	100
dunnhumby Holding Limited	5	£1.00 Ordinary	100
dunnhumby International Limited	5	£1.00 Ordinary	100
dunnhumby Limited	5	£3.59 Ordinary	100
dunnhumby Overseas Limited	5	£1.00 Ordinary	100
dunnhumby Trustees Limited	5	£1.00 Ordinary	100
Europa Foods Limited	1	£1.00 Ordinary	100
Faraday Properties Limited	6	£1.00 Ordinary	100
Food & Wine Lovers Limited	1	£1.00 Ordinary	100
Gibbs News Limited	2	£1.00 Ordinary	100
Gibbs Newsagents Limited	2	£1.00 A Cumulative Redeemable Preference	100
		£1.00 A Ordinary	100
		£1.00 B Cumulative Redeemable Preference	100
		£1.00 B Ordinary	100
		£1.00 D Ordinary	100
		£1.00 Deferred	100
Halesworth SPV Limited	1	£1.00 Ordinary	100
Harts the Grocers (Russell Square) Limited	1	£1.00 Ordinary	100
Harts the Grocers (TCR) Limited	1	£1.00 Ordinary	100
Highams Green Management Company Limited	1	Limited by Guarantee	–
J E Properties Holdings Limited[(i)]	1	£1.00 Ordinary	100
J.E. Cohen & Company Limited	1	£1.00 Ordinary	100
KSS Retail Limited	5	£0.001 Ordinary	100
Launchgrain Limited[†]	1	£1.00 Ordinary	100
Laws Stores Limited[(i)]	1	£1.00 3.5% Cumulative Preference	100
		£1.00 5.25% Cumulative Preference	100
		£1.00 Ordinary	100
Linebush III Holdings Limited[(i)]	2	£1.00 Ordinary	100
Linebush III Limited	2	£1.00 Ordinary A	100
		£1.00 Ordinary B	100
Linebush IV Limited	2	£0.01 Ordinary A	100
		£1.20 Ordinary B	100
		£0.01 Ordinary C	100
Linebush Limited	2	£0.01 A Ordinary	100
		£1.00 B Ordinary	100
		£0.01 C Ordinary	100
Linebush V Limited	2	£1.20 Ordinary A	100
		£1.20 Ordinary B	100
London and Home Counties Superstores Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B	100
		£1.00 Redeemable Cumulative Preference	100
M & W Limited	2	£0.10 Ordinary	100
Mills (East Midlands) Limited	2	£1.00 Ordinary	100
Mills (West Midlands) Limited	2	£1.00 Ordinary	100
Mills Group Holdings Limited[(i)]	2	£1.00 Ordinary	100
Mills Group Limited	2	£1.00 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
Morgam Holdings Limited	2	£1.00 Non-Cumulative Preference	100
		£1.00 Ordinary	100
Morgam News Limited	2	£1.00 Ordinary	100
Motorcause Limited	1	£1.00 Ordinary	100
NutriCentre Limited	1	£0.10 Ordinary	100
Oakwood Distribution Limited	1	£1.00 Ordinary	100
One Stop Community Stores Limited	2	£1.00 Ordinary	100
One Stop Convenience Stores Limited	2	£1.00 Ordinary	100
One Stop Stores Limited†(a)	2	£1.00 Ordinary	100
One Stop Stores Trustee Services Limited	2	£1.00 Ordinary	100
Orpington (Station Road) Limited	1	£1.00 Ordinary	100
Oxford Fox and Hounds Management Company Limited	1	Limited by Guarantee	–
Paper Chain (East Anglia) Limited	2	£1.00 Deferred	100
		US$0.001 Ordinary	100
PTLL Limited	1	£1.00 Ordinary	100
Seacroft Green Nominee 1 Limited	1	£1.00 Ordinary	100
Seacroft Green Nominee 2 Limited	1	£1.00 Ordinary	100
Snowman Retail 1 Limited	2	£1.00 Ordinary	100
Snowman Retail 2 Limited	2	£1.00 Ordinary	100
Sociomantic Labs Limited	8	£1.00 Ordinary	100
Spen Hill Developments (Holdings) Limited	1	£1.00 Ordinary	100
Spen Hill Developments Limited	1	£1.00 Ordinary	100
Spen Hill Management Limited†(b)	1	£1.00 Ordinary	100
Spen Hill Properties (Holdings) plc†	1	£1.00 Ordinary	100
Spen Hill Regeneration Limited	1	£1.00 Ordinary	100
Spen Hill Residential No 1 Limited	1	£1.00 Ordinary	100
Spen Hill Residential No 2 Limited	1	£1.00 Ordinary	100
Station House Welling Management Limited	1	Limited by Guarantee	–
Statusfloat Limited	1	£1.00 Ordinary	100
Stewarts Supermarkets Limited†	1	£1.00 Ordinary	100
T & S Management Services Limited	2	£1.00 Ordinary	100
T & S Properties Limited	2	£1.00 Ordinary	100
T & S Stores Limited†	2	£0.05 Ordinary	100
Tapesilver Limited†	1	£1.00 Ordinary	100
Teesport (GP) Limited	1	£1.00 Ordinary	100
Teesport (Nominee) Limited	1	£1.00 Ordinary	100
Tesco (Overseas) Limited†	1	£1.00 Ordinary	100
Tesco Aqua (3LP) Limited	1	£1.00 Ordinary	100
Tesco Aqua (FinCo1) Limited	1	£1.00 Ordinary	100
Tesco Aqua (FinCo2) Limited	1	£1.00 Ordinary	100
Tesco Aqua (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Aqua (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Aqua (Nominee Holdco) Limited	1	£1.00 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Atrato (1LP) Limited	1	£1.00 Ordinary	100
Tesco Barbers Wood Limited†(c)	1	£1.00 Ordinary	100
Tesco Blue (3LP) Limited	1	£1.00 Ordinary	100
Tesco Blue (FinCo2) Limited	1	£1.00 Ordinary	100
Tesco Blue (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary(d)	100
Tesco Blue (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Blue (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Card Services Limited†(l)	1	£1.00 Ordinary	100
Tesco Corporate Treasury Services PLC†	1	£1.00 Ordinary	100
Tesco Depot Propco Limited	1	£1.00 Ordinary	100
Tesco Distribution Holdings Limited	1	£1.00 Ordinary	100
Tesco Distribution Limited	1	£1.00 Ordinary	100
Tesco Dorney (1LP) Limited	1	£1.00 Ordinary	100
Tesco Employees' Share Scheme Trustees Limited†(e)	1	£1.00 Ordinary	100
Tesco Estates Limited†	1	£1.00 Ordinary	100
Tesco Family Dining Limited	1	£1.00 Ordinary	100
Tesco FFC Limited	1	£0.01 Ordinary	100
Tesco Food Sourcing Limited	1	£1.00 Ordinary	100
Tesco Freetime Limited	1	£1.00 Ordinary	100
Tesco Fuchsia (3LP) Limited	1	£1.00 Ordinary	100
Tesco Gateshead Property Limited	1	£1.00 Ordinary	100
Tesco High Beech Limited†(c)	1	£1.00 Ordinary	100
Tesco Holdings Limited†	1	£0.10 Ordinary	100
		£1.00 Preference	100
Tesco Hungary (Holdings) Limited†(l)	1	£1.00 Ordinary	100
Tesco International Internet Retailing Limited†	1	£1.00 Ordinary	100
Tesco International Services Limited†	1	£1.00 Ordinary	100
Tesco Kirkby (General Partner) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (LP) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Unitholder1) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Unitholder2) Limited	1	£1.00 Ordinary	100
Tesco Lagoon GP Limited	6	£1.00 Ordinary	100
Tesco Maintenance Limited	1	£1.00 Ordinary	100
Tesco Mobile Communications Limited†	1	£1.00 Ordinary	100
Tesco Mobile Services Limited	1	£1.00 Ordinary	100
Tesco Navona (1LP) Limited	1	£1.00 Ordinary	100
Tesco Navona (GP) Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B(d)	100
Tesco Navona (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Navona (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Navona (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Navona PL Propco Limited	1	£1.00 Ordinary	100
Tesco Opticians Limited	1	£1.00 Ordinary	100
Tesco Overseas Investments Limited†	1	£1.00 Ordinary	100

Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Overseas ULC	1	£0.00000025 A Ordinary	100
		£0.00000025 B Ordinary	100
		£0.00000025 C Ordinary	100
		£0.00000025 D Ordinary	100
		£0.00000025 E Ordinary	100
		£0.00000025 F Ordinary	100
		£0.00000025 G Ordinary	100
		£0.00000025 H Ordinary	100
		£0.00000025 J Ordinary	100
		£0.00000025 K Ordinary	100
		£0.00000025 L Ordinary	100
		£0.00000025 M Ordinary	100
		£0.00000025 N Ordinary	100
		£0.00000025 O Ordinary	100
		£0.00000025 P Ordinary	100
Tesco Passaic (1LP) Limited	1	£1.00 Ordinary	100
Tesco Passaic (GP) Limited	1	£1.00 Ordinary A	100
		£1.00 Ordinary B(d)	100
Tesco Passaic (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Passaic (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Passaic PL Propco Limited	1	£1.00 Ordinary	100
Tesco PEG Limited	1	£0.01 B Preference	100
	1	£0.01 Ordinary	100
	1	£0.01 Preferred Ordinary	100
Tesco PENL Limited	1	£1.00 Ordinary	100
Tesco Pension (Jade) Limited(d)	1	£1.00 Ordinary	100
Tesco Pension Investment Limited(d)	1	£1.00 Ordinary	100
Tesco Pension Trustees Limited†(f)	1	£1.00 Ordinary	100
Tesco Personal Finance Group Limited†	10	£0.10 A Ordinary	100
		£0.10 B Ordinary	100
		£0.10 C Ordinary	100
Tesco Personal Finance PLC	10	£0.10 Ordinary	100
Tesco Property (Nominees) (No.1) Limited	11	£1.00 Ordinary	100
Tesco Property (Nominees) (No.2) Limited	11	£1.00 Ordinary	100
Tesco Property (Nominees) Limited	11	£1.00 Ordinary	100
Tesco Property Finance 1 Holdco Limited	1	£1.00 Ordinary	100
Tesco Property Finance 1 PLC	1	£1.00 Ordinary	100
		£1.00 Ordinary	100
Tesco Property Holdings (No.2) Limited	1	£1.00 Ordinary	100
Tesco Property Holdings Limited	1	£1.00 Ordinary	100
Tesco Property Nominees (No.5) Limited	1	£1.00 Ordinary	100
Tesco Property Nominees (No.6) Limited	1	£1.00 Ordinary	100
Tesco Property Partner (GP) Limited†	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Property Partner (No.1) Limited†	1	£1.00 Ordinary	100
Tesco Property Partner (No.2) Limited†	1	£1.00 Ordinary	100
Tesco Red (3LP) Limited	1	£1.00 Ordinary	100
Tesco Red (GP) Limited	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Red (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Red (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Red (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Sarum (1LP) Limited	1	£1.00 Ordinary	100
Tesco Seacroft Limited	1	£1.00 Ordinary	100
Tesco Secretaries Limited	1	£1.00 Ordinary	100
Tesco Services Limited	1	£1.00 Ordinary	100
Tesco Stores Limited	1	£1.00 A Preference	100
		£1.00 B Preference	100
		£1.00 Ordinary	100
Tesco Treasury Services PLC†	1	£1.00 Ordinary	100
Tesco Worldwide Limited†(l)	1	£1.00 Ordinary	100
The Teesport Limited Partnership	1	Limited Partnership	100
The Tesco Aqua Limited Partnership	1	Limited Partnership	100
The Tesco Blue Limited Partnership	1	Limited Partnership	100
The Tesco Kirkby Limited Partnership	1	Limited Partnership	100
The Tesco Navona Limited Partnership	1	Limited Partnership	100
The Tesco Passaic Limited Partnership	1	Limited Partnership	100
The Tesco Property Limited Partnership	1	Limited Partnership	100
The Tesco Red Limited Partnership	1	Limited Partnership	100
Trigger Retail Limited	2	£1.00 Ordinary	100
Ventnor High Street Management Company Limited	1	Limited by Guarantee	–
Verulam Properties (2001) Limited(l)	1	£1.00 Ordinary	100
Verulam Properties Limited	1	£1.00 Ordinary	100
Weymouth Avenue (Dorchester) Limited	1	£1.00 Ordinary	100
Wm. Low Supermarkets Limited	6	£1.00 Ordinary	100
Worple Road PLC	1	£1.00 Ordinary	100

