TESCO

Interim Results 2017/18

TURNAROUND FIRMLY ON TRACK – ANOTHER HALF OF STRONG PERFORMANCE

On a continuing operations basis	**1H 2017/18**	1H 2016/17	Change at constant rates	Change at actual rates
Headline measures[1]:				
Group sales[2]	**£25.2bn**	£24.4bn	0.7%	3.3%
Group operating profit before exceptional items[3]	**£759m**	£596m	23.7%	27.3%
Diluted EPS pre-exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements[4]	**5.46p**	3.19p		71.2%
Dividend per share (interim)	**1.0p**	-		n/a
Retail operating cash flow[5]	**£1,139m**	£955m		19.3%
Net debt[5,6]	**£(3,260)m**	£(4,352)m		down 25.1%
Statutory measures:				
Revenue	£28.3bn	£27.3bn	1.4%	3.7%
Operating profit	£885m	£515m	67.4%	71.8%
Profit before tax	£562m	£71m	667.6%	691.5%
Diluted EPS	5.21p	0.42p		1,140.7%

Headlines

Positive sales[2] and profit[3] growth, strong cash[5] generation

- Group sales[2] up 3.3% to £25.2bn – seventh consecutive quarter of growth
- UK like-for-like sales[7] up 2.2%; transactions up 0.4%; volumes[8] up 0.3%
- Strong fresh food volume growth in the UK of 1.5% driven by ongoing improvements in our offer
- Group operating profit before exceptional items[3] up 27.3% to £759m; UK & ROI up 21.1% to £471m
- Group operating margin[3] up to 2.7% from 2.2% last year; on track for 3.5-4.0% ambition by 2019/20
- Improved profit margin in Central Europe (up 132 basis points) and in Asia (up 146 basis points)
- Retail operating cash flow[5] up 19.3% to £1.1bn; Retail free cash flow[5] of £586m
- Triennial pension review concluded; annual contributions to increase by £15m to £285m from April 2018
- Interim dividend of 1.0p per share reflects improved performance and Board confidence
- Statutory revenue up 3.7% to £28.3bn; Profit before tax up £491m to £562m

Further progress against each of our six strategic drivers

- **Brand** health[9] continues to strengthen; voted 'Britain's favourite supermarket' for 3rd consecutive year[10]
- Further **cost** savings of £259m achieved in 1H towards the £1.5bn medium-term target; £485m to date
- Generated £1.1bn of retail operating **cash**[5]; £237m underlying working capital[11] inflow
- Improving the **mix** across geographies and channels; 1.6% like-for-like sales growth in our UK Extra format
- Released a further £175m value[12] from **property**; 50 sites sold; 0.4m sq. ft. space re-purposed
- **Innovations** including launch of contactless Clubcard; nationwide roll-out of same day delivery service; further 807 new products introduced

Dave Lewis, Chief Executive:

"We are continuing to make strong progress. Sales are up, profits are up, cash generation continues to strengthen and net debt levels are less than half what they were when we started our turnaround three years ago. All of this is possible because of the focus we have placed on serving shoppers a little better every day. Our offer is more competitive and more customers are shopping at Tesco.

Today's announcement that we are resuming our dividend reflects our confidence that we can build on our strong performance to date and in doing so, create long-term, sustainable value for all of our stakeholders."

Like-for-like sales performance[7]

	1H 2016/17	2H 2016/17	FY 2016/17	1Q 2017/18	2Q 2017/18	1H 2017/18
UK & ROI	**0.6%**	**1.1%**	**0.9%**	**2.2%**	**2.1%**	**2.1%**
UK	0.6%	1.2%	0.9%	2.3%	2.1%	2.2%
ROI	0.2%	(0.4)%	(0.1)%	0.2%	2.0%	1.1%
Central Europe	**2.0%**	**(0.1)%**	**0.9%**	**(0.4)%**	**0.6%**	**0.1%**
Asia	**3.2%**	**0.4%**	**1.8%**	**(6.0)%**	**(10.7)%**	**(8.3)%**
Group	**1.0%**	**0.9%**	**1.0%**	**1.0%**	**0.6%**	**0.8%**

Headline Group results

In these results, we have redefined two alternative performance measures to help improve understanding of earnings per share momentum and free cash flow. We have also provided more detail in our presentation of free cash flow and net finance costs and reported 'Central Europe' and 'Asia' as separate segments, aligning to our Executive Committee structure. A full Group income statement can be found on page 14.

26 weeks ended 26 August 2017 **On a continuing operations basis**	1H 2017/18	1H 2016/17	Year-on-year change (Constant exchange rates)	Year-on-year change (Actual exchange rates)
Group sales (exc. VAT, exc. fuel)[2]	**£25,172m**	**£24,402m**	**0.7%**	**3.3%**
Fuel	£3,176m	£2,936m	7.7%	8.2%
Revenue (exc. VAT, inc. fuel)	**£28,348m**	**£27,338m**	**1.4%**	**3.7%**
Group operating profit before exceptional items[3]	**£759m**	**£596m**	**23.7%**	**27.3%**
- UK & ROI	£471m	£389m	20.3%	21.1%
- Central Europe	£61m	£17m	235.3%	258.8%
- Asia	£141m	£101m	24.8%	39.6%
- Tesco Bank	£86m	£89m	(3.4)%	(3.4)%
Include exceptional items	£126m	£(81)m		
Group operating profit	£885m	£515m	67.4%	71.8%
Group profit before tax before exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements	£575m	£353m		62.9%
Group statutory profit before tax	**£562m**	**£71m**		691.5%
Diluted EPS before exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements	5.46p	3.19p		
Diluted EPS	5.21p	0.42p		
Basic EPS	5.22p	0.42p		
Capex[13]	**£0.4bn**	**£0.3bn**		
Net debt[5,6]	**£(3.3)bn**	**£(4.4)bn**		
Cash generated from retail operations[5]	**£1.1bn**	**£1.0bn**		

Notes

1. The Group has defined and outlined the purpose of its alternative performance measures, including its headline measures, in the Glossary on page 51.
2. Group sales exclude VAT and fuel. Sales growth shown on a comparable days basis.
3. Excludes exceptional items by virtue of their size and nature in order to reflect management's view of the performance of the Group.
4. Headline earnings per share measure redefined to exclude IAS 39 fair value remeasurements as well as exceptional items and IAS 19 finance costs. Full details of this measure can be found in Note 9, starting on page 36.
5. Net debt, retail operating cash flow and retail free cash flow exclude the impact of Tesco Bank in order to provide further analysis of the retail cash flow statement.
6. Net debt includes both continuing and discontinued operations.
7. 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 at constant foreign exchange rates.
8. Excludes tobacco and fuel.
9. As per YouGov BrandIndex August 2017.
10. 'Britain's favourite supermarket' awarded at the Grocer Gold Awards ceremony on 13 June 2017.
11. Working capital excluding the impact of exceptional items.
12. Value released from property relates to gross proceeds from property disposals in the half.
13. Capex is shown excluding property buybacks. Statutory capital expenditure (including property buybacks) for the 26 weeks ended 26 August 2017 was £0.6bn (LY £0.5bn).

Creating value for our key stakeholders

We have continued to build momentum throughout the first half and, guided by the six strategic drivers that we set out in October 2016, we are creating long-term and sustainable value for our key stakeholders.

Customers

- largest improvement amongst peers in the 'customers recommend' measure (+11 NPS)
- lowest level of food price inflation for customers amongst peers; c.1% lower than rest of market
- further simplified our pricing, reducing the number of multi-buy promotions year-on-year by 10%
- voted 'Britain's favourite supermarket' by customers for the third consecutive year
- awarded 'Supermarket Bakery Business of the Year' for the first time since 2008
- our exclusive fresh food brands continue to be popular with customers - featuring in over 70% of baskets
- offered customers an easier and affordable way to make healthy choices through our "Little Helps to Healthier Living" campaign; highest ever score for customers saying Tesco helps them lead healthier lives
- led the UK market by covering the cost of VAT on women's sanitary products
- enhanced our online offer to include the introduction of monthly subscription plans, nationwide roll-out of same day delivery and the launch of 'Tesco Now' offering delivery within 1 hour
- launched a series of improvements to Clubcard including contactless functionality for all 16m active Clubcard customers in the UK, a new Clubcard app and enhancing our range of Clubcard Deals partners

Colleagues

- announced a record 10.5% increase in hourly pay for UK store colleagues over the next two years
- simplified our structures and introduced a new service model across the Group
- further improvement year-on-year in colleagues recommending us as a 'great place to work' (+1 NPS) and a 'great place to shop' (+3 NPS)
- held "Million Miles" and "Great Tesco Walk" events - £21m raised to date for our charity partners
- provided 9,700 free health checks to colleagues as part of our Health Month

Supplier partners

- continued to develop our partnerships with key suppliers; doubled volumes with c.100 suppliers to date
- completed our work to agree standardised payment terms with our largest suppliers
- joined forces with 24 of our largest food suppliers to tackle global food waste
- worked with our agricultural partners to utilise entire crop flushes (e.g. strawberries, lemons and cauliflowers) minimising waste and delivering great value for customers
- introduced over 800 new products for customers including innovations in fresh produce, such as miniature avocados and a fun-shaped kids vegetable range

Shareholders

- generated £1.1bn of retail operating cash flow, including underlying working capital inflow of £237m
- completed the sale of our remaining stake in Lazada for net cash consideration of £196m
- regained sole ownership of 7 stores from British Land; raised £175m in property-related proceeds
- reduced net debt from February 2017 by £469m; early repayment of £500m of long-dated bonds
- triennial pension review concluded; annual contributions to increase by £15m to £285m from April 2018
- IAS 19 pension deficit measure reduced to £2.4bn (post-tax); total indebtedness reduced to £13.0bn
- proposed merger with Booker progressed to Phase 2 review
- announced interim dividend of 1.0p per share; targeting around two times EPS cover in medium term

Looking ahead

We are making good progress towards the medium-term ambitions shared in October 2016 and remain firmly on track to reduce our costs by £1.5bn, generate £9bn of retail cash from operations and improve operating margins to between 3.5% and 4.0% by 2019/20. In addition, by maintaining a disciplined approach to capital and further reducing debt we can continue to strengthen the balance sheet, return to investment grade credit metrics and generate an increasing level of free cash flow. Capital expenditure in the current year is now expected to be £1.1bn. Going forward, we expect capital expenditure to remain between £1.1bn and £1.4bn per year.

Our proposed merger with Booker is currently undergoing an in-depth 'Phase 2' investigation by the Competition and Markets Authority (CMA). Provisional findings are expected to be made public by the CMA by the end of this month, ahead of a final report by the end of this year.

Financial Results

Following the changes to the Executive Committee and International Leadership team announced on 20 March 2017, we are reporting 'Central Europe' and 'Asia' as separate segments, aligned to the way we operate the business.

Sales:

On a continuing operations basis	UK & ROI	Central Europe[1]	Asia[2]	Tesco Bank	Group
Sales (exc. VAT, exc. fuel)	**£19,031m**	**£3,094m**	**£2,520m**	**£527m**	**£25,172m**
change at constant exchange rates[3] %	1.8%	(0.9)%	(6.0)%	4.8%	0.7%
change at actual exchange rates[3] %	2.2%	9.2%	3.9%	4.8%	3.3%
Like-for-like sales (exc. VAT, exc. fuel)	**2.1%**	**0.1%**	**(8.3)%**	**-**	**0.8%**
Statutory revenue (exc. VAT, inc. fuel)	**£22,091m**	**£3,210m**	**£2,520m**	**£527m**	**£28,348m**
Includes: Fuel	£3,060m	£116m	-	-	£3,176m

1. Central Europe consists of Czech Republic, Hungary, Poland and Slovakia.
2. Asia consists of Thailand and Malaysia.
3. Sales change shown on a comparable days basis; statutory Group sales change was 0.6% at constant exchange rates and 3.2% at actual exchange rates.

Group sales grew by 0.7% at constant exchange rates with like-for-like growth of 0.8%. At actual exchange rates, sales grew by 3.3% including a 2.6% foreign exchange translation benefit due to the ongoing weakness of Sterling. Further information on sales performance is included in Appendices 1 to 3 on page 56 of this statement.

In the UK and the Republic of Ireland (ROI), like-for-like sales grew by 2.1% and we have now delivered seven consecutive quarters of positive performance.

In the UK, customer transactions grew 0.4% and overall volumes grew 0.3%. Within our core fresh food business, volumes grew 1.5% thanks to continued strong performance within our meat and produce categories where we outperformed the market in volume terms by nearly 6% and 3% respectively. Our bakery business also performed well due to improvements we have made to our in-store experience and we were delighted to be named 'Supermarket Bakery Business of the Year' at the recent industry awards.

Market conditions have been challenging with inflationary pressure being felt throughout the half but we have worked hard with our supplier partners to minimise price increases for customers. Our overall sales inflation in the half was around 1% less than that of the rest of the market, helping us become even more competitive. Our own-label ranges have performed well, with sales growing 4.6% year-on-year and we are continuing to improve our proposition. Our exclusive fresh food brands continue to resonate with customers and now feature in over 70% of customer baskets.

We have continued to be more selective in the way we drive volume, reducing the level of short-term promotions in both our household and general merchandise categories. Across our entire range, we have reduced multi-buy promotions by a further 10% as we continue to focus on simpler, clearer and more stable prices.

Clothing performed well throughout the half with like-for-like sales of 3.5%. We saw a much stronger mix of full-price sales, reflecting the quality of the range and strength of the F&F Brand. Our Back to School event was a particular highlight with sales up 13% year-on-year.

We have seen like-for-like growth across all of our formats, with our large store business growing at 1.6%. We have been encouraged by the initial customer response to the changes we have made to tailor ranges within our Express convenience stores whilst at the same time improving availability. Online grocery sales grew by 4.6% in the half driven by increases in both order numbers and basket size.

In the Republic of Ireland, like-for-like sales grew by 1.1% improving steadily throughout the half as customers responded well to our continued price investment. Volume growth of 3.6% has been very strong, particularly in fresh food where volumes were up 5.0%.

In Central Europe, like-for-like sales grew by 0.1%. Overall sales reduced by (0.9)% at constant exchange rates, reflecting the impact of store closures. Like-for-like sales increased in the second quarter as we began to see the early benefits of harmonising our trade plan across the region. Poland remains a highly competitive market but we have seen some improvement across the half as we strengthened our fresh food offer and improved the focus of our promotional activity.

In Asia, overall sales fell by (6.0)% at constant exchange rates, with like-for-like sales falling by (8.3)%. The sales performance in Asia reflects our decision to withdraw from bulk selling activities in Thailand at the start of the financial year. Before this impact, underlying like-for-like sales in the region were down c.(2.0)% largely as the result of a reduction in the level of short-term promotional couponing activity and the deflationary impact of lowering our food prices for customers. New store openings contributed 2.3% to sales growth in Asia.

Group statutory revenue of £28.3bn includes fuel sales of £3.2bn, which grew by 8.2% year-on-year driven largely by fuel retail price inflation, particularly in the first quarter.

Operating profit:

On a continuing operations basis	UK & ROI	Central Europe	Asia	Tesco Bank	Group
Operating profit before exceptional items	**£471m**	**£61m**	**£141m**	**£86m**	**£759m**
change at constant exchange rates %	20.3%	235.3%	24.8%	(3.4)%	23.7%
change at actual exchange rates %	21.1%	258.8%	39.6%	(3.4)%	27.3%
Operating profit margin before exceptional items	**2.13%**	**1.90%**	**5.60%**	**16.32%**	**2.68%**
change at constant exchange rates (basis points)	31bp	138bp	139bp	(138)bp	**48bp**
change at actual exchange rates (basis points)	32bp	132bp	146bp	(138)bp	**50bp**
Operating profit	**£597m**	**£61m**	**£141m**	**£86m**	**£885m**

Group operating profit before exceptional items was £759m, up 23.7% on last year at constant exchange rates and up 27.3% at actual rates. Statutory operating profit of £885m includes the impact of exceptional items, which are described in more detail below and in Note 4 on page 32 of this statement.