International subsidiary undertakings

Name of undertaking	Registered address	Class of share held	% held by Group
Arena (Jersey) Management Limited†	28	£1.00 Ordinary	100
Armitage Luxembourg s.à.r.l.(j)	29	No par value Ordinary shares	100
Cheshunt Holdings Guernsey Limited†	18	£1.00 Ordinary	99.994
Cheshunt Hungary Servicing Limited Liability Company	22	HUF 100,000 Quota	100
China Property Holdings (HK) Limited	20	HKD 1.00 Ordinary	100
Chirac Limited	24	€1.25 Ordinary	100
Cirrus Finance (2009) Limited	24	£1,000 A Ordinary	100
		€1.00 Ordinary	100
Cirrus Finance Limited	24	£1,000 Ordinary	100
Cirrus Luxembourg s.à.r.l.(j)	29	No par value Ordinary shares	100
Clondalkin Properties Limited	24	€1.25 Ordinary	100
Commercial Investments Limited	24	€1.25 Ordinary	100
Crest Ostrava a.s	16	CZK 100,000 Ordinary	100
Delamare Holdings B.V.	31	€1.00 Ordinary	100
Delamare Luxembourg s.à.r.l.(j)	29	No par value Ordinary shares	100
Department store Brno s.r.o.	16	CZK 100,000 Ordinary	100
Department store HK s.r.o.	16	CZK 100,000 Ordinary	100
Department store Pardubice s.r.o.	16	CZK 100,000 Ordinary	100
Department store Plzeň s.r.o.	16	CZK 100,000 Ordinary	100
dunnhumby (Korea) Limited	70	KRW 5,000.00 Ordinary	100
dunnhumby (Malaysia) Sdn Bhd	72	RM 1.00 Ordinary	100
dunnhumby (Thailand) Limited	77	THB 100.00 Ordinary	100
dunnhumby Brazil Consultora Ltda	61	BRL$1.00 Ordinary	100
dunnhumby Colombia S.A.S.	60	COP$2,000.00 Type A	100
		COP$41.00 Type B	100
		COP$1.00 Type C	100
dunnhumby Computer Information Technology and Consultancy Services LLC	62	TL 25.00 Ordinary	100
dunnhumby Consulting Canada Limited	63	CAD$0.01 Ordinary	100
dunnhumby Consulting Services India Private Limited	64	INR 10.00 Ordinary	100
dunnhumby Czech s.r.o	16	CZK 200,000 Basic business	100
dunnhumby France SAS	65	€2.00 Ordinary	100
dunnhumby Hungary Kft	22	Registered capital HUF 3,000,000	100
dunnhumby Information Technology Consulting (Shanghai) Company Limited	66	Registered capital US$140,000	100
dunnhumby Ireland Limited	71	€1.00 Ordinary	100
dunnhumby IT Services India Private Limited	67	INR 10.00 Ordinary	100
dunnhumby Italia Srl.	68	€1.00 Common	100
dunnhumby Japan K.K	69	JPY 10,000 Ordinary	100
dunnhumby Mexico S. de R.L. de C.V.	73	MXN 1.00 Common	100
dunnhumby Poland Sp z.o.o	35	PLN 50.00 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Slovakia s.r.o.	75	No shares in issue	–
dunnhumby South Africa (Pty) Ltd	76	No par value Ordinary	100
dunnhumby Inc	78	No par value Common stock	100
dunnhumby Ventures LLC	79	–	100
Edson Investments Limited	24	€2.00 Ordinary	100
Edson Properties Limited	24	€1.00 Ordinary	100
Ek-Chai Distribution System Co., Ltd.*	37	THB 10.00 Ordinary	99.9
ELH Insurance Limited	19	£1.00 Ordinary	100
Genesis sp. z.o.o.	35	PLN 500.00 Ordinary	100
Golden Island Management Services Limited	24	€1.269738 A Ordinary	100
		€1.269738 Ordinary	100
Jasper Sp. z.o.o.	35	PLN 100.00 Ordinary	100
Kabaty Investments Tesco (Polska) Sp. z.o.o. Sp.k	35	PLN Partnership Interests	100
Lekáreň Tesco Dunajská Streda, k.s.	59	Limited Partnership	100
Lekáreň Tesco Petržalka, k.s.	59	Limited Partnership	100
Lekáreň Tesco Piešťany, k.s.	59	Limited Partnership	100
Lekáreň Tesco Prešov Vukov, k.s.	59	Limited Partnership	100
Lekáreň Tesco Senec, k.s.	59	Limited Partnership	100
Lekáreň Tesco Trenčín, s.r.o.	59	Limited Partnership	100
Lekáreň Tesco Banská Bystrica, k.s.	59	Limited Partnership	100
Lekáreň Tesco Košice, k.s.	59	Limited Partnership	100
Lekáreň Tesco Lamač, k.s.	59	Limited Partnership	100
Lekáreň Tesco Nitra, k.s.	59	Limited Partnership	100
Lekáreň Tesco Spišská Nová Ves, k.s.	59	Limited Partnership	100
Lekáreň Tesco Trnava, k.s.	59	Limited Partnership	100
Lekáreň Tesco Zlaté Piesky, k.s.	59	Limited Partnership	100
Lekáreň Tesco Zvolen, k.s.	59	Limited Partnership	100
Letňany Development land 1 s.r.o.	16	CZK 100,000 Ordinary	100
Letňany Development land 2 s.r.o.	16	CZK 100,000 Ordinary	100
Marine Coffee Company Holdings Limited	25	€1.00 Ordinary	100
Marine Coffee Company Nominees Limited	25	€1.00 Ordinary	100
Monread Developments Limited	24	€0.001 Ordinary	100
Nabola Development Limited	24	€1.25 A Ordinary	100
		€1.25 B Ordinary	100
Obchodný dom Bratislava, s.r.o	59	€1.00 Registered capital	100
Obchodný dom Košice, s.r.o.	59	€1.00 Registered capital	100
Obchodný dom Nitra, s.r.o.	59	€1.00 Registered capital	100
Obchodný dom Prešov, s.r.o.	59	€1.00 Registered capital	100
Old FEHC Inc.	39	US$0.01 Common Stock	100
Old FENM Inc.†	39	US$0.01 Ordinary	100
Old FEPC LLC†	39	US$0.01 Equity	100
Orpingford	24	€1.00 Ordinary	100
PEJ Property Developments Limited	24	€1.00 Ordinary	100
Pharaway Properties Limited	24	€1.00 Ordinary	100
R.J.D. Holdings	24	€1.269738 Ordinary	100

Related undertakings of the Tesco Group continued

Name of undertaking	Registered address	Class of share held	% held by Group
Seberov site s.r.o.	16	CZK 100,000 Ordinary	100
Shuke Advertising (Shanghai) Co., Ltd	95	€130,000 Registered Capital	100
Sociomantic Labs AB	91	SEK 1 Ordinary	100
Sociomantic Labs B.V.	86	€100.00 Ordinary	100
Sociomantic labs GmbH	80	€1.00 Ordinary	100
Sociomantic Labs Inc	94	US$50.00 Common Stock	100
Sociomantic Labs Internet Hizmetleri Limited Şireketi	92	TRY 25.00 Ordinary	100
Sociomantic Labs LLC	88	RUR 1.00 Ordinary	100
Sociomantic Labs Private Limited	84	INR 10.00 Ordinary	100
Sociomantic Labs Pte Ltd	89	S$1.00 Ordinary	100
Sociomantic Labs s.r.o.	82	KC 1.00 Ordinary	100
Sociomantic Labs SARL	83	€100.00 Ordinary	100
Sociomantic Labs Servicos Web Ltda	81	R$1.00 Ordinary	100
Sociomantic Labs Sp. z.o.o.	87	PLN 50.00 Ordinary	100
Sociomantic S.L.U.	90	€1.00 Ordinary	100
Tesco (Jersey) Limited†	28	£1.00 Ordinary	100
Tesco (Polska) Sp. z.o.o.	35	PLN 500.00 Ordinary	100
Tesco Akadémia Képzési és Fejlesztési Korátolt Felelősségű Társaság	22	HUF 100,000 Quotas	100
Tesco Bengalaru Private Limited	23	INR 10.00 Ordinary	100
Tesco Capital No. 1 Limited†	28	£0.50 A Ordinary	100
		£0.50 B Ordinary	100
		£0.01 Preference – Guaranteed fixed rate cumulative preference	100
		£0.01 Preferred Ordinary	100
Tesco Capital No. 2 Limited	28	£0.01 Floating Rate Redeemable Preference†	100
		£1.00 Ordinary	100
Tesco Chile Sourcing Limitada	13	CLP 1.00 Ordinary	100
		US$ 1.00 Ordinary	100
Tesco Digital Ventures Pte Ltd	36	SGD 1.00 Ordinary	100
Tesco Dystrybucja Sp. z.o.o	35	PLN 50.00 Ordinary	100
Tesco EU IT Services s.r.o.	16	CZK 1.00 Ordinary	100
Tesco Europe B.V.	32	€1.00 Ordinary	100
Tesco Food Sourcing Brazil Consultoria De Negoçios Ltda.	12	BRL 1.00 Ordinary	100
Tesco Foundation (Nadacia Tesco)	59	No par value basic capital	100
Tesco Franchise Stores ČR s.r.o.	16	CZK 2,000,000 Ordinary	100
Tesco-Global Stores Privately Held Company Limited	22	HUF 10.00 Common	99.9
Tesco Global Employment Company Limited	37	THB 100.00 Ordinary	100
Tesco Guangdong (HK) Co. Limited	20	US$ 1.00 Ordinary	100
Tesco Holdings B.V.	31	€1.00 Ordinary	100
Tesco International Clothing Brand s.r.o.	59	€1.00 Ordinary	100
Tesco International Franchising s.r.o.	59	€1.00 Ordinary	100
Tesco International Sourcing Limited	20	HKD 10.00 Ordinary	100
Tesco Ireland Holdings Limited†(g)	24	€1.25 Ordinary	100