UK & ROI operating profit before exceptional items was £471m, up 21.1%, with margin growth of 32 basis points year-on-year. Ongoing volume growth within our fresh food business has helped further drive operational leverage and we have made continued progress in reducing our operating costs across stores and head office. Our strategic focus on maximising the mix within our business has also led to improving profitability through driving volume more selectively, reducing the level of short-term promotions and increasing the proportion of full price sales (particularly in Clothing). Combined, these changes are allowing us to invest further in our offer and offset inflation in our cost base whilst improving profitability.

Central Europe operating profit before exceptional items was £61m, up £44m year-on-year at actual exchange rates. We have been encouraged by the progress we have made towards operating the four markets we serve as one combined region. For example, in the half we opened a new distribution centre in Galánta, Slovakia which serves all four countries. We have improved operational efficiency within both our stores and distribution centres and have also seen an ongoing benefit from improving our availability and broadening our appeal, particularly at the more premium end of our ranges.

Asia operating profit before exceptional items was £141m, up 24.8% at constant exchange rates and up 39.6% at actual rates. This improvement has been driven by re-focusing on our core retail offer and significantly reducing the level of short-term promotional coupon activity. Furthermore, we have continued to focus on reducing our cost base as part of the Group's overall cost savings programme and to help offset inflationary cost increases in the region.

Further information on operating profit performance is included in Note 2, starting on page 23 of this statement.

Property-related items in operating profit:

	This year	Last year
Profits arising on property-related items	£33m	-
Exceptional property transactions	£65m	£54m
Total profits arising on property-related items	**£98m**	**£54m**

Across the Group, £33m of operating profit before exceptional items arose from property-related items. This included profits on the disposal of a development site in Welwyn Garden City in the UK, a department store in the Czech Republic and a number of other smaller transactions.

Two property-related transactions in the half have been included within exceptional items by virtue of their size and nature. The development of our Hackney store as part of our 'air-rights' programme allowed us to realise a profit of £44m. We also recognised a net gain of £21m on the unwind of the joint venture with British Land that we announced in April 2017 which allowed us to regain ownership of seven large stores.

Exceptional items in operating profit:

	This Year	Last Year
Property transactions	£65m	£59m
Restructuring and redundancy	£(63)m	£(95)m
Profit on the sale of Lazada	£124m	-
Tesco Bank customer redress	-	£(45)m
Total exceptional items in operating profit	**£126m**	**£(81)m**

Exceptional items are excluded from our headline performance measures by virtue of their size and nature in order to reflect management's view of the performance of the Group. In the current year, the net effect of exceptional items on operating profit is £126m, including the two property transactions described above.

Net restructuring and redundancy charges of £(63)m relate principally to structural changes to our business to simplify our operating model within stores and head office.

The £124m profit relating to Lazada reflects the decision to sell our remaining minority stake in the e-commerce platform, following on from our agreement to sell an initial stake in April 2016.

Further detail on exceptional items can be found in Note 4 on page 32 of this statement.

Joint ventures and associates:

	This year	Last year
Share of post-tax profits from JVs and associates	**£12m**	**£2m**

Our share of post-tax profits from joint ventures and associates was £12m, an increase of £10m year-on-year due to reduced losses in Gain Land, our joint venture in China. Other items within joint ventures and associates include profits from our UK property joint ventures, the Tesco Lotus Retail Growth Property Fund and Tesco Underwriting Limited, a joint venture between Tesco Bank and Ageas.

Finance income and finance costs:

The following table sets out the components of net finance costs. In order to aid understanding and align this disclosure to our redefined alternative EPS performance measure, we have presented net finance costs before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements.

	This year	Last year
Interest payable on medium term notes, loans and bonds	£(194)m	£(227)m
Interest receivable on associated derivatives	£15m	£4m
Net interest on medium term notes, loans and bonds	£(179)m	£(223)m
Other interest receivable and similar income	£17m	£22m
Other finance charges and interest payable	£(35)m	£(47)m
Capitalised interest	£1m	£3m
Net finance cost before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements	**£(196)m**	**£(245)m**
IAS 39 'Financial instruments' – fair value remeasurements	£10m	£57m
IAS 19 net pension finance costs	£(81)m	£(58)m
Exceptional charge - translation of Korea proceeds	£(68)m	£(200)m
Net finance costs	**£(335)m**	**£(446)m**

Net finance costs before exceptional charges, IAS 19 net pension finance costs and IAS 39 fair value remeasurements were down £49m year-on-year to £(196)m. This was predominantly driven by a reduction in interest-bearing debt following maturities last year and the early repayment in July of £500m of long-dated bonds as part of a liability management programme. This early repayment will reduce interest payable by c.£18m on an annualised basis.

Overall net finance costs, which have reduced by a more significant amount, include three predominantly non-cash items as shown above. Fair value remeasurements are largely driven by changes in the market's assessment of credit risk and various market indices which can fluctuate significantly. Net pension finance costs are calculated with reference to the opening IAS 19 pension deficit and discount rate and are expected to total c.£(165)m for the full year. The exceptional loss of £(68)m arose on the translation of the proceeds from the sale of our Homeplus business in Korea. These proceeds are held in GBP money market funds in a non-Sterling denominated subsidiary and do not represent any economic cost to the Group.

Further detail on finance income and costs can be found in Note 5 on page 34.

Group tax:

	This year	Last year
Tax on profit before exceptional items	£(118)m	£(98)m
Tax on profit	**£(138)m**	**£(40)m**

Tax on profit before exceptional items was £(118)m.

As previously indicated, the effective tax rate on profit before exceptional items for the 2017/18 financial year is expected to be similar to last year, at around 25%. This tax rate is higher than the UK statutory rate primarily due to the impact of the 8% supplementary tax surcharge on bank profits, introduced in January 2016, and depreciation of assets that do not qualify for tax relief. We would anticipate the impact of these items on the effective tax rate to reduce over time as our profitability continues to increase.

On a statutory basis, an exceptional charge of £(20)m is included and principally relates to the tax on exceptional items contained within operating profit, leading to a total tax charge of £(138)m.

Earnings per share:

On a continuing operations basis	This year	Last year
Diluted EPS pre-exceptional items, IAS 19 finance costs and IAS 39 fair value remeasurements	5.46p	3.19p
Diluted earnings per share	5.21p	0.42p
Basic earnings per share	5.22p	0.42p

We have redefined our diluted earnings per share alternative performance measure to remove the largely non-cash IAS 39 impact of fair value remeasurements on financial instruments which can be volatile. On this basis, diluted earnings per share were 5.46p, 71.2% higher year-on-year principally due to our stronger profit performance and lower cash finance costs. Statutory basic earnings per share from continuing operations were 5.22p, significantly higher than last year.

Dividend:

Reflecting the improved performance in the business and the Board's confidence in the plans that we have set out, today we are announcing the restoration of the dividend. The interim dividend has been set at 1.0 pence per ordinary share. We anticipate a broadly one-third, two-thirds split between the interim and final dividend and intend to reach our targeted cover of around two times earnings in the medium term.

The interim dividend will be paid on 24 November 2017 to shareholders who are on the register of members at close of business on 13 October 2017 (the Record Date). Shareholders may elect to reinvest their dividend in the Dividend Reinvestment Plan (DRIP). The last date for receipt of DRIP elections and revocations will be 3 November 2017.

Pension:

On an IAS 19 basis, the pension deficit measure (net of deferred tax) has reduced from £5.5bn at February 2017 to £2.4bn at the end of the half-year. The discount rate used to calculate this measure has been updated in line with developing market practice and following actuarial advice. In the Group's view, it now more appropriately reflects expected yields on corporate bonds over the life of the scheme's liabilities. The application of latest industry life expectancy tables and favourable actual scheme experience have also contributed to the reduction.

The triennial pension review has now concluded, with the business and the Trustees agreeing that annual contributions will increase by £15m to £285m per annum from April 2018, with our framework for the long-term funding of the scheme unchanged. As at 31 March 2017, the actuarial deficit was £3.0bn, an increase of c.£0.25bn since the last triennial valuation. Further information on the Group's pension liability is available in Note 16 which begins on page 44.

Summary of total indebtedness[1]:

	Aug 2017	Feb 2017	Movement
Net debt (excludes Tesco Bank)	£(3,260)m	£(3,729)m	£469m
Discounted operating lease commitments	£(7,255)m	£(7,440)m	£185m
Pension deficit, IAS 19 basis (post-tax)	£(2,439)m	£(5,499)m	£3,060m
Total indebtedness	**£(12,954)m**	**£(16,668)m**	**£3,714m**

1. Total indebtedness is defined in the glossary, starting on page 50.

Retail net debt reduced by £0.5bn to £(3.3)bn as our retail operating cash flow and property and business disposal proceeds were greater than capital expenditure and other charges. Net debt has now reduced by more than £4bn since August 2014. Within net debt, surplus cash was deployed in July 2017 to prepay £500m of the Group's long-dated bonds as part of an ongoing exercise to strengthen the balance sheet.

Discounted operating lease commitments have reduced by £185m, principally due to the benefit from the buyback of seven stores in the UK through the previously mentioned British Land transaction.

Overall, total indebtedness has reduced by £3.7bn in the first half. Since 2014, total indebtedness has fallen from £(21)bn to £(13)bn and within that, net debt has more than halved.

Summary retail cash flow:

As the business continues its focus on free cash generation, we have redefined our alternative performance measure of free cash flow so that it is shown after the impact of property transactions and business disposals and continues to include the impact of exceptional items. This measure better reflects cash available to shareholders.

The following table reconciles Group operating profit before exceptional items to Retail free cash flow. Further details are included in Note 2 on page 28.

	This year	Last year
Operating profit before exceptional items	**£759m**	**£596m**
Less: Tesco Bank operating profit before exceptional items	£(86)m	£(89)m
Retail operating profit from continuing operations before exceptional items	**£673m**	**£507m**
Less: Retail operating loss (discontinued operations)	-	£(118)m
Add back: Depreciation and amortisation	£599m	£575m
Other reconciling items	£6m	£52m
Pension deficit contribution	£(129)m	£(111)m
Underlying (increase) / decrease in working capital	£237m	£159m
Retail cash generated from operations before exceptional items	**£1,386m**	**£1,064m**
Exceptional cash items:	£(247)m	£(100)m
Relating to prior years:		
- SFO Fine and Shareholder Compensation Scheme payments	*£(135)m*	*-*
- Utilisation of onerous lease provisions	*£(39)m*	*£(48)m*
- Restructuring payments	*£(53)m*	*£(55)m*
Relating to current year:		
- Restructuring payments[1]	*£(29)m*	*£(11)m*
- Other	*£9m*	*£13m*
Retail operating cash flow	**£1,139m**	**£964m**
Memo: Retail operating cash flow on continuing operations basis	*£1,139m*	*£955m*
Cash capex	£(606)m	£(429)m
Net interest & tax	£(173)m	£(211)m
Property proceeds	£138m	£236m
Property purchases – store buybacks	£(189)m	£(112)m
Disposals & dividends received	£277m	£305m
Retail free cash flow	**£586m**	**£753m**

1. In addition to cash outflows of £(29)m relating to current year restructuring, exceptional items charged to profit include a restructuring provision of £(34)m, leading to a total exceptional restructuring charge to operating profit of £(63)m.

Retail cash generated from operations increased by £175m to £1,139m in the first half. This increase, of more than 18% year-on-year, was mainly driven by improved Group profitability and further improvements in working capital management and was achieved despite a cash outflow of £135m relating to payment of the SFO fine and initial Shareholder Compensation Scheme payments.

Cash capital expenditure of £(606)m was up year-on-year due to the timing of payments relating to commitments made towards the end of the last financial year. Combined net cash interest and tax of £(173)m was £38m lower than last year largely as a result of significant debt maturities in the previous year.

We generated £138m of proceeds from property sales including the completion of the sale of our Hackney store and the sale of a further 49 sites. The completion in April 2017 of our previously announced transaction with British Land to regain sole ownership of seven large stores in the UK resulted in cash consideration of £(189)m.

Finally, we received £277m cash consideration as a result of business disposals, including £196m from the sale of our remaining minority stake in the Lazada online business.

Retail free cash flow for the half was £586m. This is lower than in the prior year principally due to the SFO payment, timing of cash capex and a net outflow in relation to property transactions.

Capital expenditure and space:

	UK & ROI		Central Europe		Asia		Tesco Bank		Group	
	This year	Last year	This year	Last year	This year	Last year	This year	Last year	This year	Last year
Capital expenditure	£282m	£226m	£45m	£20m	£74m	£77m	£26m	£16m	£427m	£339m
Openings (k sq ft)	52	101	-	-	191	248	-	-	243	349
Closures (k sq ft)	(18)	(1,725)	(166)	(94)	(66)	(11)	-	-	(250)	(1,830)
Repurposed (k sq ft)	(16)	(5)	(238)	(78)	(156)	(252)	-	-	(410)	(335)
Net space added (k sq ft)	18	(1,629)	(404)	(172)	(31)	(15)	-	-	(417)	(1,816)

Capital expenditure shown in the table above reflects expenditure on ongoing business activities across the Group with the majority being allocated to our continued maintenance and refresh programme in the UK and our new store opening programme in Thailand. Our capital expenditure in Central Europe relates mainly to repurposing of existing stores.

Across the Group, our repurposing programme has contributed to a net reduction of 0.4m square feet, improving the ease and relevance of our large-store shopping trip for customers. In Central Europe, this has primarily involved partnering with other clothing brands. In Asia, we have worked with a range of different partners across a variety of fashion, catering and entertainment brands. In the UK, we entered a new partnership with Dixons Carphone adding to the range of partners we already work with, including the Arcadia Group, Holland & Barrett and Timpson.

In Asia, we opened 33 stores, primarily in our convenience format in Thailand. In Central Europe, we closed 9 stores and in UK we closed 10, including 9 One Stop stores.

Planned capital expenditure for the full year is around £1.1bn – a further reduction to our initial estimate for this year due to improved efficiency in the way we buy and deploy our capital items. Going forward, we expect our annual capital expenditure to remain within a range of £1.1bn to £1.4bn.

Statutory capital expenditure of £616m as shown in Note 2 on page 27 includes £189m of property buybacks.

Further details of current and forecast space can be found in Appendix 5 starting on page 58.

Tesco Bank:

	This year	Last year	YoY
Revenue	**£527m**	**£503m**	**4.8%**
Operating profit before exceptional items	**£86m**	**£89m**	**(3.4)%**
Statutory operating profit	£86m	£22m	290.9%
Lending to customers	£10,762m	£9,262m	16.2%
Customer deposits	£8,894m	£8,107m	9.7%
Net interest margin	4.0%	3.9%	6bps
Risk asset ratio	19.7%	19.9%	(20)bps

Tesco Bank has continued to focus on providing customers with simple and transparent banking and insurance services, growing active customer account numbers by 2.6%. We have made banking easier for customers by introducing new features to our mobile banking app which is now used by over one million customers. Tesco Pay+ digital wallet (formerly PayQwiq) now has over 250,000 users with a payment made every three seconds through the app.

Lending balances have grown by 16% year-on-year with a particular focus on secured lending growth. Mortgage balances have increased by 37% year-on-year and we were very proud to be named 'Best Direct Lender' at the 'What Mortgage' awards for the fourth consecutive year. Secured lending now comprises 24% of the lending portfolio, an increase of 4% year-on-year, and will continue to be the focus of the Bank's lending growth going forward.

Operating profit before exceptional items reduced by (3.4)% year-on-year to £86m, as a strong retail banking performance was more than offset by the impact of lapping a higher than usual sale of debt in the first half last year. The balance sheet remains strong and well-positioned to support future lending growth from both a liquidity and capital perspective with a Core Tier 1 ratio at 16.5%.

An income statement for Tesco Bank can be found in Appendix 6 on page 61 of this statement. Balance sheet and cash flow detail for Tesco Bank can be found within Note 2 starting on page 23 of this statement.

Contacts

Investor Relations:	Chris Griffith	01707 912 900
Media:	Jane Lawrie	01707 918 701
	Philip Gawith, Teneo Blue Rubicon	0207 420 3143

This document is available at www.tescoplc.com/interims2017

A meeting for investors and analysts will be held today at 9.00am at London Stock Exchange, 10 Paternoster Square, London, EC4M 7LS. Access will be by invitation only. For those unable to attend, there will be a live webcast available on our website at www.tescoplc.com/interims2017. This will include all Q&A and will also be available for playback after the event. All presentation materials, including a transcript, will be made available on our website.

Risks and Uncertainties

As with any business, risk assessment and the implementation of mitigating actions and controls are critical to successfully achieving the Group's strategy. The Tesco Board has overall responsibility for risk management and internal controls within the context of achieving the Group's objectives. At the Group level each principal risk has an Executive Owner. The Group Chief Executive has overall accountability for the control and management of risk. The principal risks and uncertainties faced by the Group remain those set out in our 2017 Annual Report and Financial Statements: people; customer; transformation; liquidity; competition and markets; brand, reputation and trust; technology; data security and data privacy; Tesco Bank; political, regulatory and compliance; and safety.

As previously reported in the Tesco PLC 2017 Annual Report:

- In January 2017, the boards of Tesco PLC and Booker Group PLC, announced their agreement, subject to regulatory approval, shareholder approval and other conditions to a merger. As well as the risk of conditions to closing not being met, the ability to realise the expected strategic and financial objectives is subject to a successful and timely integration process.

- The result of the referendum on the United Kingdom's membership of the European Union leading to the departure of the UK from the EU (Brexit), could cause disruptions to and create uncertainty around our business, including affecting our relationships with our existing and future customers, suppliers and colleagues. These disruptions and uncertainties could have an adverse effect on our business, financial results and operations. As further details of the Brexit terms emerge, the management will continue to assess the potential risks and impacts of these on Tesco stakeholders.

- 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.

Statement of Directors' Responsibilities

The Directors are responsible for preparing the Interim Results for the six month period ended 26 August 2017 in accordance with applicable law, regulations and accounting standards. The Directors confirm that to the best of their knowledge the condensed consolidated interim financial statements have been prepared in accordance with IAS 34: 'Interim Financial Reporting', as adopted by the European Union and that the interim management report includes a fair review of the information required by DTR 4.2.7R and DTR 4.2.8R, namely:

- an indication of the important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, and a description of the principal risks and uncertainties for the remaining six months of the financial year; and

- material related party transactions in the first six months of the year and any material changes in the related party transactions described in the last annual report.

The Directors of Tesco PLC are listed in the Tesco PLC 2017 Annual Report and Financial Statements. A list of current directors is maintained on the Tesco PLC website at: www.tescoplc.com.

By order of the Board

Directors
John Allan* - Chairman
Dave Lewis – Group Chief Executive
Alan Stewart - Chief Financial Officer
Deanna Oppenheimer*- Senior Independent Director
Mark Armour*
Steve Golsby*
Byron Grote*
Mikael Olsson*
Simon Patterson*
Alison Platt*
Lindsey Pownall*

*Non-executive Directors

Company Secretary
Robert Welch
3 October 2017

This announcement contains inside information which is disclosed in accordance with the Market Abuse Regulations

Disclaimer

This document may contain forward-looking statements that may or may not prove accurate. For example, statements regarding expected revenue growth and operating margins, market trends and our product pipeline are forward-looking statements. Phrases such as "aim", "plan", "intend", “should”, "anticipate", "well-placed", "believe", "estimate", "expect", "target", "consider" and similar expressions are generally intended to identify forward-looking statements. Forward-looking statements involve known and unknown risks, uncertainties and other important factors that could cause actual results to differ materially from what is expressed or implied by the statements. Any forward-looking statement is based on information available to Tesco as of the date of the statement. All written or oral forward-looking statements attributable to Tesco are qualified by this caution. Tesco does not undertake any obligation to update or revise any forward-looking statement to reflect any change in circumstances.

	Notes	26 weeks ended 26 August 2017 Before exceptional items £m	26 weeks ended 26 August 2017 Exceptional items (Note 4) £m	26 weeks ended 26 August 2017 Total £m	26 weeks ended 27 August 2016 Before exceptional items £m	26 weeks ended 27 August 2016 Exceptional items (Note 4) £m	26 weeks ended 27 August 2016 Total £m
Continuing operations							
Revenue	2	**28,348**	**-**	**28,348**	**27,338**	**-**	**27,338**
Cost of sales		(26,757)	(24)	(26,781)	(25,877)	(118)	(25,995)
Gross profit/(loss)		**1,591**	**(24)**	**1,567**	**1,461**	**(118)**	**1,343**
Administrative expenses		(865)	85	(780)	(865)	(17)	(882)
Profits/(losses) arising on property-related items		33	65	98	-	54	54
Operating profit/(loss)		**759**	**126**	**885**	**596**	**(81)**	**515**
Share of post-tax profits/(losses) of joint ventures and associates		12	-	12	2	-	2
Finance income	5	42	-	42	83	-	83
Finance costs	5	(309)	(68)	(377)	(329)	(200)	(529)
Profit/(loss) before tax		**504**	**58**	**562**	**352**	**(281)**	**71**
Taxation	6	(118)	(20)	(138)	(98)	58	(40)
Profit/(loss) for the period from continuing operations		**386**	**38**	**424**	**254**	**(223)**	**31**
Discontinued operations							
Profit/(loss) for the period from discontinued operations	7	-	211	211	(18)	(113)	(131)
Profit/(loss) for the period		**386**	**249**	**635**	**236**	**(336)**	**(100)**
Attributable to:							
Owners of the parent		388	249	637	240	(331)	(91)
Non-controlling interests		(2)	-	(2)	(4)	(5)	(9)
		386	**249**	**635**	**236**	**(336)**	**(100)**
Earnings/(losses) per share from continuing and discontinued operations							
Basic	9			7.81p			(1.12)p
Diluted	9			7.79p			(1.12)p
Earnings/(losses) per share from continuing operations							
Basic	9			5.22p			0.42p
Diluted	9			5.21p			0.42p

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

Group statement of comprehensive income/(loss)

	Note	26 weeks 2017 £m	26 weeks 2016 £m
Items that will not be reclassified to income statement			
Remeasurements on defined benefit pension schemes		3,639	(3,983)
Tax on items that will not be reclassified		(615)	716
		3,024	**(3,267)**
Items that may subsequently be reclassified to income statement			
Change in fair value of available-for-sale financial assets and investments		(54)	75
Currency translation differences:			
Retranslation of net assets of overseas subsidiaries, joint ventures and associates		407	648
Movements in foreign exchange reserve and net investment hedging on subsidiary disposed, reclassified and reported in the Group income statement	7	140	-
Gains/(losses) on cash flow hedges:			
Net fair value gains/(losses)		74	330
Reclassified and reported in the Group income statement		(172)	(300)
Tax on items that may be reclassified		15	(34)
		410	**719**
Total other comprehensive income/(loss) for the period		**3,434**	**(2,548)**
Profit/(loss) for the period		635	(100)
Total comprehensive income/(loss) for the period		**4,069**	**(2,648)**
Attributable to:			
Owners of the parent		4,065	(2,639)
Non-controlling interests		4	(9)
Total comprehensive income/(loss) for the period		**4,069**	**(2,648)**
Total comprehensive income/(loss) attributable to owners of the parent arises from:			
Continuing operations		3,714	(2,517)
Discontinued operations		351	(122)
		4,065	**(2,639)**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

Group balance sheet

	Notes	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Non-current assets				
Goodwill, software and other intangible assets	10	2,752	2,717	2,818
Property, plant and equipment	11	18,429	18,108	17,613
Investment property		74	64	68
Investments in joint ventures and associates		750	739	864
Other investments		832	823	902
Trade and other receivables		170	180	175
Loans and advances to customers		6,362	5,795	5,278
Derivative financial instruments		1,238	1,303	1,929
Deferred tax assets		82	707	686
		30,689	**30,436**	**30,333**
Current assets				
Other investments		122	284	197
Inventories		2,488	2,301	2,505
Trade and other receivables		1,674	1,475	1,538
Loans and advances to customers		4,400	4,166	3,984
Derivative financial instruments		274	286	312
Current tax assets		10	13	41
Short-term investments	12	2,388	2,727	4,435
Cash and cash equivalents	12	4,319	3,821	3,355
		15,675	**15,073**	**16,367**
Assets of the disposal group and non-current assets classified as held for sale	7	127	344	472
		15,802	**15,417**	**16,839**
Current liabilities				
Trade and other payables		(8,965)	(8,875)	(8,530)
Borrowings	14	(2,950)	(2,560)	(3,025)
Derivative financial instruments		(71)	(61)	(94)
Customer deposits and deposits from banks		(7,043)	(6,687)	(6,495)
Current tax liabilities		(343)	(613)	(492)
Provisions		(534)	(438)	(376)
		(19,906)	**(19,234)**	**(19,012)**
Liabilities of the disposal group classified as held for sale	7	-	(171)	(201)
Net current liabilities		**(4,104)**	**(3,988)**	**(2,374)**
Non-current liabilities				
Trade and other payables		(340)	(324)	(269)
Borrowings	14	(8,638)	(9,433)	(11,130)
Derivative financial instruments		(550)	(607)	(994)
Customer deposits and deposits from banks		(2,790)	(2,276)	(1,786)
Post-employment benefit obligations	16	(2,945)	(6,621)	(7,123)
Deferred tax liabilities		(102)	(88)	(80)
Provisions		(671)	(685)	(666)
		(16,036)	**(20,034)**	**(22,048)**
Net assets		**10,549**	**6,414**	**5,911**
Equity				
Share capital		410	409	409
Share premium		5,102	5,096	5,095
All other reserves		1,058	601	501
Retained earnings		4,004	332	(75)
Equity attributable to owners of the parent		**10,574**	**6,438**	**5,930**
Non-controlling interests		(25)	(24)	(19)
Total equity		**10,549**	**6,414**	**5,911**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

			All other reserves								
	Share capital £m	Share premium £m	Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	Treasury shares £m	Retained earnings £m	Total £m	Non-controlling interests £m	Total equity £m
At 25 February 2017	**409**	**5,096**	**40**	**16**	**217**	**350**	**(22)**	**332**	**6,438**	**(24)**	**6,414**
Profit/(loss) for the period	-	-	-	-	-	-	-	637	637	(2)	635
Other comprehensive income/(loss)											
Change in fair value of available-for-sale financial assets and investments	-	-	-	-	-	-	-	(54)	(54)	-	(54)
Currency translation differences	-	-	-	-	-	541	-	-	541	6	547
Remeasurements of defined benefit pension schemes	-	-	-	-	-	-	-	3,639	3,639	-	3,639
Gains/(losses) on cash flow hedges	-	-	-	-	(98)	-	-	-	(98)	-	(98)
Tax relating to components of other comprehensive income	-	-	-	-	16	(11)	-	(605)	(600)	-	(600)
Total other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**(82)**	**530**	**-**	**2,980**	**3,428**	**6**	**3,434**
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**(82)**	**530**	**-**	**3,617**	**4,065**	**4**	**4,069**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(10)	-	(10)	-	(10)
Share-based payments	-	-	-	-	-	-	19	53	72	-	72
Issue of shares	1	6	-	-	-	-	-	-	7	-	7
Dividends	-	-	-	-	-	-	-	2	2	-	2
Changes in non-controlling interests	-	-	-	-	-	-	-	-	-	(5)	(5)
Total transactions with owners	**1**	**6**	**-**	**-**	**-**	**-**	**9**	**55**	**71**	**(5)**	**66**
At 26 August 2017	**410**	**5,102**	**40**	**16**	**135**	**880**	**(13)**	**4,004**	**10,574**	**(25)**	**10,549**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

	Share capital £m	Share premium £m	All other reserves: Other reserves £m	Capital redemption reserve £m	Hedging reserve £m	Translation reserve £m	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 period	-	-	-	-	-	-	-	(91)	(91)	(9)	(100)
Other comprehensive income/(loss)											
Change in fair value of available-for-sale financial assets and investments	-	-	-	-	-	-	-	75	75	-	75
Currency translation differences	-	-	-	-	-	648	-	-	648	-	648
Remeasurements on defined benefit pension schemes	-	-	-	-	-	-	-	(3,983)	(3,983)	-	(3,983)
Gains/(losses) on cash flow hedges	-	-	-	-	30	-	-	-	30	-	30
Tax relating to components of other comprehensive income	-	-	-	-	(5)	(14)	-	701	682	-	682
Total other comprehensive income/(loss)	**-**	**-**	**-**	**-**	**25**	**634**	**-**	**(3,207)**	**(2,548)**	**-**	**(2,548)**
Total comprehensive income/(loss)	**-**	**-**	**-**	**-**	**25**	**634**	**-**	**(3,298)**	**(2,639)**	**(9)**	**(2,648)**
Transactions with owners											
Purchase of treasury shares	-	-	-	-	-	-	(23)	-	(23)	-	(23)
Share-based payments	-	-	-	-	-	-	6	(42)	(36)	-	(36)
Issue of shares	2	-	-	-	-	-	-	-	2	-	2
Dividends	-	-	-	-	-	-	-	-	-	-	-
Total transactions with owners	**2**	**-**	**-**	**-**	**-**	**-**	**(17)**	**(42)**	**(57)**	**-**	**(57)**
At 27 August 2016	**409**	**5,095**	**40**	**16**	**236**	**233**	**(24)**	**(75)**	**5,930**	**(19)**	**5,911**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

	Note	26 weeks 2017 £m	26 weeks 2016 £m
Cash flows generated from/(used in) operating activities			
Operating profit/(loss) of continuing operations		**885**	**515**
Operating profit/(loss) of discontinued operations		-	(118)
Depreciation and amortisation		640	630
(Profit)/loss arising on sale of property, plant and equipment and intangible assets		(52)	(18)
(Profit)/loss arising on sale of subsidiaries and other investments		(127)	-
(Profit)/loss arising on sale of joint ventures and associates		(19)	(5)
Net impairment loss/(reversal) on other investments		(22)	(5)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property		(2)	110
Share-based payments		64	(57)
Adjustment for non-cash element of pensions charge		3	4
Additional contribution into pension schemes	16	(129)	(111)
Tesco Bank fair value movements included in operating profit		81	28
Retail (increase)/decrease in inventories		(138)	(69)
Retail (increase)/decrease in development stock		19	4
Retail (increase)/decrease in trade and other receivables		(137)	(116)
Retail increase/(decrease) in trade and other payables		226	353
Retail increase/(decrease) in provisions		78	(57)
Retail (increase)/decrease in working capital		48	115
Tesco Bank (increase)/decrease in loans and advances to customers		(877)	(744)
Tesco Bank (increase)/decrease in trade and other receivables		(18)	(29)
Tesco Bank increase/(decrease) in customer and bank deposits, trade and other payables		846	764
Tesco Bank increase/(decrease) in provisions		(13)	41
Tesco Bank (increase)/decrease in working capital		(62)	32
Cash generated from/(used in) operations		**1,308**	**1,120**
Interest paid		(183)	(205)
Corporation tax received/(paid)		(38)	(15)
Net cash generated from/(used in) operating activities		**1,087**	**900**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

	Notes	26 weeks 2017 £m	26 weeks 2016 £m
Net cash generated from/(used in) operating activities		**1,087**	**900**
Cash flows generated from/(used in) investing activities			
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale		139	239
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale		(719)	(486)
Purchase of intangible assets		(106)	(76)
Disposal of subsidiaries, net of cash disposed		18	211
Acquisition of subsidiaries, net of cash acquired		-	(12)
Proceeds from sale of joint ventures and associates		19	-
Net (increase)/decrease in loans to joint ventures and associates		(1)	16
Investments in joint ventures and associates		(15)	-
Net (investments in)/proceeds from sale of short-term investments		345	(970)
Net (investments in)/proceeds from sale of other investments		236	157
Dividends received from joint ventures and associates		11	11
Interest received		32	9
Net cash generated from/(used in) investing activities		**(41)**	**(901)**
Cash flows generated from/(used in) financing activities			
Proceeds from issue of ordinary share capital		6	-
Increase in borrowings		435	213
Repayment of borrowings		(1,178)	(31)
Net cash flows from derivative financial instruments		188	104
Repayments of obligations under finance leases		(7)	(5)
Dividends paid to equity owners	8	-	-
Net cash generated from/(used in) financing activities		**(556)**	**281**
Net increase/(decrease) in cash and cash equivalents		**490**	**280**
Cash and cash equivalents at beginning of the period		3,832	3,082
Effect of foreign exchange rate changes		(3)	4
Cash and cash equivalents including cash held in disposal group at the end of the period		**4,319**	**3,366**
Cash held in disposal group	7	-	(11)
Cash and cash equivalents at the end of the period	12	**4,319**	**3,355**

The notes on pages 21 to 49 form part of these condensed consolidated interim financial statements.