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Ireland Limited	24	€1.25 Ordinary	100
Tesco Ireland Pension Trustees Limited	24	€1.25 Ordinary	100
Tesco Joint Buying Service (Shanghai) Co Limited	14	US$ 1.00 Ordinary	100
Tesco Kipa Kitle Pazarlama Ticaret Lojistik ve Gida Sanayi A.S.*(h)	38	TRL 1.00 A	98.67
		TRL 1.00 B	95.495
Tesco Mauritius Holdings Limited	30	£1.00 Ordinary	100
Tesco Mobile (Thailand) Co. Limited	37	THB 100.00 Ordinary	100
Tesco Mobile Polska Sp. z.o.o.	35	PLN 50.00 Ordinary	100
Tesco Property (No. 1) Limited	28	£1.00 Ordinary	100
Tesco Property Limited	15	US$ 1.00 Registered Capital	100
Tesco Sourcing India Private Limited	97	INR 10.00 Ordinary	100
Tesco Stores (Malaysia) Sdn Bhd*(i)	48	RM 1.00 A Ordinary	100
		RM 10.00 Non-Convertible Non-Cumulative Irredeemable Preference Shares	100
Tesco Stores (Thailand) Limited*	37	THB 10.00 A Ordinary	100
		THB 10.00 B Preference	<0.001
		THB 10.00 C Preference	100
Tesco Stores ČR a.s.	16	CZK 1000 Ordinary	100
Tesco Stores SR, a.s.	59	€33,193.92 Ordinary	100
Tesco Technology Services HK Limited	21	HKD 1.00 Ordinary	100
Tesco Trustee Company of Ireland Limited†	24	€1.25 Ordinary	100
Thundridge	24	€1.00 Ordinary	100
Valiant Insurance Company DAC	26	£1.00 Ordinary	100
Victoria BB Sp. z.o.o.	35	PLN 800.00 Ordinary	100
Wanze Properties (Dundalk) Limited	24	€1.00 Ordinary	100
WSC Properties Limited	24	€1.00 Ordinary	100

Subsidiary undertakings in liquidation

The following subsidiary undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
Blinkbox Books Limited	3	£0.001 Ordinary	100
Bedminster Estates Limited	3	£1.00 Ordinary	100
Brian Ford's Discount Store Limited	3	£1.00 Ordinary	100
Cheshunt Overseas LLP	3	Limited Liability Partnership	100
Country Market Limited (The)	1	£1.00 Ordinary	100
Crazy Prices†	4	£1.00 Ordinary	100
Flitwick Pharmacies Limited	1	£1.00 Ordinary	100
Honiton Wholesale Supplies Limited	3	£1.00 Ordinary	100
Kingsway Fresh Foods Limited†	4	£1.00 Ordinary	100
Launchtable Limited†	1	£1.00 Ordinary	100
Lee (Southern) Limited	2	£1.00 Ordinary	99.975
Lowfoods Limited	6	£1.00 2% Non-Cumulative Preference	100
		£1.00 Ordinary	100
NPL (Hardgate) Limited	9	£1.00 Ordinary	100
Power Supermarkets Limited	1	£1.00 Ordinary	100
Premier Garage (Worthing) Limited	3	£1.00 Ordinary	100
Pulford Foods Limited	3	£1.00 Ordinary	100
S.Bottomley and Bros.,Limited	1	£10.00 Deferred	100
		£1.00 Ordinary	100
Sanders Supermarkets Limited	1	£1.00 Non-voting Ordinary	100
		£0.50 Ordinary	100
		£1.00 Preference	100
Sarcon (No. 239) Limited	100	£1.00 Ordinary	100
Spen Hill Developments (Portishead) Limited	1	£1.00 Ordinary	100
Spen Hill Developments (Tonbridge) Limited	1	£1.00 Ordinary	100
Spen Hill Properties (Southend) Limited	1	£1.00 Ordinary	100
Telegraph Properties (Kirkby) Limited	3	£1.00 Ordinary	100
Tesco.Com Limited†	1	£1.00 Ordinary	100
Tesco (Foxtrot 1) Limited	1	£1.00 Ordinary	100
Tesco (Foxtrot 2) Limited	1	£1.00 Ordinary	100
Tesco (Yorkshire) Limited	1	£1.00 Ordinary	100
Tesco Fuel Limited	1	£1.00 Ordinary	100
Tesco Home Shopping Limited†	1	£1.00 A Ordinary	100
		£1.00 B Ordinary	100
Tesco Kirkby (Nominee 1) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Nominee 2) Limited	1	£1.00 Ordinary	100
Tesco Kirkby (Nominee Holdco) Limited	1	£1.00 Ordinary	100
Tesco Overseas (Holdings) Limited†	1	£1.00 Ordinary	100
Tesco PEIP Limited	1	£1.00 Ordinary	100
Tesco PEL Limited	1	£1.00 Ordinary	100
Tesco Personal Finance Compare Limited	9	£1.00 Ordinary	100
Value House Properties Limited	3	£1.00 Ordinary	100
Whitecastle Properties Limited	9	£1.00 Ordinary	100

The following subsidiary undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Netherlands BV	74	€1.00 Ordinary	100
Sociomantic Labs S.r.l in liquidazione	85	Quota shares	100
Tesco Aqua (1LP) Limited	40	£1.00 Ordinary	100
Tesco Blue (1LP) Limited	40	£1.00 Ordinary	100
Tesco Fuchsia (1LP) Limited	40	£1.00 Ordinary	100
Tesco Red (1LP) Limited	40	£1.00 Ordinary	100
Tesco Vin Plus S.A.	17	€1.60 Ordinary	100

Associated undertakings

The following associated undertakings were incorporated in the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
BLT Holdings 2010 Limited†*(k)	54	£1.00 Ordinary A	100
Broadfields Management Limited	55	£0.10 Ordinary	35.3
Clarepharm Limited	56	£0.10 Ordinary	22.7
Shire Park Limited	57	£1.00 Ordinary	54.5
Tesco Atrato (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Coral (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Dorney (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Jade (GP) Limited	99	£1.00 A Ordinary	30
		£1.00 B Ordinary	30
Tesco Mobile Limited*	1	£0.10 A Ordinary	100
		£0.90 B Ordinary	100
Tesco Property Partner (GP No.2) Limited*	1	£1.00 A Ordinary	100
Tesco Sarum (GP) Limited*	1	£1.00 A Ordinary	100
Tesco Underwriting Limited	58	£1.00 Ordinary	49.9
The Tesco Atrato Limited Partnership	1	Limited Partnership	50
The Tesco Coral Limited Partnership	1	Limited Partnership	50
The Tesco Dorney Limited Partnership	1	Limited Partnership	50
The Tesco Property (No.2) Limited Partnership	27	Limited Partnership	50
The Tesco Sarum Limited Partnership	1	Limited Partnership	50

The following associated undertakings were incorporated outside of the United Kingdom

Name of undertaking	Registered address	Class of share held	% held by Group
dunnhumby Canada Limited	42	CA$ 1.00 Ordinary	50
dunnhumby Norge A.S.	49	NOK 1000 Ordinary	50
Gain Land Limited	41	$1.00 Ordinary	20
Koxka Hungary Refridgeration LLC	45	HUF 1.00 Quota	40
Merrion Shopping Centre Limited	24	€0.012697 Ordinary	51.9
Retail Property Co., Limited*	51	THB 100.00 Ordinary A	100
Tesco (Fuijan) Industry Limited	43	US$ 1.00 Registered Capital	50

Associated undertakings continued

Name of undertaking	Registered address	Class of share held	% held by Group
Tesco Card Services Limited*	52	THB 100.00 Ordinary A	100
Tesco for Thais Foundation	37	Foundation	–
Tesco Lotus Retail Growth Freehold and Leasehold Property Fund	53	THB Listed	25
Tesco Mobile ČR s.r.o.	16	CZK 100,000 Ordinary	50
Tesco Mobile Ireland Limited	24	€1.00 Ordinary	50
Tesco Mobile Slovakia s.r.o.	59	€1.00 Ordinary	50
Tesco Nanjing Zhongshan (HK) Co. Limited	20	US$ 1.00 Ordinary	50
Trent Hypermarket Private Limited	46	INR 10.00 Equity	50
Xiamen Firste Property Limited	44	US$ 1.00 Registered Capital	50

Consolidated Structured Entities

Name of Undertaking	Registered address	Nature of business
Delamare Cards Holdco Limited	98	Securitisation entity
Delamare Cards MTN Issuer plc	98	Securitisation entity
Delamare Cards Receivables Trustee Limited	98	Securitisation entity
Delamare Cards Funding 1 Limited	98	Securitisation entity
Delamare Cards Funding 2 Limited	98	Securitisation entity
Delamare Finance PLC	11	Securitisation entity
Delamare Group Holdings Limited	11	Securitisation entity

* Undertaking where other share classes are held by a third party.
† Interest held directly by Tesco PLC.

(a) 95% held by Tesco PLC.
(b) 66.6% held by Tesco PLC.
(c) Application for strike off submitted to Companies House on 22 February 2017.
(d) Shares held by Tesco Pension Trustees Limited (TPTL), the corporate trustee of the Tesco PLC Pension Scheme (the Scheme). On behalf of the Scheme, TPTL holds a 50% shareholding in three property joint ventures with Tesco, and is the sole shareholder of Tesco Pension (Jade) Limited and Tesco Pension Investment Limited.
(e) 50% held by Tesco PLC.
(f) This company is the corporate trustee of the Tesco PLC Pension Scheme.
(g) 12.705% held by Tesco PLC.
(h) Sold with effect from 1 March 2017.
(i) A third share class of £1.00 Ordinary B shares. A third party holds 100% of the Ordinary B shares in issue. The Group holds 70% of the voting rights of the entity.
(j) Dissolved on 21 March 2017.
(k) On 6 April 2017, Tesco PLC sold its entire holding of £1.00 Ordinary A shares in the capital of BLT Holdings 2010 Limited to British Land (Joint Ventures) Limited. As part of the transaction, Tesco Property Holdings Limited purchased 100% of the share capital in BLT Properties Limited, and certain subsidiaries, from BLT Holdings 2010 Limited.
(l) Entered liquidation on 3 April 2017.

Registered office addresses

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5 184 Shepherd's Bush Road, London W6 7NL, United Kingdom
6 c/o Morton Fraser LLP, 5th Floor, Quartermile Two, 2 Lister Square, Edinburgh, Scotland EH3 9GL, United Kingdom
7 Aurora House, 71–75 Uxbridge Road, London W5 5SL, United Kingdom
8 5th Floor, 10–12 Alie Street, London E1 8DE, United Kingdom
9 KPMG LLP, Saltire Court, 20 Castle Terrace, Edinburgh, Midlothian EH1 2EG, United Kingdom
10 Interpoint Building, 22 Haymarket, Edinburgh, Midlothian EH12 5BH, United Kingdom
11 35 Great St Helen's, London EC3A 6AP, United Kingdom
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15 R1108 Level 11, Bld No.1, China Central Place, No. 81 Jianguo Road, Chaoyang District, Beijing, China
16 Praha 10 – Vršovice, Vršovická 1527/68b, PSČ 10000, Prague, Czech Republic
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18 PO Box 25, Regency Court, Glategny Esplanade, St. Peter Port, GY1 3AP, Guernsey
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21 Level 54, Hopewell Centre, 183 Queens Road East, Hong Kong
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23 81 & 82, EPIP Area, Whitefield, Bangalore, 560066, India
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29 6C Rue Gabriel Lippmann, Munsbach, L-5365, Luxembourg
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31 Willemsparkweg 150 house, 1071 HS, Amsterdam, Netherlands
32 De Lairessestraat 137, 1075 HJ, Amsterdam, Netherlands
33 Ul. Wadowicka, 6 C w 13, 30 – 415, Kraków, Poland
34 ul. Gorczewska 212/226, 01-460, Warsaw, Poland
35 56 Kapelenka St, 30-347, Krakow, Poland
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72 10th Floor, Menara Hap Seng, No. 1 & 3 Jalan P Ramlee, Kuala Lumpur 50250, Malaysia
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78 424 Walnut Street, Suite 1800, Cincinnati, Ohio 45202, United States
79 One East Fourth Street, Suite 1400, Cincinnati, Ohio 45202, United States
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81 Rua Sansão Alves dos Santos, 76, 12° andar, conj. 121 e 122, Edifício Uchôa Borges, CEP 04571-090, Pinheiros, São Paulo, Brazil
82 Stefanikova 18/25, Smichov 150 00, Prague 5, Czech Republic
83 18 rue de la Pépinière, Paris (75008), France
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99 20 Churchill Place, Canary Wharf, London E14 5HJ, United Kingdom
100 KPMG LLP, Stokes House, 17-25 College Square East, Belfast, BT1 6DH Northern Ireland

Supplementary information (unaudited)

Total sales performance at actual rates (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	**0.7%**	**1.7%**	**2.3%**	**0.7%**	**1.2%**	**1.5%**	**1.4%**
UK	0.3%	1.0%	1.4%	0.2%	0.7%	0.8%	0.7%
ROI	8.7%	15.3%	19.7%	11.9%	11.9%	15.6%	13.8%
International	**5.6%**	**16.5%**	**23.2%**	**16.1%**	**10.9%**	**19.5%**	**15.2%**
Europe	8.2%	15.1%	19.6%	12.3%	11.6%	15.7%	13.7%
Asia	2.8%	18.2%	27.7%	20.9%	10.1%	24.1%	17.1%
Tesco Bank	**3.5%**	**7.2%**	**6.3%**	**6.9%**	**5.3%**	**6.6%**	**6.0%**
Group	**1.8%**	**4.7%**	**6.5%**	**4.1%**	**3.3%**	**5.2%**	**4.3%**

Total sales performance at constant rates (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	**0.3%**	**1.0%**	**1.4%**	**0.1%**	**0.6%**	**0.6%**	**0.6%**
UK	0.3%	1.0%	1.4%	0.2%	0.7%	0.7%	0.7%
ROI	0.2%	(0.3)%	0.0%	(1.7)%	(0.1)%	(0.9)%	(0.5)%
International	**3.6%**	**2.8%**	**1.5%**	**0.6%**	**3.2%**	**1.0%**	**2.1%**
Europe	2.4%	1.2%	0.1%	(1.5)%	1.8%	(0.7)%	0.5%
Asia	5.0%	4.8%	3.2%	3.2%	4.9%	3.2%	4.0%
Tesco Bank	**3.5%**	**7.2%**	**6.3%**	**6.9%**	**5.3%**	**6.6%**	**6.0%**
Group	**1.1%**	**1.5%**	**1.5%**	**0.3%**	**1.3%**	**0.9%**	**1.1%**

Like-for-like sales performance (exc. VAT, exc. fuel)

	1Q 2016/17	2Q 2016/17	3Q 2016/17	4Q 2016/17	1H 2016/17	2H 2016/17	FY 2016/17
UK & ROI	**0.3%**	**0.9%**	**1.7%**	**0.6%**	**0.6%**	**1.3%**	**0.9%**
UK	0.3%	0.9%	1.8%	0.7%	0.6%	1.2%	0.9%
ROI	0.3%	0.1%	0.5%	(1.3)%	0.2%	(0.4)%	(0.1)%
International	**3.0%**	**2.1%**	**0.6%**	**(0.3)%**	**2.6%**	**0.1%**	**1.3%**
Europe	2.8%	1.3%	0.7%	(0.8)%	2.0%	(0.1)%	0.9%
Asia	3.3%	3.0%	0.4%	0.5%	3.2%	0.4%	1.8%
Tesco Bank	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Group	**0.9%**	**1.1%**	**1.5%**	**0.4%**	**1.0%**	**1.0%**	**1.0%**

Notes
These results have been reported on a continuing operations basis and exclude the results from our operations in Turkey. Like-for-like sales growth is reported at constant exchange rates. Growth rates are all based on comparable days.