Note 1 Basis of preparation

These condensed consolidated interim financial statements have been prepared in accordance with the Disclosure and Transparency Rules of the UK Financial Conduct Authority, and with IAS 34, 'Interim Financial Reporting', as adopted by the European Union. The accounting policies applied are consistent with those described in the Annual Report and Group financial statements 2017. There are no new or amended standards effective in the period which have had a material impact on the condensed consolidated interim financial statements. The financial period represents the 26 weeks ended 26 August 2017 (prior period 26 weeks ended 27 August 2016, prior financial year 52 weeks ended 25 February 2017).

The condensed consolidated interim financial statements for the current period and prior financial periods do not constitute statutory accounts as defined in section 434 of the Companies Act 2006. A copy of the statutory accounts for the prior financial year has been delivered to the Registrar of Companies. The auditor's report on those accounts was not qualified, did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying the report and did not contain statements under section 498(2) or (3) of the Companies Act 2006.

The Directors consider that the Group has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the condensed consolidated interim financial statements.

Presentation changes to the Group balance sheet

The Group balance sheet as at 25 February 2017 included 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. Prior to 25 February 2017 each of these balances was presented on one line in the balance sheet. The Group balance sheets as at 26 August 2017 and 27 August 2016 have been presented with these additional line items.

Judgement - Equity transactions with joint venture partners

During the period the Group unwound its joint venture with British Land Co PLC (British Land). As part of the unwind, the Group obtained sole control of BLT Properties Ltd and seven stores, whilst British Land obtained sole control of BLT Holdings (2010) Ltd and two stores.

The Group is an equity partner in several joint ventures. Where the Group acquires the other partner's interests in the joint venture, management applies judgement in determining whether the transaction is accounted for as a business combination or as an asset acquisition. Factors considered in making this determination include whether the property management services in the joint venture are significant processes, and whether substantially all of the consideration paid relates to the fair value of purchased properties. For transactions accounted for as business combinations where the Group leases properties in the joint venture, management further considers whether increases in valuation of the properties above vacant possession value are attributable to the value of the lease contract or reflect residual goodwill.

Management exercised judgement in accounting for the Group's acquisition of BLT Properties Ltd as an asset acquisition, since substantially all of the purchase price related to the fair value of the seven stores purchased. The sale of shares in BLT Holdings (2010) Ltd was accounted for as a sale of an investment. Refer to Note 4.

Change in estimate - Post-employment benefit obligations

During the period the Group has taken actuarial advice and decided to change the model used for deriving the discount rate assumption for valuing the Tesco PLC Pension Scheme's liabilities under IAS 19 'Employee Benefits'. Further details of this change and its impact in the period are disclosed in Note 16.

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 assets and liabilities of these operations are presented separately in the Group balance sheet. Refer to Note 7.

Standards issued but not yet effective

As of the date of authorisation of these condensed consolidated interim financial statements, the following standards were in issue but not yet effective:

- IFRS 9 'Financial Instruments' was endorsed for adoption by the EU in November 2016 and is effective for accounting periods beginning on or after 1 January 2018.

  The most significant impact to the Group of implementing IFRS 9 remains the impairment requirements of the new standard, especially on Tesco Bank. The Bank's IFRS 9 implementation programme continues to progress according to the project plan and a parallel run on key unsecured portfolios has commenced. The Group will disclose the expected financial impact of IFRS 9 in the Annual Report and Group financial statements 2018.

- IFRS 15 'Revenues from Contracts with Customers' is effective for periods beginning on or after 1 January 2018. As reported in the Annual Report and Group financial statements 2017, the Group has completed its assessment of the impact of IFRS 15, and expects revenue recognition under IFRS 15 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 condensed consolidated interim financial statements.

Standards issued but not yet effective continued

- IFRS 16 'Leases' is effective for periods beginning on or after 1 January 2019 subject to EU endorsement. IFRS 16 is expected to have a significant impact on reported assets, liabilities and income statement of the Group, as well as the classification of cash flows relating to lease contracts. The IFRS 16 implementation project continues to collect required lease information and progress work on systems and policies to support transitioning to IFRS 16. It is not practicable to provide a reasonable estimate of the effect of IFRS 16 until this detailed review is sufficiently progressed.

The Group has not applied these standards in the preparation of the condensed consolidated interim financial statements and has not adopted any new or amended standards early.

Alternative Performance Measures (APMs)

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.

The key APMs that the Group has focused on in the period 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.
- Retail free cash flow: Retail free cash flow is net cash generated by the Retail business in the period from operating and investing activities with the exception of investing cash flows that increase/decrease items within Retail net debt.
- 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, net pension finance costs and fair value remeasurements on financial instruments: This relates to profit after tax before exceptional items from continuing operations, net pension finance costs and fair value remeasurements on financial instruments 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.

Changes to APMs

During the period, the following changes have been applied to the Group's APMs:

- Free cash flow has been redefined to include all cash flows from investing activities with the exception of investing cash flows that increase/decrease items within Group net debt. This reflects the cash available to shareholders. Previously, free cash flow only included capital expenditure cash flows within investing activities. Retail free cash flow is now considered a key APM.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs has been replaced with diluted earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements on financial instruments. Fair value remeasurements are now excluded as they are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Additionally, other earnings per share measures before exceptional items are no longer considered APMs and have been removed.

Refer to the Glossary for a full list, comprehensive descriptions and purpose of the Group's APMs.

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

In line with changes in management structure reporting to the CODM, the Group has reassessed its reportable segments and determined that the retailing and associated activities previously disclosed within the International segment should be segregated between the Central Europe and Asia 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;
  - Central Europe – Czech Republic, Hungary, Poland, Slovakia; and
  - Asia – Malaysia and Thailand.
- Retail banking and insurance services through Tesco Bank in the UK (Tesco Bank).

This presentation reflects how the Group's operating performance is reviewed internally by management. Segmental information for the 26 weeks ended 27 August 2016 and 52 weeks ended 25 February 2017 have been restated accordingly. The amounts disclosed within the Central Europe and Asia segments total the amounts previously disclosed within the International segment.

Excluded from the current period and comparative periods segmental information below are the retailing and associated activities of Turkey which have been classified as discontinued operations. Refer to Note 7 for further details.

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:

26 weeks ended 26 August 2017 At constant exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at constant exchange £m	Foreign exchange £m	Total at actual exchange £m
Continuing operations							
Group sales	18,942	2,807	2,279	527	24,555	617	25,172
Revenue	21,999	2,912	2,279	527	27,717	631	28,348
Operating profit before exceptional items	**468**	**57**	**126**	**86**	**737**	**22**	**759**
Exceptional items	126	–	–	–	126	–	126
Operating profit/(loss)	594	57	126	86	863	22	885
Operating margin	**2.1%**	**2.0%**	**5.5%**	**16.3%**	**2.7%**	**-**	**2.7%**

26 weeks ended 26 August 2017 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	19,031	3,094	2,520	527	25,172
Revenue	22,091	3,210	2,520	527	28,348
Operating profit before exceptional items	**471**	**61**	**141**	**86**	**759**
Exceptional items	126	–	–	–	126
Operating profit/(loss)	597	61	141	86	885
Operating margin	**2.1%**	**1.9%**	**5.6%**	**16.3%**	**2.7%**
Share of post-tax profits/(losses) of joint ventures and associates					12
Finance income					42
Finance costs					(377)
Profit/(loss) before tax					**562**

Income statement continued 26 weeks ended 27 August 2016 At actual exchange rates	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total at actual exchange £m
Continuing operations					
Group sales	18,614	2,843	2,442	503	24,402
Revenue	21,449	2,944	2,442	503	27,338
Operating profit before exceptional items	**389**	**17**	**101**	**89**	**596**
Exceptional items	(24)	10	-	(67)	(81)
Operating profit/(loss)	365	27	101	22	515
Operating margin	**1.8%**	**0.6%**	**4.1%**	**17.7%**	**2.2%**
Share of post-tax profits/(losses) of joint ventures and associates					2
Finance income					83
Finance costs					(529)
Profit/(loss) before tax					**71**

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 26 August 2017	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,336	50	279	1,087	-	2,752
Property, plant and equipment and investment property	12,986	2,844	2,601	72	-	18,503
Investments in joint ventures and associates	14	1	641	94	-	750
Non-current other investments	3	-	-	829	-	832
Non-current trade and other receivables[(a)]	12	8	12	-	-	32
Non-current loans and advances to customers	-	-	-	6,362	-	6,362
Deferred tax assets	-	27	55	-	-	82
Non-current assets[(b)]	**14,351**	**2,930**	**3,588**	**8,444**	**-**	**29,313**
Inventories and current trade and other receivables[(c)]	2,665	656	485	355	-	4,161
Current loans and advances to customers	-	-	-	4,400	-	4,400
Current other investments	-	-	-	122	-	122
Total trade and other payables	(7,009)	(962)	(1,121)	(213)	-	(9,305)
Total customer deposits and deposits from banks	-	-	-	(9,833)	-	(9,833)
Total provisions	(1,004)	(84)	(46)	(71)	-	(1,205)
Deferred tax liabilities	(53)	(30)	(12)	(7)	-	(102)
Net current tax	(269)	(11)	(23)	(30)	-	(333)
Post-employment benefits	(2,922)	-	(23)	-	-	(2,945)
Assets of the disposal group and classified as held for sale[(d)]	101	26	-	-	-	127
Liabilities of the disposal group[(d)]	-	-	-	-	-	-
Net debt (including Tesco Bank)[(e)]	-	-	-	(591)	(3,260)	(3,851)
Net assets	**5,860**	**2,525**	**2,848**	**2,576**	**(3,260)**	**10,549**

(a) Excludes loans to joint ventures of £138m (25 February 2017: £137m, 27 August 2016: £136m) which forms part of net debt.
(b) Excludes derivative financial instrument non-current assets of £1,238m (25 February 2017: £1,303m, 27 August 2016: £1,929m).
(c) Excludes net interest and other receivables of £1m (25 February 2017: £1m, 27 August 2016: £1m) which forms part of net debt.
(d) Excludes net debt of the disposal group of £nil (25 February 2017: £(65)m, 27 August 2016: £(64)m). Refer to Note 7.
(e) Refer to Note 17.

Balance sheet continued At 25 February 2017	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,293	44	278	1,102	-	2,717
Property, plant and equipment and investment property	12,893	2,613	2,593	73	-	18,172
Investments in joint ventures and associates	11	1	656	71	-	739
Non-current other investments	-	-	-	810	13	823
Non-current trade and other receivables[a]	23	7	13	-	-	43
Non-current loans and advances to customers	-	-	-	5,795	-	5,795
Deferred tax assets	601	23	83	-	-	707
Non-current assets[b]	**14,821**	**2,688**	**3,623**	**7,851**	**13**	**28,996**
Inventories and current trade and other receivables[c]	2,389	654	394	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)	(799)	(1,152)	(242)	-	(9,199)
Total customer deposits and deposits from banks	-	-	-	(8,963)	-	(8,963)
Total provisions	(914)	(80)	(45)	(84)	-	(1,123)
Deferred tax liabilities	(7)	(26)	(41)	(14)	-	(88)
Net current tax	(579)	(1)	(12)	(8)	-	(600)
Post-employment benefits	(6,600)	-	(21)	-	-	(6,621)
Assets of the disposal group and classified as held for sale[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**	**2,482**	**2,746**	**2,478**	**(3,496)**	**6,414**

At 27 August 2016	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Unallocated £m	Total £m
Goodwill, software and other intangible assets	1,363	43	277	1,135	-	2,818
Property, plant and equipment and investment property	12,527	2,585	2,495	74	-	17,681
Investments in joint ventures and associates	5	1	765	93	-	864
Non-current other investments	-	-	-	881	21	902
Non-current trade and other receivables[a]	21	7	11	-	-	39
Non-current loans and advances to customers	-	-	-	5,278	-	5,278
Deferred tax assets	625	6	55	-	-	686
Non-current assets[b]	**14,541**	**2,642**	**3,603**	**7,461**	**21**	**28,268**
Inventories and current trade and other receivables[c]	2,598	689	412	343	-	4,042
Current loans and advances to customers	-	-	-	3,984	-	3,984
Current other investments	-	-	-	75	122	197
Total trade and other payables	(6,686)	(820)	(1,084)	(209)	-	(8,799)
Total customer deposits and deposits from banks	-	-	-	(8,281)	-	(8,281)
Total provisions	(806)	(89)	(48)	(99)	-	(1,042)
Deferred tax liabilities	-	(39)	(12)	(29)	-	(80)
Net current tax	(463)	1	(9)	20	-	(451)
Post-employment benefits	(7,102)	-	(21)	-	-	(7,123)
Assets of the disposal group and classified as held for sale[d]	88	136	-	-	237	461
Liabilities of the disposal group[d]	-	-	-	-	(126)	(126)
Net debt (including Tesco Bank)[e]	-	-	-	(787)	(4,352)	(5,139)
Net assets	**2,170**	**2,520**	**2,841**	**2,478**	**(4,098)**	**5,911**

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

Other segment information

26 weeks ended 26 August 2017	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations £m	Total £m
Capital expenditure							
Property, plant and equipment	393	41	73	5	512	–	512
Goodwill, software and other intangible assets	78	4	1	21	104	–	104
Depreciation and amortisation							
Property, plant and equipment	(341)	(74)	(111)	(6)	(532)	–	(532)
Investment property	(1)	–	–	–	(1)	–	(1)
Software and other intangible assets	(58)	(9)	(5)	(35)	(107)	–	(107)
Impairment							
Property, plant and equipment loss	(13)	(5)	(1)	–	(19)	–	(19)
Property, plant and equipment reversal	19	–	–	–	19	–	19
Investment property reversal	2	–	–	–	2	–	2

26 weeks ended 27 August 2016	UK & ROI £m	Central Europe £m	Asia £m	Tesco Bank £m	Total continuing operations £m	Discontinued operations* £m	Total £m
Capital expenditure							
Property, plant and equipment	289	14	76	4	383	2	385
Goodwill, software and other intangible assets	49	6	1	12	68	–	68
Depreciation and amortisation							
Property, plant and equipment	(333)	(69)	(99)	(7)	(508)	(5)	(513)
Investment property	(1)	–	–	–	(1)	–	(1)
Software and other intangible assets	(55)	(8)	(4)	(48)	(115)	(1)	(116)
Impairment							
Property, plant and equipment loss	(39)	–	(1)	–	(40)	(106)	(146)
Property, plant and equipment reversal	35	–	1	–	36	–	36

* Discontinued operations in this table represents amounts up until the point a disposal group is classified as such. This comprises amounts relating to Turkey in the first four months of the period ended 27 August 2016.