Country detail

	Revenue (exc. VAT, inc. fuel) Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	41,458	41,458	1.000	1.000
ROI	2,483	2,066	1.202	1.184
Czech Republic	43,017	1,324	32.49	31.98
Hungary	595,463	1,593	373.8	365.0
Poland	10,832	2,070	5.233	5.096
Slovakia	1,405	1,169	1.202	1.184
Malaysia	4,458	808	5.517	5.557
Thailand	204,059	4,378	46.61	43.66

UK sales area by size of store

Store size	February 2017			February 2016		
sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.	No. of stores	Million sq. ft.	% of total sq. ft.
0–3,000	2,507	5.2	13.1%	2,498	5.2	12.5%
3,001–20,000	288	3.4	8.6%	289	3.5	8.4%
20,001–40,000	283	8.2	20.5%	283	8.3	20.0%
40,001–60,000	182	9.4	23.5%	204	10.4	25.0%
60,001–80,000	120	8.6	21.5%	132	8.9	21.5%
80,001–100,000	45	4.2	10.6%	45	4.2	10.2%
Over 100,000	8	0.9	2.2%	9	1.0	2.4%
Total*	**3,433**	**39.9**	**100.0%**	**3,460**	**41.5**	**100.0%**

* Excludes franchise stores.

Group space summary

Actual Group space – store numbers[a]

	2015/16 year-end	2016/17 year-end	Net gain/ reduction[b]	Openings	Closures/ disposals	Repurposing/ extensions
Extra	252	252	–	–	–	14
Superstore	478	479	1	2	(1)	–
Metro	177	176	(1)	–	(1)	–
Express	1,732	1,740	8	17	(9)	–
Dotcom only	6	6	–	–	–	–
Total Tesco	**2,645**	**2,653**	**8**	**19**	**(11)**	**14**
One Stop[c]	779	780	1	23	(22)	–
Dobbies	36	–	(36)	–	(36)	–
UK[c]	**3,460**	**3,433**	**(27)**	**42**	**(69)**	**14**
ROI	**149**	**148**	**(1)**	**–**	**(1)**	**–**
UK & ROI[c]	**3,609**	**3,581**	**(28)**	**42**	**(70)**	**14**
Czech Republic[c]	201	198	(3)	–	(3)	1
Hungary	208	206	(2)	–	(2)	2
Poland	440	429	(11)	–	(11)	1
Slovakia	161	154	(7)	–	(7)	2
Europe[c]	**1,010**	**987**	**(23)**	**–**	**(23)**	**6**
Malaysia	62	71	9	9	–	6
Thailand	1,815	1,914	99	105	(6)	44
Asia	**1,877**	**1,985**	**108**	**114**	**(6)**	**50**
International[c]	**2,887**	**2,972**	**85**	**114**	**(29)**	**56**
Group[c]	**6,496**	**6,553**	**57**	**156**	**(99)**	**70**
UK (One Stop)	134	158	24	32	(8)	–
Czech Republic	103	98	(5)	–	(5)	–
Franchise stores	237	256	19	32	(13)	–

[a] Continuing operations.
[b] The net gain/reduction reflects the number of store openings less the number of store closures/disposals.
[c] Excludes franchise stores.

Group space summary continued

Actual Group space – ’000 sq.ft.

	2015/16 year-end	2016/17 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions[c]
Extra	17,846	17,748	(98)	–	–	(98)
Superstore	14,002	14,075	73	96	(23)	–
Metro	2,005	1,993	(12)	–	(12)	–
Express	4,031	4,054	23	40	(17)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	**38,600**	**38,586**	**(14)**	**136**	**(52)**	**(98)**
One Stop[b]	1,256	1,269	13	44	(31)	–
Dobbies	1,652	–	(1,652)	–	(1,652)	–
UK[b]	**41,508**	**39,855**	**(1,653)**	**180**	**(1,735)**	**(98)**
ROI	**3,560**	**3,543**	**(17)**	**–**	**(17)**	**–**
UK & ROI[b]	**45,068**	**43,398**	**(1,670)**	**180**	**(1,752)**	**(98)**
Czech Republic[b]	5,558	5,479	(79)	–	(28)	(51)
Hungary	6,931	6,896	(35)	–	(5)	(30)
Poland	9,688	9,578	(110)	–	(85)	(25)
Slovakia	3,969	3,859	(110)	–	(83)	(27)
Europe[b]	**26,146**	**25,812**	**(334)**	–	**(201)**	**(133)**
Malaysia	4,164	4,005	(159)	35	–	(194)
Thailand	15,536	15,522	(14)	514	(26)	(502)
Asia	**19,700**	**19,527**	**(173)**	**549**	**(26)**	**(696)**
International[b]	**45,846**	**45,339**	**(507)**	**549**	**(227)**	**(829)**
Group[b]	**90,914**	**88,737**	**(2,177)**	**729**	**(1,979)**	**(927)**
UK (One Stop)	185	212	27	39	(12)	–
Czech Republic	96	92	(4)	–	(4)	–
Franchise stores	281	304	23	39	(16)	–

[a] Continuing operations.
[b] Excludes franchise stores.
[c] Repurposing of gross selling space is not included in the above net selling space measure.

Group space forecast to 24 February 2018 – ’000 sq.ft.

	2016/17 year-end	2017/18 year-end	Net gain/ reduction	Openings	Closures/ disposals	Repurposing/ extensions
Extra	17,748	17,748	–	–	–	–
Superstore	14,075	14,149	74	74	–	–
Metro	1,993	1,993	–	–	–	–
Express	4,054	4,112	58	60	(2)	–
Dotcom only	716	716	–	–	–	–
Total Tesco	**38,586**	**38,718**	**132**	**134**	**(2)**	**–**
One Stop[b]	1,269	1,297	28	49	(21)	–
UK[b]	**39,855**	**40,015**	**160**	**183**	**(23)**	**–**
ROI	**3,543**	**3,584**	**41**	**40**	**–**	**1**
UK & ROI[b]	**43,398**	**43,599**	**201**	**223**	**(23)**	**1**
Czech Republic[b]	5,479	5,049	(430)	–	(291)	(139)
Hungary	6,896	6,800	(96)	–	–	(96)
Poland	9,578	9,221	(357)	–	(167)	(190)
Slovakia	3,859	3,630	(229)	–	(208)	(21)
Europe[b]	**25,812**	**24,700**	**(1,112)**	**–**	**(666)**	**(446)**
Malaysia	4,005	3,891	(114)	65	(60)	(119)
Thailand	15,522	15,622	100	436	(16)	(320)
Asia	**19,527**	**19,513**	**(14)**	**501**	**(76)**	**(439)**
International[b]	**45,339**	**44,213**	**(1,126)**	**501**	**(742)**	**(885)**
Group[b]	**88,737**	**87,812**	**(925)**	**724**	**(765)**	**(884)**
UK (One Stop)	212	277	65	65	–	–
Czech Republic	92	92	–	–	–	–
Franchise stores	304	369	65	65	–	–

[a] Continuing operations.
[b] Excludes franchise stores.