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. The current period's presentation includes additional details on the line items impacted by exceptional items, whilst removing the analysis between Retail continuing and discontinued operations. Comparatives for the prior period have been amended accordingly.

	Retail			Tesco Bank			Tesco Group
26 weeks ended 26 August 2017	Before exceptional items £m	Exceptional items £m	Retail Total £m	Before exceptional items £m	Exceptional items £m	Tesco Bank Total £m	Total £m
Operating profit/(loss) of continuing operations	**673**	**126**	**799**	**86**	**-**	**86**	**885**
Operating profit/(loss) of discontinued operations	-	-	-	-	-	-	-
Depreciation and amortisation	599	-	599	41	-	41	640
ATM net income	(20)	-	(20)	20	-	20	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	(8)	(44)	(52)	-	-	-	(52)
(Profit)/loss arising on sale of subsidiaries and other investments	(3)	(124)	(127)	-	-	-	(127)
(Profit)/loss arising on sale of joint ventures and associates	(3)	(16)	(19)	-	-	-	(19)
Net impairment loss/(reversal) on other investments	(22)	-	(22)	-	-	-	(22)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(2)	-	(2)	-	-	-	(2)
Share-based payments	61	-	61	3	-	3	64
Adjustment for non-cash element of pensions charge	3	-	3	-	-	-	3
Additional contribution into pension schemes	(129)	-	(129)	-	-	-	(129)
Tesco Bank fair value movements included in operating profit	-	-	-	81	-	81	81
Cash flows generated from operations excluding working capital	**1,149**	**(58)**	**1,091**	**231**	**-**	**231**	**1,322**
Decrease/(increase) in working capital	237	(189)	48	(50)	(12)	(62)	(14)
Cash generated from/(used in) operations*	**1,386**	**(247)**	**1,139**	**181**	**(12)**	**169**	**1,308**
Interest paid	(181)	-	(181)	(2)	-	(2)	(183)
Corporation tax (paid)/received	(24)	-	(24)	(14)	-	(14)	(38)
Net cash generated from/(used in) operating activities	**1,181**	**(247)**	**934**	**165**	**(12)**	**153**	**1,087**

* Alternative performance measure: 'Retail operating cash flow' of £1,139m is the cash generated from operations of the continuing Retail business. Included in Retail cash generated from/(used in) operations above of £1,139m is £nil relating to discontinued operations.

Cash flow statement continued	Retail			Tesco Bank			Tesco Group
26 weeks ended 26 August 2017	Before exceptional items £m	Exceptional items £m	Retail Total £m	Before exceptional items £m	Exceptional items £m	Tesco Bank Total £m	Total £m
Net cash generated from/(used in) operating activities	**1,181**	**(247)**	**934**	**165**	**(12)**	**153**	**1,087**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	83	55	138	1	-	1	139
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale - store buy backs	-	(189)	(189)	-	-	-	(189)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale - other capital expenditure	(523)	-	(523)	(7)	-	(7)	(530)
Purchase of intangible assets	(83)	-	(83)	(23)	-	(23)	(106)
Disposal of subsidiaries, net of cash disposed	-	18	18	-	-	-	18
Acquisition of subsidiaries, net of cash acquired	-	-	-	-	-	-	-
Proceeds from sale of joint ventures and associates	-	19	19	-	-	-	19
Investments in joint ventures and associates	-	-	-	(15)	-	(15)	(15)
Net (investments in)/proceeds from sale of other investments	33	196	229	7	-	7	236
Dividends received from joint ventures and associates	11	-	11	-	-	-	11
Interest received	32	-	32	-	-	-	32
Alternative performance measure: Free cash flow	**734**	**(148)**	**586**	**128**	**(12)**	**116**	**702**
Net (increase)/decrease in loans to joint ventures and associates	(1)	-	(1)	-	-	-	(1)
Net (investments in)/proceeds from sale of short-term investments	345	-	345	-	-	-	345
Net cash generated from/(used in) investing activities	**(103)**	**99**	**(4)**	**(37)**	**-**	**(37)**	**(41)**
Proceeds from issue of ordinary share capital	6	-	6	-	-	-	6
Increase in borrowings	435	-	435	-	-	-	435
Repayment of borrowings	(1,028)	-	(1,028)	(150)	-	(150)	(1,178)
Net cash flows from derivative financial instruments	188	-	188	-	-	-	188
Repayment of obligations under finance leases	(7)	-	(7)	-	-	-	(7)
Dividends paid to equity owners	-		-	-	-	-	-
Net cash generated from/(used in) financing activities	**(406)**	**-**	**(406)**	**(150)**	**-**	**(150)**	**(556)**
Intra-Group funding and intercompany transactions	**(8)**	**-**	**(8)**	**8**	**-**	**8**	**-**
Net increase/(decrease) in cash and cash equivalents	**664**	**(148)**	**516**	**(14)**	**(12)**	**(26)**	**490**
Cash and cash equivalents at the beginning of the period			3,043			789	3,832
Effect of foreign exchange rate changes			(3)			-	(3)
Cash and cash equivalents including cash held in disposal group at the end of the period			**3,556**			**763**	**4,319**
Cash held in disposal group			-			-	-
Cash and cash equivalents at the end of the period			**3,556**			**763**	**4,319**

Cash flow statement continued

26 weeks ended 27 August 2016	Retail Before exceptional items £m	Retail Exceptional items £m	Retail Total £m	Tesco Bank Before exceptional items £m	Tesco Bank Exceptional items £m	Tesco Bank Total £m	Tesco Group Total £m
Operating profit/(loss) of continuing operations	**507**	**(14)**	**493**	**89**	**(67)**	**22**	**515**
Operating profit/(loss) of discontinued operations	(118)	-	(118)	-	-	-	(118)
Depreciation and amortisation	575	-	575	46	9	55	630
ATM net income	(22)	-	(22)	22	-	22	-
(Profit)/loss arising on sale of property, plant and equipment and intangible assets	22	(42)	(20)	2	-	2	(18)
(Profit)/loss arising on sale of subsidiaries and other investments	4	-	4	(4)	-	(4)	-
(Profit)/loss arising on sale of joint ventures and associates	(5)	-	(5)	-	-	-	(5)
Net impairment loss/(reversal) on other investments	(5)	-	(5)	-	-	-	(5)
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	110	-	110	-	-	-	110
Share-based payments	(56)	-	(56)	(1)	-	(1)	(57)
Adjustment for non-cash element of pensions charge	4	-	4	-	-	-	4
Additional contribution into pension schemes	(111)	-	(111)	-	-	-	(111)
Tesco Bank fair value movements included in operating profit	-	-	-	27	1	28	28
Cash flows generated from operations excluding working capital	**905**	**(56)**	**849**	**181**	**(57)**	**124**	**973**
Decrease/(increase) in working capital	159	(44)	115	(9)	41	32	147
Cash generated from/(used in) operations*	**1,064**	**(100)**	**964**	**172**	**(16)**	**156**	**1,120**
Interest paid	(203)	-	(203)	(2)	-	(2)	(205)
Corporation tax (paid)/received	(17)	-	(17)	2	-	2	(15)
Net cash generated from/(used in) operating activities	**844**	**(100)**	**744**	**172**	**(16)**	**156**	**900**

*Alternative performance measure: ‘Retail operating cash flow’ of £955m is the cash generated from operations of the continuing Retail business. Included in Retail cash generated from/(used in) operations above of £964m is £9m relating to discontinued operations.

Cash flow statement continued	Retail			Tesco Bank			Tesco Group
26 weeks ended 27 August 2016	Before exceptional items £m	Exceptional items £m	Retail Total £m	Before exceptional items £m	Exceptional items £m	Tesco Bank Total £m	Total £m
Net cash generated from/(used in) operating activities	**844**	**(100)**	**744**	**172**	**(16)**	**156**	**900**
Proceeds from sale of property, plant and equipment, investment property, intangible assets and non-current assets classified as held for sale	9	227	236	3	-	3	239
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – store buy backs	(112)	-	(112)	-	-	-	(112)
Purchase of property, plant and equipment, investment property and non-current assets classified as held for sale – other capital expenditure	(372)	-	(372)	(2)	-	(2)	(374)
Purchase of intangible assets	(57)	-	(57)	(19)	-	(19)	(76)
Disposal of subsidiaries, net of cash disposed	211	-	211	-	-	-	211
Acquisition of subsidiaries, net of cash acquired	(12)	-	(12)	-	-	-	(12)
Proceeds from sale of joint ventures and associates	-	-	-	-	-	-	-
Investments in joint ventures and associates	-	-	-	-	-	-	-
Net (investments in)/proceeds from sale of other investments	95	-	95	62	-	62	157
Dividends received from joint ventures and associates	11	-	11	-	-	-	11
Interest received	9	-	9	-	-	-	9
Alternative performance measure: Free cash flow	**626**	**127**	**753**	**216**	**(16)**	**200**	**953**
Net (increase)/decrease in loans to joint ventures and associates	16	-	16	-	-	-	16
Net (investments in)/proceeds from sale of short-term investments	(970)	-	(970)	-	-	-	(970)
Net cash generated from/(used in) investing activities	**(1,172)**	**227**	**(945)**	**44**	**-**	**44**	**(901)**
Proceeds from issue of ordinary share capital	-	-	-	-	-	-	-
Increase in borrowings	213	-	213	-	-	-	213
Repayment of borrowings	(31)	-	(31)	-	-	-	(31)
Net cash flows from derivative financial instruments	104	-	104	-	-	-	104
Repayment of obligations under finance leases	(5)	-	(5)	-	-	-	(5)
Dividends paid to equity owners	-	-	-	-	-	-	-
Net cash generated from/(used in) financing activities	**281**	**-**	**281**	**-**	**-**	**-**	**281**
Intra-Group funding and intercompany transactions	**(17)**	**-**	**(17)**	**17**	**-**	**17**	**-**
Net increase/(decrease) in cash and cash equivalents	**(64)**	**127**	**63**	**233**	**(16)**	**217**	**280**
Cash and cash equivalents at the beginning of the period			2,528			554	3,082
Effect of foreign exchange rate changes			4			-	4
Cash and cash equivalents including cash held in disposal group at the end of the period			**2,595**			**771**	**3,366**
Cash held in disposal group			(11)			-	(11)
Cash and cash equivalents at the end of the period			**2,584**			**771**	**3,355**

Note 3 Income and expenses

Continuing operations	26 weeks 2017 £m	26 weeks 2016 £m
Profit/(loss) before tax is stated after charging/(crediting) the following:		
Property rental income, of which £17m (2016: £17m) relates to investment properties	(181)	(169)
Other rental income	(27)	(28)
Direct operating expenses arising on rental earning investment properties	10	9
Costs of inventories recognised as an expense	20,862	20,098
Inventory losses and provisions	665	570
Depreciation and amortisation	640	624
Operating lease expenses, of which £34m (2016: £42m) relates to hire of plant and machinery	504	514
Net impairment loss/(reversal) on property, plant and equipment, intangible assets and investment property	(2)	4

Note 4 Exceptional items

Income statement

26 weeks ended 26 August 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	Finance costs £m	Taxation £m	Exceptional items within discontinued operations £m
Net restructuring and redundancy costs[(a)]	(24)	(39)	–	(63)	–	12	–
Investment disposal[(b)]	–	124	–	124	–	(25)	–
Property transactions[(c)]	–	–	65	65	–	(7)	–
Foreign exchange losses on GBP short-term investments held in overseas entities[(d)]	–	–	–	–	(68)	–	–
Exceptional items relating to discontinued operations[(e)]	–	–	–	–	–	–	211
Total	**(24)**	**85**	**65**	**126**	**(68)**	**(20)**	**211**

[(a)] £(24)m relates to ongoing UK & ROI changes to store and call centre colleague structures and working practices, whilst £(39)m relates to head office restructuring costs.

[(b)] The Group disposed of its remaining 8.8% investment stake in Lazada Group S.A. for net cash consideration of $254m (£196m), generating a profit of £124m. The tax charge of £25m arises due to a capital gain on the disposal.

[(c)] As part of the Group's strategy to maximise value from property, the Group disposed of a property which generated a profit of £44m and incurred a capital gains tax charge of £(7)m. The Group also recognised a net gain of £21m from the unwind of its joint venture with British Land, whereby the Group purchased seven stores from the joint venture and disposed of its remaining equity interest in the joint venture.

[(d)] The Group holds proceeds from the sale of the Korean operations in GBP money market funds in an intermediate entity with a Euro functional currency. The £(68)m loss represents foreign exchange losses arising on the revaluation of these sterling-denominated funds into Euros. The loss does not represent an economic loss to the Group since there is an offset within other comprehensive income.

[(e)] Income from discontinued operations primarily relates to the release of a £340m provision relating to capital gains tax in respect of the disposal of the Group's Korean operations, following completion of the tax assessment by Korean Tax Authorities. This was offset by £(129)m net loss relating to the disposal of the Group's Turkish operations, primarily due to the recycling of the currency translation reserve to the Group income statement. Refer to Note 7 for further details.

Income statement continued

26 weeks ended 27 August 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 restructuring and redundancy costs	(73)	(17)	(5)	(95)	-	21	-
Provision for customer redress	(45)	-	-	(45)	-	-	-
Property transactions	-	-	59	59	-	37	-
Foreign exchange losses on GBP short-term investments held in overseas entities	-	-	-	-	(200)	-	-
Exceptional items relating to discontinued operations	-	-	-	-	-	-	(113)
Total	**(118)**	**(17)**	**54**	**(81)**	**(200)**	**58**	**(113)**

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	(55)	(55)	-	-
Current year restructuring costs and other exceptional costs including trading store redundancies	(29)	(11)	-	-
Utilisation of onerous lease provisions	(39)	(48)	-	-
Property transactions[a]	9	13	(134)	227
Property transactions - sale of investment in joint venture	-	-	19	-
Provision for customer redress[b]	(10)	(15)	-	-
SFO/compensation payments[c]	(135)	-	-	-
Proceeds from sale of investments (Note 18)	-	-	196	-
Proceeds from sale of subsidiaries treated as discontinued[d]	-	-	23	-
Exceptional cash flows from discontinued operations	-	-	(5)	-
Total	**(259)**	**(116)**	**99**	**227**

[a] Property transactions is made up of £55m proceeds from disposal of properties and £(180)m from property buy backs from the joint venture with British Land, comprising £(189)m paid for the properties acquired and £9m relating to working capital and cash acquired.

[b] Settlement of claims for customer redress in Tesco Bank.

[c] Payments relating to the Deferred Prosecution Agreement (DPA) and Financial Conduct Authority (FCA) obligations.

[d] This relates to the disposal of the Group's Turkish operations comprising £34m proceeds received and £11m of cash disposed. Refer to Note 7 for further details.