Tesco Bank income statement

	2017[a] £m	2016[a] £m
Revenue		
Interest receivable and similar income	622	576
Fees and commissions receivable	390	379
	1,012	**955**
Direct costs		
Interest payable	(175)	(166)
Fees and commissions payable	(23)	(3)
	(198)	**(169)**
Gross profit	**814**	**786**
Other expenses		
Staff costs	(165)	(172)
Premises and equipment	(76)	(81)
Other administrative expenses	(215)	(212)
Depreciation and amortisation	(96)	(91)
Provisions for bad and doubtful debts	(105)	(68)
Operating profit before exceptional items	**157**	**162**
Restructuring and other exceptional items[b]	(80)	(1)
Operating profit	**77**	**161**
Net finance costs: movements on derivatives and hedge accounting	6	(8)
Net finance costs: interest	(4)	(4)
Share of profit/(loss) of joint venture[c]	(16)	(3)
Management charges	–	(1)
Profit before tax	**63**	**145**

[a] These results are for the 12 months ended 28 February 2017 and the previous period represents the 12 months ended 29 February 2016.
[b] Restructuring and other exceptional items in 2017 consists of an increase in the provision for customer redress of £45m and business simplification and head office relocation costs of £35m.
[c] Share of profit/(loss) of joint venture includes a charge of £23m, representing the Group's share of losses incurred by Tesco Underwriting Limited (TU) relating to the impact on TU's insurance reserves of a change in the Ogden tables, which are used to calculate future losses in personal injury and fatal accident cases. The £23m charge has been reported as an exceptional item in the Group income statement.

Glossary

Alternative performance measures

Introduction

In the reporting of financial information, the Directors have adopted various Alternative Performance Measures (APMs), previously termed Non-GAAP measures of historical or future financial performance, position or cash flows other than those defined or specified under International Financial Reporting Standards (IFRS).

These measures are not defined by IFRS and therefore may not be directly comparable with other companies' APMs, including those in the Group's industry.

APMs should be considered in addition to, and are not intended to be a substitute for, or superior to, IFRS measurements.

Purpose

The Directors believe that these APMs assist in providing additional useful information on the underlying trends, performance and position of the Group.

APMs are also used to enhance the comparability of information between reporting periods and geographical units (such as like-for-like sales), by adjusting for non-recurring or uncontrollable factors which affect IFRS measures, to aid the user in understanding the Group's performance.

Consequently, APMs are used by the Directors and management for performance analysis, planning, reporting and incentive-setting purposes and have remained consistent with prior year.

The key APMs that the Group has focused on this year are as follows:

- Group sales (previously termed Revenue exc. fuel): This is the headline measure of revenue for the Group. It excludes the impact of sales made at petrol filling stations due to the significant volatility of fuel prices. This volatility is outside the control of management and can mask underlying changes in performance.
- Like-for-like sales: This is a widely used indicator of a retailer's current trading performance. It is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates.
- 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 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 by virtue of their size and nature in order to reflect management's view of the performance of the Group.
- Retail operating cash flow: This is the operating cash flow of continuing operations, excluding the effects of Tesco Bank's cash flows.
- Net debt: This excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs: This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options.

Some of our IFRS measures are translated at constant exchange rates. Constant exchange rates are the average actual periodic exchange rates for the previous financial period and are used to eliminate the effects of exchange rate fluctuations in assessing performance. Actual exchange rates are the average actual periodic exchange rates for that financial period.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Income statement				
Revenue measures				
Group sales	Revenue	· Exclude sales made at petrol filling stations	Note 2	· Excludes the impact of sales made at petrol filling stations to demonstrate the Group's underlying performance in the core retail and financial services businesses by removing the volatilities associated with the movement in fuel prices. This is a key management incentive metric.
Growth in sales	No direct equivalent	· Consistent with accounting policy	Not applicable	· Growth in sales is a ratio that measures year-on-year movement in Group sales for continuing operations for 52 weeks. It shows the annual rate of increase in the Group's sales and is considered a good indicator of how rapidly the Group's core business is growing.
Like-for-like	No direct equivalent	· Consistent with accounting policy	Not applicable	· Like-for-like is a measure of growth in Group online sales and sales from stores that have been open for at least a year (but excludes prior year sales of stores closed during the year) at constant foreign exchange rates. It is a widely used indicator of a retailer's current trading performance and is important when comparing growth between retailers that have different profiles of expansion, disposals and closures.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Profit measures				
Operating profit before exceptional items	Operating profit*	· Exceptional items	Note 2	· Operating profit before exceptional items is the headline measure of the Group's performance. It is based on operating profit before the impact of certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group, but which are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group. This is a key management incentive metric.
Operating margin	No direct equivalent	· Consistent with accounting policy	Not applicable	· Operating margin is calculated as operating profit before exceptional items divided by revenue. Progression in operating margin is an important indicator of the Group's operating efficiency.
Profit before tax before exceptional items and net pension finance costs	Profit before tax	· Exceptional items · Net pension finance costs	Note 9	· 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 and are reset each year based on often volatile external market factors.
Profits/(losses) arising on property-related items	No direct equivalent	· Consistent with accounting policy	Not applicable	· Profits/(losses) arising on property-related items relates to the Group's property activities including; gains and losses on disposal of property assets, development property built for resale and property joint ventures; costs resulting from changes in the Group's store portfolio and distribution network, including pre-opening and post-closure costs; and income/(charges) associated with impairment of non-trading property and related onerous contracts. · These items are disclosed separately to clearly identify the impact of these items versus the other operating expenses related to the core retail and financial services operations of the business. They are often one-time in nature and can have a disproportionate impact on profit between reporting periods.
Total finance costs before exceptional items and net pension finance costs	Finance costs	· Exceptional items · Net pension finance costs	Note 5	· Total finance costs before exceptional items and net pension finance costs is the net finance costs adjusted for non-recurring one off items, and net pension finance costs, as the costs are impacted by bond yields, which can fluctuate significantly and are reset each year.
Diluted earnings per share from continuing operations before exceptional items	Diluted earnings per share	· Exceptional items · Discontinued operations	Note 9	· This relates to profit after tax before exceptional items from continuing operations, attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options. · It excludes the impact of certain costs or incomes that derive from events or transactions that fall within the normal activities of the Group but which are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group.
Diluted earnings per share from continuing operations before exceptional items and net pension finance costs	Diluted earnings per share	· Exceptional items · Net pension finance costs · Discontinued operations	Note 9	· This relates to profit after tax before exceptional items from continuing operations, and net pension finance costs attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period adjusted for the effects of potentially dilutive options. · It excludes the impact of certain costs or incomes that fall within the normal activities of the Group but which are excluded by virtue of their size and nature in order to reflect management's view of the performance of the Group. It also excludes potentially volatile net pension finance costs.
Tax measures				
Effective tax rate before exceptional items	Effective tax rate	· Exceptional items and their tax impact	Note 6	· Effective tax rate before exceptional items is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items divided by profit before tax before exceptional items. This provides an indication of the ongoing tax rate across the Group.
Effective tax rate before exceptional items and net pension finance costs	Effective tax rate	· Exceptional items and their tax impact · Net pension finance costs and their tax impact	Note 6	· Effective tax rate before exceptional items and net pension finance costs is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items and net pension finance costs divided by the profit before tax before exceptional items and net pension finance costs.

Alternative performance measures continued

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	· Net debt from Tesco Bank	Note 30	· Net debt excludes the net debt of Tesco Bank but includes that of the discontinued operations to reflect the net debt obligations of the Retail business. Net debt comprises bank and other borrowings, 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. It is a useful measure of the progress in generating cash and strengthening of the Group's balance sheet position and is a measure widely used by credit rating agencies.
Total indebtedness	Borrowings less cash and related hedges	· Net debt from Tesco Bank · Present value of future minimum lease payments under non-cancellable operating leases · IAS 19 deficit in the pension schemes	Page 18 of the Strategic Report	· Total indebtedness is the net debt plus the IAS 19 deficit in the pension schemes (net of associated deferred tax) plus the present value of future minimum lease payments under non-cancellable operating leases to provide an overall view of the Group's obligations. It is an important measure of the long-term obligations of the Group and is a measure widely used by credit rating agencies.
Cash flow measures				
Retail operating cash flow	Cash generated from operating activities	· Tesco Bank operating cash flow · Discontinued operations	Note 2	· Retail operating cash flow is the cash generated from operations of continuing operations, excluding the effects of Tesco Bank's cash flows. It is a measure of the cash generation and working capital efficiency by the Retail business, recognising that Tesco Bank is run and regulated independently from the retail operations, and a key measure to demonstrate the recovery of the retail operations. This is a key management incentive metric.
Free cash flow	Cash generated from operating activities	· Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale · Purchase of intangible assets	Note 2	· 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. It is a measure of cash generation, working capital efficiency and capital discipline of the business.

* Operating profit is not defined per IFRS, however is a generally accepted profit measure.

Other

Capital expenditure (Capex)
The additions to property, plant and equipment, investment property and intangible assets (excluding assets acquired under business combinations).

Capital employed
Net assets plus net debt plus dividend creditor less net assets of the disposal group and non-current assets classified as held for sale.

Enterprise Value
This is calculated as market capitalisation plus net debt.

FTE
FTE refers to full-time equivalents.

LPI
LPI refers to Limited Price Inflation.

Market capitalisation
The total value of all Tesco shares calculated as total number of shares multiplied by the closing share price at year-end.

MTN
MTN refers to Medium Term Note.

Net Promoter Score (NPS)
This is a loyalty measure based on a single question requiring a score between 0-10. The NPS is calculated by subtracting the percentage of detractors (scoring 0-6) from the percentage of promoters (scoring 9-10). This generates a figure between -100 and 100 which is the NPS.

Return on capital employed (ROCE)
Return divided by the average of opening and closing capital employed.

Return
Profit before exceptional items and interest, after tax (applied at effective rate of tax).

RPI
RPI refers to Retail Price Index.

Total shareholder return
The notional annualised return from a share, measured as the percentage change in the share price, plus the dividends paid with the gross dividends, reinvested in Tesco shares. This is measured over both a one and five year period.

Five-year record

Figures below reflect the latest published information. For years prior to 2016/17, these figures represent the comparatives from the following years' financial statements. During the financial year, the Group decided to sell its operations in Turkey. Accordingly, these operations have been treated as discontinued in 2017. The 2016 statistics have been re-presented to be consistent with 2017. Prior years have not been re-presented. Korea was first classified as a discontinued operation in 2015/16. China was first classified as a discontinued operation in 2013/14. US was first classified as a discontinued operation in 2012/13. The Group has determined new segments and defined new alternative performance measures for 2015/16 onwards. Refer to Note 1 and Note 2. 2014/15 data for these new measures and segments has been presented, but prior historic data has not.

	2013	2014	2015[a]	2016	2017
Financial statistics (£m)					
Sales					
UK & ROI			38,228	37,189	37,692
International			10,678	9,715	11,163
Tesco Bank	1,021	1,003	947	955	1,012
Group sales[c]			**49,853**	**47,859**	**49,867**
Revenue					
UK & ROI			45,062	43,080	43,524
International			10,916	9,898	11,381
Tesco Bank	1,021	1,003	947	955	1,012
Group revenue	**63,406**	**63,557**	**56,925**	**53,933**	**55,917**
Operating profit/(loss) before exceptional items[c]					
UK & ROI			498	503	803
International			254	320	320
Tesco Bank			188	162	157
Group operating profit/(loss) before exceptional items[c]			**940**	**985**	**1,280**
Operating profit margin before exceptional items			**1.7%**	**1.8%**	**2.3%**
Operating profit/(loss)					
UK & ROI			(5,334)	597	519
International			(569)	314	421
Tesco Bank			153	161	77
Group operating profit/(loss)	**2,382**	**2,631**	**(5,750)**	**1,072**	**1,017**
Share of post-tax profits/(losses) of joint ventures and associates	72	60	(13)	(21)	(107)
Net finance costs	(397)	(432)	(571)	(849)	(765)
Profit/(loss) before tax	**2,057**	**2,259**	**(6,334)**	**202**	**145**
Taxation	(529)	(347)	670	54	(87)
Profit/(loss) for the year from continuing operations	**1,528**	**1,912**	**(5,664)**	**256**	**58**
Discontinued operations	(1,504)	(942)	(102)	(127)	(112)
Profit/(loss) for the year	**24**	**970**	**(5,766)**	**129**	**(54)**
Attributable to:					
Owners of the parent	28	974	(5,741)	138	(40)
Non-controlling interests	(4)	(4)	(25)	(9)	(14)
Profit before tax before exceptional items and net pension finance costs[c]			**490**	**490**	**842**
Other financial statistics					
Diluted earnings/(losses) per share – continuing operations			(69.56)p	3.22p	0.81p
Diluted earnings per share – continuing operations before exceptional items[c]			4.14p	4.05p	6.75p
Diluted earnings per share – continuing operations before exceptional items and net pension finance costs[c]			5.46p	5.61p	7.90p
Dividend per share[b]	14.76p	14.76p	1.16p	–	–
Cash generated from retail operating activities (£m)	3,888	4,607	1,860	2,581	2,278
Return on capital employed (ROCE)[c]	14.5%	13.6%	4.0%	6.2%	8.1%
Total shareholder return[c]	2.1%	3.7%	(9.5)%	(11.8)%	(7.5)%
Net debt (£m)[c]	6,597	6,597	8,481	5,110	3,729
Discounted operating lease commitments – continuing operations (£m)	10,182	9,419	9,353	7,814	7,440
Pension deficit, net of deferred tax – Group (£m)	1,839	2,559	3,885	2,612	5,504
Total indebtedness (£m)[c]	**18,618**	**18,575**	**21,719**	**15,536**	**16,673**
Enterprise value (£m)[c]	36,578	33,597	28,415	20,101	19,262
Group retail statistics					
Number of stores[d]	6,653	7,305	6,849	6,733	6,809
Total sales area – '000 sq. ft.[d]	106,040	109,572	95,811	91,195	89,041
Average employees	506,856	510,444	480,607	475,399	464,520
Average full-time equivalent employees (FTE)	388,375	391,868	362,370	351,289	342,770
UK & ROI retail statistics					
Number of stores[d]	3,288	3,524	3,710	3,743	3,739
Total sales area – '000 sq. ft.[d]	43,950	45,300	45,946	45,253	43,610
Average full-time equivalent employees (FTE)			225,192	225,378	218,522
Revenue (exc. fuel) per FTE – £			169,757	165,007	172,486
Weekly revenue (exc. fuel) per sq. ft. – £			15.81	15.68	16.31

[a] 53 weeks.
[b] Dividend per share relating to the interim and proposed final dividend.
[c] See glossary for definitions.
[d] Including franchise stores.