Note 5 Finance income and costs

Continuing operations	Notes	26 weeks 2017 £m	26 weeks 2016 £m
Finance income			
Interest receivable and similar income		32	26
Financial instruments – fair value remeasurements		10	57
Total finance income		**42**	**83**
Finance costs			
GBP MTNs and Loans		(105)	(114)
EUR MTNs		(45)	(67)
USD Bonds		(44)	(46)
Finance charges payable under finance leases and hire purchase contracts		(4)	(4)
Other interest payable		(31)	(43)
Capitalised interest	11	1	3
Total finance costs before exceptional items and net pension finance costs		**(228)**	**(271)**
Net pension finance costs	16	(81)	(58)
Foreign exchange losses on GBP short-term investments held in overseas entities		(68)	(200)
Total finance costs		**(377)**	**(529)**
Net finance cost		**(335)**	**(446)**

Note 6 Taxation

Recognised in the Group income statement

Continuing operations	26 weeks 2017 £m	26 weeks 2016 £m
UK	74	(3)
Overseas	64	43
Taxation charge	**138**	**40**

The tax charge in the Group income statement is based on management's best estimate of the full year effective tax rates by geographical unit applied to half year profits, which is then adjusted for tax on exceptional items arising in the period to 26 August 2017.

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 condensed consolidated interim financial statements.

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

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Assets of the disposal group	–	198	248
Non-current assets classified as held for sale	127	146	224
Total assets of the disposal group and non-current assets classified as held for sale	**127**	**344**	**472**
Total liabilities of the disposal group	–	(171)	(201)
Total net assets of the disposal group and non-current assets classified as held for sale	**127**	**173**	**271**

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). Local regulatory approval was granted on 9 February 2017 and the sale completed on 1 March 2017. In accordance with IFRS 5 'Non-current Assets Held for Sale and Discontinued Operations', the Turkish operations for the period up to 1 March 2017 have been classified as a disposal group.

The tables below show the results of the discontinued operations which are included in the Group income statement and Group cash flow statement respectively.

Income statement	26 weeks 2017[a]	26 weeks 2016
Revenue	-	270
Expenses	-	(288)
Profit/(loss) before tax before exceptional items	**-**	**(18)**
Taxation	-	-
Profit/(loss) after tax before exceptional items	**-**	**(18)**
Net impairment (loss)/reversal of non-current assets	-	(106)
Costs to sell and other provisions - Turkey	-	(2)
Loss after tax on disposal of Turkish operations	(129)	-
Net adjustments to profit/(loss) of past disposals[b]	340	(5)
Total profit/(loss) after tax of discontinued operations[c]	**211**	**(131)**

[a] These figures represent the income statement of Turkey for the current period and the net adjustments to profit/(loss) of past disposals of £340m. Refer to Note 4 for further details.

[b] At 25 February 2017, the Group held a provision of £329m for potential additional capital gains tax relating to the disposal of the Group's Korean operations. During the period, the final tax assessment was received from the Korean Tax Authorities, confirming that no further capital gains tax is payable. As a result, the provision of £340m, after the impact of foreign exchange movements, has been released. The release has been classified as an exceptional item within 'Exceptional items relating to discontinued operations'.

[c] Total profit/(loss) after tax of discontinued operations includes a loss of £nil attributable to non-controlling interests (2016: loss of £(6)m).

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

	£m
Gross proceeds	34
Deferred and contingent considerations	4
Net proceeds	**38**
Net book value of assets disposed:	
Goodwill, software and other intangible assets	(9)
Property, plant and equipment	(121)
Inventories	(43)
Trade and other receivables	(14)
Cash and cash equivalents	(11)
Trade and other payables	88
Borrowings	76
Provisions	2
Post-employment benefit obligation	5
Currency translation reserve recycled to income statement	(140)
Taxation	-
Loss after tax of disposal of Turkish operations	**(129)**

Profit/(loss) per share impact from discontinued operations	26 weeks 2017 Pence/share	26 weeks 2016 Pence/share
Basic	2.59	(1.54)
Diluted	2.58	(1.54)

Cash flow statement

	26 weeks 2017 £m	26 weeks 2016 £m
Net cash flows from operating activities	–	1
Net cash flows from investing activities	–	(3)
Net cash flows from financing activities	–	12
Net cash flows from discontinued operations	**–**	**10**
Intra-Group funding and intercompany transactions	–	(3)
Net cash flows from discontinued operations, net of intercompany	**–**	**7**
Net cash flows from disposal of subsidiary	(11)	–
Net cash flows from discontinued operations, net of intercompany and disposal of subsidiary	**(11)**	**7**

Note 8 Dividends

An interim dividend of 1.0 pence was approved by the Board of Directors on 3 October 2017 but has not been included as a liability as at 26 August 2017.

The Group has implemented a share forfeiture programme following the completion of a tracing and notification exercise to any shareholders who have not had contact with Tesco PLC (the Company) over the past 12 years, in accordance with the provisions set out in the Company's Articles. Under the share forfeiture programme the shares and dividends associated with shares of untraced members have been forfeited, with the resulting proceeds transferred to the Group to use for good causes in line with the Group's corporate responsibility strategy. During the period, the Group received £3m proceeds from sale of untraced shares and £2m write-back of unclaimed dividends, which were reflected in share premium and retained earnings.

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 period.

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 period 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 26 weeks ended 26 August 2017 there were 15 million (26 weeks ended 27 August 2016: 3 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.

	26 weeks ended 26 August 2017			26 weeks ended 27 August 2016		
	Basic	Potentially dilutive share options	Diluted	Basic	Potentially dilutive share options	Diluted
Profit/(loss) (£m)						
Continuing operations[a]	426	–	426	34	–	34
Discontinued operations[b]	211	–	211	(125)	–	(125)
Total	**637**	**–**	**637**	**(91)**	**–**	**(91)**
Weighted average number of shares (millions)	**8,160**	**15**	**8,175**	**8,142**	**3**	**8,145**
Earnings/(losses) per share (pence)						
Continuing operations	5.22	(0.01)	5.21	0.42	–	0.42
Discontinued operations	2.59	(0.01)	2.58	(1.54)	–	(1.54)
Total	**7.81**	**(0.02)**	**7.79**	**(1.12)**	**–**	**(1.12)**

[a] Excludes losses from non-controlling interests of £2m (26 weeks ended 27 August 2016: £3m).
[b] Excludes losses from non-controlling interests of £nil (26 weeks ended 27 August 2016: £6m).

Alternative performance measures: Earnings/(losses) per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements on financial instruments

	Note	26 weeks 2017	26 weeks 2016
Profit before tax from continuing operations before exceptional items (£m)		504	352
Add: Net pension finance costs (£m)	5	81	58
Less: Fair value remeasurements on financial instruments (£m)	5	(10)	(57)
Profit before tax from continuing operations before exceptional items, net pension finance costs and fair value remeasurements (£m)		575	353
Profit before tax from continuing operations before exceptional items, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		576	356
Taxation on profit from continuing operations before exceptional items, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		(130)	(96)
Profit after tax from continuing operations before exceptional items, net pension finance costs and fair value remeasurements attributable to the owners of the parent (£m)		**446**	**260**
Basic weighted average number of shares (millions)		8,160	8,142
Basic earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements (pence)		**5.47**	**3.19**
Diluted weighted average number of shares (millions)		8,175	8,145
Diluted earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements (pence)		**5.46**	**3.19**

Refer to the Glossary for further details on the Group's APMs.

Note 10 Goodwill, software and other intangible assets

Goodwill, software and other intangible assets of £2,752m (25 February 2017: £2,717m, 27 August 2016: £2,818m) comprise £1,805m goodwill (25 February 2017: £1,792m, 27 August 2016: £1,832m), £885m software (25 February 2017: £879m, 27 August 2016: £925m) and other intangible assets of £62m (25 February 2017: £46m, 27 August 2016: £61m).

Goodwill

The impairment review methodology for goodwill is unchanged from that described in the 2017 Annual Report and Group financial statements. There were no indicators of goodwill impairment in the period; the annual goodwill impairment review will occur in the second half of the year.

The components of goodwill are as follows:

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Tesco Bank	802	802	802
UK*	743	735	779
Thailand	185	181	174
Malaysia	75	74	77
	1,805	**1,792**	**1,832**

* Included in the UK balance at 27 August 2016 is £29m previously disclosed as Other.

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 25 February 2017	22,690	10,681	33,371
Foreign currency translation	624	247	871
Additions[b][c]	341	171	512
Reclassification	48	(80)	(32)
Classified as held for sale	(116)	3	(113)
Disposals	(56)	(91)	(147)
At 26 August 2017	**23,531**	**10,931**	**34,462**
Accumulated depreciation and impairment losses			
At 25 February 2017	7,095	8,168	15,263
Foreign currency translation	239	200	439
Charge for the period	229	303	532
Impairment losses	13	6	19
Reversal of impairment losses	(19)	-	(19)
Reclassification	66	(67)	(1)
Classified as held for sale	(84)	6	(78)
Disposals	(44)	(78)	(122)
At 26 August 2017	**7,495**	**8,538**	**16,033**
Net carrying value			
At 26 August 2017	**16,036**	**2,393**	**18,429**
At 27 August 2016	15,240	2,373	17,613
Construction in progress included above[d]			
At 26 August 2017	**70**	**55**	**125**
At 27 August 2016	103	64	167

[a] Other assets consist of fixtures and fittings with a net carrying value of £1,942m (25 February 2017: £2,023m, 27 August 2016: £1,985m), office equipment with a net carrying value of £127m (25 February 2017: £161m, 27 August 2016: £124m) and motor vehicles with a net carrying value of £324m (25 February 2017: £329m, 27 August 2016: £264m).
[b] Includes £1m (25 February 2017: £6m, 27 August 2016: £3m) in respect of interest capitalised, principally relating to land and buildings. The capitalisation rate used to determine the amount of finance costs capitalised during the financial period was 4.2% (25 February 2017: 4.9%, 27 August 2016: 4.9%). Interest capitalised is deducted in determining taxable profit in the financial period in which it is incurred.
[c] Includes £189m net payment relating to the purchase of seven stores from a joint venture with British Land, which is a related party transaction. Refer to Note 4 for further details of the unwind of the joint venture with British Land.
[d] Construction in progress does not include land.

The impairment review methodology for property, plant and equipment is unchanged from that described in the 2017 Annual Report and Group financial statements. There were no indicators of impairment in the period. The Group continues to monitor for any potential impacts of Brexit on property fair values and impairment.

	Land and buildings £m	Other[a] £m	Total £m
Cost			
At 27 February 2016	22,557	10,468	33,025
Foreign currency translation	704	305	1,009
Additions[b]	241	144	385
Reclassification	(21)	17	(4)
Classified as held for sale	(149)	(5)	(154)
Disposals	(497)	(262)	(759)
Transfer to disposal group classified as held for sale	(317)	(151)	(468)
At 27 August 2016	**22,518**	**10,516**	**33,034**
Accumulated depreciation and impairment losses			
At 27 February 2016	7,198	7,927	15,125
Foreign currency translation	259	229	488
Charge for the period	195	318	513
Impairment losses	145	1	146
Reversal of impairment losses	(36)	-	(36)
Reclassification	(1)	(1)	(2)
Classified as held for sale	(43)	(3)	(46)
Disposals	(207)	(226)	(433)
Transfer to disposal group classified as held for sale	(232)	(102)	(334)
At 27 August 2016	**7,278**	**8,143**	**15,421**

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

Commitments for capital expenditure contracted for, but not incurred, at 26 August 2017 were £232m (25 February 2017: £115m, 27 August 2016: £271m), principally relating to store development.

Note 12 Cash and cash equivalents and short-term investments

Cash and cash equivalents	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Cash at bank and in hand	4,039	3,498	2,844
Short-term deposits	280	323	511
	4,319	**3,821**	**3,355**

Short-term investments	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Money market funds	2,388	2,727	4,435

Included in cash and cash equivalents is an amount of £777m (25 February 2017: £777m, 27 August 2016: £nil) 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 at a floating rate of interest. Interest accrues and is payable to the Group.

Note 13 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.

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.

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Current assets			
Inventories	(63)	(75)	(53)
Trade and other receivables			
Trade/other receivables	122	215	188
Accrued income	156	150	93
Current liabilities			
Trade and other payables			
Trade payables	114	213	186
Accruals and deferred income	(8)	(22)	(27)

Note 14 Borrowings

Current

	Par value	Maturity	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Bank loans and overdrafts	–	–	1,346	912	971
Loans from joint ventures	–	–	6	6	6
4% RPI MTN	£310m	Sep 2016	-	-	317
5.875% MTN	€1,039m	Sep 2016	-	-	940
2.7% USD Bond	$500m	Jan 2017	-	-	381
5.4478% Term Loan	£382m	Jan 2017	-	-	389
LIBOR + 0.5% Term Loan[(a)]	£488m	Oct 2017	-	484	-
1.250% MTN	€500m	Nov 2017	465	423	-
5.5% USD Bond	$850m	Nov 2017	678	709	-
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	128	-	-
LIBOR + 0.65% Tesco Bank Bond[(b)]	£300m	Apr 2020	300	-	-
5.5457% Secured Bond[(c)(d)]	£358m	Feb 2029	16	15	15
Finance leases	–	–	11	11	6
			2,950	**2,560**	**3,025**

[(a)-(d)] Refer to the next page for footnotes.

Non-current

	Par value	Maturity	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
LIBOR +0.5% Term Loan[a]	£488m	Oct 2017	–	-	481
1.250% MTN	€500m	Nov 2017	–	-	430
5.5% USD Bond	$850m	Nov 2017	–	-	687
5.2% Tesco Bank Retail Bond	£125m	Aug 2018	–	129	131
3.375% MTN	€750m	Nov 2018	709	641	656
LIBOR + 0.45% Tesco Bank Bond[e]	£150m	May 2019	–	150	150
1.375% MTN	€1,250m	Jul 2019	1,152	1,063	1,066
5.5% MTN	£350m	Dec 2019	363	353	363
1% RPI Tesco Bank Retail Bond[f]	£69m	Dec 2019	69	67	66
LIBOR + 0.65% Tesco Bank Bond[b]	£300m	Apr 2020	–	299	299
2.125% MTN	€500m	Nov 2020	466	423	432
5% Tesco Bank Retail Bond	£200m	Nov 2020	208	210	213
LIBOR + 0.65% Tesco Bank Bond[g]	£350m	May 2021	349	349	349
6.125% MTN	£900m	Feb 2022	924	896	923
5% MTN	£389m	Mar 2023	401	411	403
2.5% MTN	€750m	Jul 2024	689	640	637
3.322% LPI MTN[h]	£328m	Nov 2025	331	326	322
5.5457% Secured Bond[c][d]	£358m	Feb 2029	331	339	347
6.067% Secured Bond[c]	£200m	Feb 2029	190	190	189
LIBOR + 1.2% Secured Bond[c]	£50m	Feb 2029	32	31	30
6% MTN	£200m	Dec 2029	257	253	261
5.5% MTN	£200m	Jan 2033	259	255	263
1.982% RPI MTN[i]	£270m	Mar 2036	272	270	266
6.15% USD Bond[j]	$850m	Nov 2037	807	1,063	1,106
4.875% MTN	£173m	Mar 2042	171	175	171
5.125% MTN[j]	€356m	Apr 2047	330	522	515
5.2% MTN[j]	£225m	Mar 2057	222	275	275
Finance leases	–	–	106	103	99
			8,638	**9,433**	**11,130**

[a] This loan was repaid during the period.
[b] This bond was issued on 13 May 2015. The scheduled redemption date of this bond is April 2018.
[c] The bonds are secured by a charge over the property, plant and equipment held within the Tesco Property Limited Partnership, a 100% owned subsidiary of Tesco PLC. The carrying amounts of assets pledged as security for secured bonds is £785m (25 February 2017: £788m, 27 August 2016: £807m).
[d] This is an amortising bond which matures in February 2029. £16m (25 February 2017: £15m, 27 August 2016: £15m) is the principal repayment due within the next 12 months. The remainder is payable in quarterly instalments until maturity in February 2029.
[e] This bond was issued on 6 June 2014 and was redeemed on its scheduled redemption date of 19 May 2017.
[f] The 1% RPI Tesco Bank Retail Bond is redeemable at par, indexed for increases in the RPI over the life of the bond.
[g] This bond was issued on 6 June 2014. The scheduled redemption date of this bond is May 2019.
[h] 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%.
[i] The 1.982% RPI MTN is redeemable at par, indexed for increases in the RPI over the life of the MTN.
[j] During the period, the Group undertook a tender for outstanding bonds and as a result the following notional amounts were repaid early: 6.15% USD Bond Nov 2037 $300m, 5.125% MTN Apr 2047 €244m and 5.2% MTN Mar 2057 £55m.

Borrowing facilities

The Group has the following undrawn committed facilities available, in respect of which all conditions precedent had been met as at the reporting dates below:

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Expiring between one and two years	–	–	600
Expiring in more than two years	4,438	4,427	4,428
	4,438	**4,427**	**5,028**

The current period undrawn committed facilities include £1.8bn (25 February 2017: £1.8bn, 27 August 2016: £2.4bn) of bilateral facilities and a £2.6bn (25 February 2017: £2.6bn, 27 August 2016: £2.6bn) syndicated revolving credit facility. The facilities expire between 2019 and 2021.

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

Note 15 Financial instruments

The following table presents the Group's financial assets and liabilities that are measured at fair value at 26 August 2017, 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 (from prices) or indirectly (derived from prices) (Level 2); and
- inputs for the asset or liability that are not based on observable market data (from unobservable inputs) (Level 3).

At 26 August 2017	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	949	–	5	954
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	27	–	27
- Cross currency swaps	–	718	–	718
- Index-linked swaps	–	705	–	705
- Forward contracts	–	62	–	62
Total assets	**949**	**1,512**	**5**	**2,466**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(142)	–	(142)
- Cross currency swaps	–	(8)	–	(8)
- Index-linked swaps	–	(406)	–	(406)
- Forward contracts	–	(65)	–	(65)
Total liabilities	**–**	**(621)**	**–**	**(621)**
Total	**949**	**891**	**5**	**1,845**

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**

At 27 August 2016	Level 1 £m	Level 2 £m	Level 3 £m	Total £m
Assets				
Available-for-sale financial assets	954	–	123	1,077
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	36	–	36
- Cross currency swaps	–	1,272	–	1,272
- Index-linked swaps	–	797	–	797
- Forward contracts	–	136	–	136
Total assets	**954**	**2,241**	**123**	**3,318**
Liabilities				
Derivative financial instruments:				
- Interest rate swaps and similar instruments	–	(484)	–	**(484)**
- Cross currency swaps	–	(7)	–	**(7)**
- Index-linked swaps	–	(520)	–	**(520)**
- Forward contracts	–	(77)	–	**(77)**
Total liabilities	**–**	**(1,088)**	**–**	**(1,088)**
Total	**954**	**1,153**	**123**	**2,230**

There were no transfers between Levels 1 and 2 during the period (25 February 2017: no transfers, 27 August 2016: no transfers) and no transfers into or out of Level 3 fair value measurements (25 February 2017: no transfers, 27 August 2016: no transfers). During the period, the Group disposed of an investment in an unlisted entity. Refer to Note 18 for further details.

The Group's policy is to recognise transfers into and transfers out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

Carrying amounts versus fair values

The carrying amounts of the following financial assets and financial liabilities are a reasonable approximation of their fair value: cash and cash equivalents, short-term and other investments, other receivables, derivative financial assets/liabilities and deposits from banks (Tesco Bank).

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

	26 August 2017 £m		25 February 2017 £m		27 August 2016 £m	
	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m	Carrying Value £m	Fair Value £m
Assets						
Loans and advances to customers – Tesco Bank	10,762	10,921	9,961	10,178	9,262	9,437
Joint venture and associate loan receivables	138	155	137	158	137	164
Liabilities						
Short-term borrowings:						
-Amortised cost	(2,657)	(2,665)	(2,246)	(2,269)	(2,079)	(2,083)
-Bonds in fair value hedge relationships	(282)	(279)	(303)	(291)	(940)	(940)
Long-term borrowings:						
-Amortised cost	(7,439)	(7,931)	(7,977)	(8,414)	(9,873)	(10,361)
-Bonds in fair value hedge relationships	(1,093)	(1,001)	(1,353)	(1,248)	(1,158)	(900)
Customer deposits – Tesco Bank	(8,894)	(8,912)	(8,463)	(8,485)	(8,107)	(8,138)
Finance lease liabilities	(117)	(129)	(114)	(125)	(105)	(115)

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.

Note 16 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 pension deficit represents 96% of the Group deficit (25 February 2017: 98%, 27 August 2016: 96%).

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 closed to new members and future accrual.

During the period, Willis Towers Watson Limited, an independent actuary, carried out the latest triennial actuarial assessment of the Scheme as at 31 March 2017 using the projected unit credit method. At 31 March 2017, the actuarial deficit was £3,016m. The market value of the Scheme's assets was £13,141m and these assets represented 81% of the benefits that had accrued to members, after allowing for expected increases in pensions in payment.

Following this assessment, a plan to pay £285m a year, commencing April 2018 (2017: £270m), was agreed with the Trustee to fund the UK pension deficit and to meet the expenses of the Scheme. The expenses of the Scheme for the period were £16m (25 February 2017: £22m, 27 August 2016: £13m). In the event that the Pension Protection Fund levy for the Scheme exceeds £75m over three years, the Group has agreed to pay this excess amount to the Scheme over the following three years. The Pension Protection Fund Levy is included within the expenses of the Scheme. The Group has also agreed to increase the market value of Group property held as security in favour of the Scheme by £75m to £575m.

Summary of movements in Group deficit during the financial period

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

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Deficit in schemes at beginning of the period	**(6,621)**	**(3,175)**	**(3,175)**
Current service cost	(22)	(35)	(22)
Net pension finance cost	(81)	(113)	(58)
Contributions by employer	19	28	17
Additional contributions	129	248	111
Foreign currency translation	(8)	(12)	(18)
Return on plan assets greater than discount rate	552	2,689	2,642
Gains/(losses) on change of financial assumptions	1,770	(6,455)	(6,757)
Experience gains/(losses)	606	199	132
Gains on change of demographic assumptions	711	–	–
Transfer to disposal group classified as held for sale	–	5	5
Deficit in schemes at the end of the period	**(2,945)**	**(6,621)**	**(7,123)**
Deferred tax asset	506	1,122	1,270
Deficit in schemes at the end of the period, net of deferred tax	**(2,439)**	**(5,499)**	**(5,853)**

UK principal financial assumptions

Change in estimate

During the period the Group has taken actuarial advice and decided to change the model used for deriving the discount rate assumption for valuing the Scheme's liabilities under IAS 19.

The standard requires the discount rate to be determined by reference to market yields of high quality corporate bonds of suitable currency and term to the Scheme cash flows. The standard does not specify the approach that should be taken to extrapolate current market rates along the yield curve when there are no suitable corporate bonds of sufficient duration. As the term of the Scheme's liabilities is particularly long, the balance sheet is sensitive to the extrapolation approach adopted. Under the previous model, the extrapolation was in line with the movement in the gilt yield curve. The model now adopted by the Group extrapolates based on the trend observable in corporate bond yields. In the Group's view, this more appropriately reflects long-dated corporate bond yields for the cash flow profile of the Scheme's liabilities.

The impact of the change in discount rate model was to give a £1,966m gain on change of financial assumptions. This has been offset by market movements of £(196)m in the period.

UK principal financial assumptions

The major financial assumptions, on a weighted average basis, used by the actuaries to value the defined benefit obligation as at 26 August 2017 were as follows:

	26 August 2017 %	25 February 2017 %	27 August 2016 %
Discount rate	2.8	2.5	2.1
Price inflation	3.1	3.2	2.8
Rate of increase in deferred pensions*	2.1	2.2	1.8
Rate of increase in pensions in payment*			
Benefits accrued before 1 June 2012	2.9	3.0	2.6
Benefits accrued after 1 June 2012	2.2	2.2	1.8

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

If the discount rate assumption increased by 0.1% or 1.0%, the UK defined benefit obligation would decrease by approximately £393m or £3,458m respectively. If this assumption decreased by 0.1% or 1.0%, the UK defined benefit obligation would increase by approximately £410m or £4,834m respectively.

If the inflation assumption increased by 0.1% or 1.0%, the UK defined benefit obligation would increase by approximately £344m or £3,753m respectively. If this assumption decreased by 0.1% or 1.0%, the UK defined benefit obligation would decrease by approximately £311m or £2,917m respectively.

UK mortality assumptions

The Group, in consultation with an independent actuary, conducted an analysis of mortality trends under the Scheme as part of the triennial actuarial valuation process. Subsequent to this analysis, the Group adopted the following best estimate assumptions for the calculation of the IAS 19 pension liability as at 26 August 2017 for the main UK scheme.

The mortality assumptions used are based on tables that have been projected to 2017 with CMI 2016 improvements. In addition, the allowance for future mortality improvements from 2017 is in line with CMI 2016 improvements, 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 the reporting date +25 years.

	26 August 2017 Years	25 February 2017 Years
Retiring at reporting date at age 65:		
Male	22.3	23.2
Female	23.9	24.5
Retiring at reporting date +25 years at age 65:		
Male	23.7	25.5
Female	26.0	26.9

The base tables used in calculating the mortality assumptions are as follows:

Pensioners:
100% of the SAPS S2 normal male pensioners for male staff and 85% of SAPS S2 normal light male pensioners for male senior managers.
100% of the SAPS S2 all female pensioners for female staff and 85% of SAPS S2 all female pensioners for female senior managers.

Non-Pensioners:
105% of the SAPS S2 normal male pensioners for male staff and 87% of SAPS S2 normal light male pensioners for male senior managers.
98% of the SAPS S2 all female pensioners for female staff and 86% of SAPS S2 all female pensioners for female senior managers.

	At 25 February 2017 £m	Cash flow £m	Fair value and foreign exchange movements £m	Interest (charge)/ income £m	Other non-cash movements £m	Reclassifications of movements in net debt of the disposal group £m	At 26 August 2017 £m
Total Group							
Cash and cash equivalents	3,821	490	(3)	-	-	11	4,319
Short-term investments	2,727	(345)	6	-	-	-	2,388
Joint venture loans	137	1	-	-	-	-	138
Interest and other receivables	1	(8)	-	8	-	-	1
Bank and other borrowings	(11,712)	743	(219)	(26)	-	(73)	(11,287)
Interest payables	(167)	183	(2)	(195)	-	(3)	(184)
Finance lease payables	(114)	7	(5)	-	(5)	-	(117)
Net derivative financial instruments	893	(188)	167	7	-	-	879
Net derivative interest	28	(24)	-	8	-	-	12
Net debt of the disposal group	(65)	-	-	-	-	65	-
Total Group	**(4,451)**	**859**	**(56)**	**(198)**	**(5)**	**-**	**(3,851)**
Tesco Bank							
Cash and cash equivalents	789	(26)	-	-	-	-	763
Joint ventures loans	34	-	-	-	-	-	34
Bank and other borrowings	(1,440)	150	-	-	-	-	(1,290)
Interest payables	-	2	-	(2)	-	-	-
Net derivative financial instruments	(105)	-	7	-	-	-	(98)
Tesco Bank	**(722)**	**126**	**7**	**(2)**	**-**	**-**	**(591)**
Retail							
Cash and cash equivalents	3,032	516	(3)	-	-	11	3,556
Short-term investments	2,727	(345)	6	-	-	-	2,388
Joint ventures loans	103	1	-	-	-	-	104
Interest and other receivables	1	(8)	-	8	-	-	1
Bank and other borrowings	(10,272)	593	(219)	(26)	-	(73)	(9,997)
Interest payables	(167)	181	(2)	(193)	-	(3)	(184)
Finance lease payables	(114)	7	(5)	-	(5)	-	(117)
Net derivative financial instruments	998	(188)	160	7	-	-	977
Net derivative interest	28	(24)	-	8	-	-	12
Net debt of the disposal group	(65)	-	-	-	-	65	-
Net debt	**(3,729)**	**733**	**(63)**	**(196)**	**(5)**	**-**	**(3,260)**

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

	26 August 2017 £m	27 August 2016 £m
Net increase/(decrease) in cash and cash equivalents	490	280
Elimination of Tesco Bank movement in cash and cash equivalents	26	(217)
Retail cash movement in other net debt items		
Net increase/(decrease) in short-term investments	(345)	970
Net increase/(decrease) in joint venture loans	1	(16)
Net (increase)/decrease in borrowings and lease financing	600	(177)
Net cash flows from derivative financial instruments	(188)	(104)
Net interest paid on components of net debt	149	194
Change in net debt resulting from cash flow	**733**	**930**
Retail net interest charge on components of net debt	(196)	(240)
Retail fair value and foreign exchange movements	(63)	68
Retail other non-cash movements	(5)	-
(Increase)/decrease in net debt for the period	**469**	**758**
Opening net debt	(3,729)	(5,110)
Closing net debt	**(3,260)**	**(4,352)**

Note 18 Business combinations and disposals

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. Refer to Note 7 for further details.

On 30 June 2017, the Group disposed of its 8.8% shareholding in Lazada Group S.A. (Lazada) to Alibaba Group Holding Limited (Alibaba) for net cash consideration of $254m (£196m). The Group's investment in Lazada was recognised as an available-for-sale financial asset and classified as Level 3 in the fair value hierarchy. At the time of the disposal, the investment was revalued resulting in a gain of £70m recognised in the Group statement of comprehensive income. The available-for-sale reserve, including £54m recorded prior to the current period, was reclassified to the Group income statement resulting in a pre-tax profit on disposal of £124m. The disposal was subject to capital gains tax of £25m, which has been recognised as a reduction in the Group's deferred tax asset. The transaction has been classified as an 'Investment disposal' included within exceptional items in Note 4.

Note 19 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.

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 26 August 2017 is KRW575bn (£397m).

Operating lease commitments – Group as lessee

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

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Within one year	1,148	1,199	1,266
Greater than one year but less than five years	3,707	3,767	3,890
After five years	7,105	7,395	7,751
Total minimum lease commitments	**11,960**	**12,361**	**12,907**

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

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Greater than five years but less than ten years	3,092	3,161	3,310
Greater than ten years but less than fifteen years	2,098	2,225	2,335
After fifteen years	1,915	2,009	2,106
Total minimum lease commitments – after five years	**7,105**	**7,395**	**7,751**

The Group has used operating lease commitments discounted at 7% (25 February 2017: 7%, 27 August 2016: 7%) of £7,255m (25 February 2017: £7,440m, 27 August 2016: £7,771m) in its calculation of total indebtedness. 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 (25 February 2017: £2.9bn, 27 August 2016: £3.0bn) and the total undiscounted lease rentals, if they were to be incurred following the option exercise date, would be £2.6bn (25 February 2017: £2.6bn, 27 August 2016: £2.5bn) using current rent values, as shown below.

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

	26 August 2017 £m	25 February 2017 £m	27 August 2016 £m
Within one year	14	23	36
Greater than one year but less than five years	198	170	82
Greater than five years but less than ten years	717	709	667
Greater than ten years but less than fifteen years	660	670	661
After fifteen years	976	1,019	1,054
Total undiscounted contingent additional lease rentals	**2,565**	**2,591**	**2,500**
Total discounted contingent additional lease rentals at 7%	1,151	1,107	1,062

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.

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.

The key APMs that the Group has focused on in the period 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.
- Retail free cash flow: Retail free cash flow is net cash generated by the Retail business in the period from operating and investing activities with the exception of investing cash flows that increase/decrease items within Retail net debt.
- 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, net pension finance costs and fair value remeasurements on financial instruments: This relates to profit after tax before exceptional items from continuing operations, net pension finance costs and fair value remeasurements on financial instruments 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.

Changes to APMs

During the period, the following changes have been applied to the Group's APMs:

- Free cash flow has been redefined to include all cash flows from investing activities with the exception of investing cash flows that increase/decrease items within Group net debt. This reflects the cash available to shareholders. Previously, free cash flow only included capital expenditure cash flows within investing activities. Retail free cash flow is now considered a key APM.
- Diluted earnings per share from continuing operations before exceptional items and net pension finance costs has been replaced with diluted earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements on financial instruments. Fair value remeasurements are now excluded as they are impacted by changes to credit risk and various market indices, which can fluctuate significantly. Additionally other earnings per share measures before exceptional items are no longer considered APMs and have been removed.

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 26 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.
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, net pension finance costs and fair value remeasurements on financial instruments	Profit before tax	• Exceptional items • Net pension finance costs (IAS 19) • Fair value remeasurements on financial instruments (IAS 39)	Note 9	• This measure excludes exceptional items, the net finance costs of the defined benefit pension deficit and fair value measurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly.
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, net pension finance costs and fair value remeasurements on financial instruments	Finance costs	• Exceptional items • Net pension finance costs (IAS 19) • Fair value remeasurements on financial instruments (IAS 39)	Note 5	• Total finance costs before exceptional items, net pension finance costs and fair value remeasurements on financial instruments is the net finance costs adjusted for non-recurring one off items, net pension finance costs and fair value remeasurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly.

APM	Closest equivalent IFRS measure	Adjustments to reconcile to IFRS measure	Note reference for reconciliation	Definition and purpose
Profit measures continued				
Earnings per share from continuing operations before exceptional items, net pension finance costs and fair value remeasurements on financial instruments	Earnings per share	• Exceptional items • Discontinued operations • Net pension finance costs (IAS 19) • Fair value remeasurements on financial instruments (IAS 39)	Note 9	• This relates to profit after tax before exceptional items from continuing operations, net pension finance costs and fair value remeasurements attributable to owners of the parent divided by the weighted average number of ordinary shares in issue during the financial period. • It excludes net pension finance costs and fair value remeasurements on financial instruments. Net pension finance costs are impacted by corporate bond yields, which can fluctuate significantly and are reset each year based on often volatile external market factors. Fair value remeasurements are impacted by changes to credit risk and various market indices, which can fluctuate significantly.
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, net pension finance costs and fair value remeasurements on financial instruments	Effective tax rate	• Exceptional items and their tax impact • Net pension finance costs (IAS 19) and their tax impact • Fair value remeasurements on financial instruments (IAS 39) and their tax impact	Note 6	• Effective tax rate before exceptional items, net pension finance costs and fair value remeasurements on financial instruments is calculated as total income tax credit/(charge) excluding the tax impact of exceptional items, net pension finance costs and fair value remeasurements divided by the profit before tax before exceptional items, net pension finance costs and fair value remeasurements.
Balance sheet measures				
Net debt	Borrowings less cash and related hedges	• Net debt from Tesco Bank	Note 17	• 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 8	• Total indebtedness is the net debt plus the IAS19 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	• Net cash generated from/(used in) investing activities, excluding increases/decreases to items included within Group net debt.	Note 2	• Free cash flow includes all cash flows from operating and investing activities with the exception of investing cash flows that increase/decrease items within Group net debt. This measure reflects the cash available to shareholders.
Retail free cash flow	Cash generated from operating activities	• Tesco Bank operating cash flow • Net cash generated from/(used in) investing activities, excluding increases/decreases to items included within Retail net debt.	Note 2	• Retail free cash flow includes all cash flows from operating and investing activities for the Retail business with the exception of investing cash flows that increase/decrease items within Retail net debt. This measure reflects the cash available to shareholders.

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

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 groups 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 closing share price at period-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.

We have been engaged by the Company to review the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 August 2017 which comprises the Group income statement, the Group statement of comprehensive income, the Group balance sheet, the Group statement of changes in equity, the Group cash flow statement and related notes 1 to 20. We have read the other information contained in the half-yearly financial report and considered whether it contains any apparent misstatements or material inconsistencies with the information in the condensed set of financial statements.

This report is made solely to the Company in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board. Our work has been undertaken so that we might state to the Company those matters we are required to state to it in an independent review 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, for our review work, for this report, or for the conclusions we have formed.

Directors' responsibilities

The half-yearly financial report is the responsibility of, and has been approved by, the Directors. The Directors are responsible for preparing the half-yearly financial report in accordance with the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

As disclosed in note 1, the annual financial statements of the Group are prepared in accordance with IFRSs as adopted by the European Union. The condensed set of financial statements included in this half-yearly financial report has been prepared in accordance with International Accounting Standard 34 "Interim Financial Reporting" as adopted by the European Union.

Our responsibility

Our responsibility is to express to the Company a conclusion on the condensed set of financial statements in the half-yearly financial report based on our review.

Scope of review

We conducted our review in accordance with International Standard on Review Engagements (UK and Ireland) 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Auditing Practices Board for use in the United Kingdom. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with International Standards on Auditing (UK and Ireland) and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the condensed set of financial statements in the half-yearly financial report for the 26 weeks ended 26 August 2017 is not prepared, in all material respects, in accordance with International Accounting Standard 34 as adopted by the European Union and the Disclosure and Transparency Rules of the United Kingdom's Financial Conduct Authority.

Deloitte LLP

Statutory Auditor

London, United Kingdom

3 October 2017

Registrar and shareholding enquiries

If you have any administrative enquiries about your holding of Tesco PLC shares (other than ADRs) please contact:
Equiniti Limited
Aspect House
Spencer Road
Lancing
West Sussex
BN99 6DA
Telephone 0371 384 2977

Investor relations

Investor relations department
Tesco PLC
Tesco House
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1GA
Telephone 01707 912922

Secretary and registered office

Mr Robert Welch
Tesco PLC
Tesco House
Shire Park
Welwyn Garden City
Hertfordshire
AL7 1GA
Telephone 07793 222569
LEI Number: 2138002P5RNKC5W2JZ46

	2017
Interim dividend: ex-dividend date	12 October
Interim dividend: record date	13 October
Interim: DRIP final election date	3 November
Interim dividend: payment date	24 November

	2018
Financial year-end	24 February
Preliminary results announced*	11 April

* Please note that this date is provisional and subject to change

Appendix 1

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

	1H 2016/17	2H 2016/17	FY 2016/17	1Q 2017/18	2Q 2017/18	1H 2017/18
UK & ROI	**1.2%**	**1.5%**	**1.4%**	**2.0%**	**2.5%**	**2.2%**
UK	0.7%	0.8%	0.7%	1.6%	2.1%	1.8%
ROI	11.9%	15.6%	13.8%	9.2%	10.0%	9.6%
Central Europe	**11.6%**	**15.7%**	**13.7%**	**8.9%**	**9.5%**	**9.2%**
Asia	**10.1%**	**24.1%**	**17.1%**	**10.3%**	**(2.2)%**	**3.9%**
Tesco Bank	**5.3%**	**6.6%**	**6.0%**	**4.8%**	**4.8%**	**4.8%**
Group	**3.3%**	**5.2%**	**4.3%**	**3.6%**	**2.9%**	**3.3%**

Appendix 2

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

	1H 2016/17	2H 2016/17	FY 2016/17	1Q 2017/18	2Q 2017/18	1H 2017/18
UK & ROI	**0.6%**	**0.6%**	**0.6%**	**1.4%**	**2.1%**	**1.8%**
UK	0.7%	0.7%	0.7%	1.6%	2.1%	1.8%
ROI	(0.1)%	(0.9)%	(0.5)%	0.0%	2.1%	1.1%
Central Europe	**1.8%**	**(0.7)%**	**0.5%**	**(1.2)%**	**(0.6)%**	**(0.9)%**
Asia	**4.9%**	**3.2%**	**4.0%**	**(3.1)%**	**(8.9)%**	**(6.0)%**
Tesco Bank	**5.3%**	**6.6%**	**6.0%**	**4.8%**	**4.8%**	**4.8%**
Group	**1.3%**	**0.9%**	**1.1%**	**0.8%**	**0.7%**	**0.7%**

* These results have been reported on a continuing operations basis and exclude the results from our operations in Turkey. Growth rates are all based on comparable days.

Appendix 3

Country detail

	Revenue (exc. VAT, inc. fuel)*			
	Local currency (m)	£m	Average exchange rate	Closing exchange rate
UK	21,014	21,014	1	1
ROI	1,234	1,077	1.146	1.085
Czech Republic	21,364	703	30.39	28.32
Hungary	287,993	814	353.8	330.9
Poland	5,163	1,062	4.862	4.615
Slovakia	701	612	1.146	1.085
Malaysia	2,120	383	5.536	5.482
Thailand	93,173	2,137	43.60	42.72

* Excludes franchising revenue within Central Europe of £19m, which is not allocated to individual countries.

UK sales area by size of store

Store size (sq ft)	August 2017			February 2017		
	No. of stores	Million sq ft	% of total sq ft	No. of stores	Million sq ft	% of total sq ft
0 – 3,000	2,506	5.2	13.1	2,507	5.2	13.1
3,001 – 20,000	289	3.4	8.6	288	3.4	8.6
20,001 – 40,000	283	8.2	20.5	283	8.2	20.5
40,001 – 60,000	182	9.4	23.5	182	9.4	23.5
60,001 – 80,000	120	8.6	21.5	120	8.6	21.5
80,001 – 100,000	45	4.2	10.6	45	4.2	10.6
Over 100,000	8	0.9	2.2	8	0.9	2.2
Total*	**3,433**	**39.9**	**100.0**	**3,433**	**39.9**	**100.0**

* Excludes franchise stores.

Actual Group space – store numbers[a]

	2016/17 year end	Openings	Closures/ disposals	Net gain/ reduction[b]	As at 26 August 2017	Repurposing/ extensions
Extra	252	-	-	-	252	2
Superstore	479	1	-	1	480	-
Metro	176	-	-	-	176	-
Express	1,740	5	(1)	4	1,744	-
Dotcom only	6	-	-	-	6	-
Total Tesco	**2,653**	**6**	**(1)**	**5**	**2,658**	**2**
One Stop[c]	780	4	(9)	(5)	775	-
UK[c]	**3,433**	**10**	**(10)**	**-**	**3,433**	**2**
ROI	**148**	**1**	**-**	**1**	**149**	**-**
UK & ROI[c]	**3,581**	**11**	**(10)**	**1**	**3,582**	**2**
Czech Republic[c]	198	-	(2)	(2)	196	2
Hungary	206	-	-	-	206	3
Poland	429	-	(5)	(5)	424	3
Slovakia	154	-	(2)	(2)	152	1
Central Europe[c]	**987**	**-**	**(9)**	**(9)**	**978**	**9**
Malaysia	71	1	(1)	-	71	2
Thailand	1,914	32	(2)	30	1,944	9
Asia	**1,985**	**33**	**(3)**	**30**	**2,015**	**11**
Group[c]	**6,553**	**44**	**(22)**	**22**	**6,575**	**22**
UK (One Stop)	*158*	*11*	*(3)*	*8*	*166*	-
Czech Republic	*98*	-	*(1)*	*(1)*	*97*	-
Franchise stores	*256*	*11*	*(4)*	*7*	*263*	-

[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.

Actual Group space – '000 sq ft[a]

	2016/17 year end	Openings	Closures/ disposals	Repurposing/ extensions[c]	Net gain/ reduction	As at 26 August 2017
Extra	17,748	-	-	(16)	(16)	17,732
Superstore	14,075	12	-	-	12	14,087
Metro	1,993	-	-	-	-	1,993
Express	4,054	11	(2)	-	9	4,063
Dotcom only	716	-	-	-	-	716
Total Tesco	**38,586**	**23**	**(2)**	**(16)**	**5**	**38,591**
One Stop[b]	1,269	7	(16)	-	(9)	1,260
UK[b]	**39,855**	**30**	**(18)**	**(16)**	**(4)**	**39,851**
ROI	**3,543**	**22**	**-**	**-**	**22**	**3,565**
UK & ROI[b]	**43,398**	**52**	**(18)**	**(16)**	**18**	**43,416**
Czech Republic[b]	5,479	-	(10)	(82)	(92)	5,387
Hungary	6,896	-	-	(40)	(40)	6,856
Poland	9,578	-	(84)	(88)	(172)	9,406
Slovakia	3,859	-	(72)	(28)	(100)	3,759
Central Europe[b]	**25,812**	**-**	**(166)**	**(238)**	**(404)**	**25,408**
Malaysia	4,005	32	(60)	(64)	(92)	3,913
Thailand	15,522	159	(6)	(92)	61	15,583
Asia	**19,527**	**191**	**(66)**	**(156)**	**(31)**	**19,496**
Group[b]	**88,737**	**243**	**(250)**	**(410)**	**(417)**	**88,320**
UK (One Stop)	*212*	*14*	*(4)*	-	*10*	*222*
Czech Republic	*92*	-	*(1)*	-	*(1)*	*91*
Franchise stores	*304*	*14*	*(5)*	-	*9*	*313*

[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[a]

	As at 26 August 2017	Openings	Closures/ disposals	Repurposing/ extensions	Net gain/ reduction	2017/18 year end
Extra	17,732	-	-	(81)	(81)	17,651
Superstore	14,087	60	-	-	60	14,147
Metro	1,993	-	(36)	-	(36)	1,957
Express	4,063	45	(7)	-	38	4,101
Dotcom only	716	-	-	-	-	716
Total Tesco	**38,591**	**105**	**(43)**	**(81)**	**(19)**	**38,572**
One Stop[b]	1,260	24	(11)	-	13	1,273
UK[b]	**39,851**	**129**	**(54)**	**(81)**	**(6)**	**39,845**
ROI	**3,565**	**4**	**-**	**1**	**5**	**3,570**
UK & ROI[b]	**43,416**	**133**	**(54)**	**(80)**	**(1)**	**43,415**
Czech Republic[b]	5,387	-	(154)	(175)	(329)	5,058
Hungary	6,856	-	-	(19)	(19)	6,837
Poland	9,406	-	(68)	(57)	(125)	9,281
Slovakia	3,759	-	(50)	-	(50)	3,709
Central Europe[b]	**25,408**	**-**	**(272)**	**(251)**	**(523)**	**24,885**
Malaysia	3,913	32	-	(115)	(83)	3,830
Thailand	15,583	251	-	(189)	62	15,645
Asia	**19,496**	**283**	**-**	**(304)**	**(21)**	**19,475**
Group[b]	**88,320**	**416**	**(326)**	**(635)**	**(545)**	**87,775**
UK (One Stop)	*222*	*22*	*(4)*	-	*18*	*240*
Czech Republic	*91*	*2*	*(2)*	-	-	*91*
Franchise stores	*313*	*24*	*(6)*	-	*18*	*331*

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

Tesco Bank income statement

	1H 2017/18[a] £m	1H 2016/17[a] £m
Revenue		
Interest receivable and similar income	331	301
Fees and commissions receivable	196	202
	527	**503**
Direct costs		
Interest payable	(85)	(89)
Fees and commissions payable	(12)	(12)
	(97)	**(101)**
Gross profit	**430**	**402**
Other expenses:		
Staff costs	(86)	(83)
Premises and equipment	(38)	(37)
Other administrative expenses	(109)	(108)
Depreciation and amortisation	(41)	(44)
Provisions for bad and doubtful debts	(70)	(41)
Operating profit before exceptional items	**86**	**89**
Restructuring and other exceptional items	-	(67)
Operating profit[b]	**86**	**22**
Net finance costs: movements on derivatives and hedge accounting	1	(3)
Net finance costs: interest	(2)	(2)
Share of profit/(loss) of joint venture	8	5
Deduct: management charges	-	-
Profit before tax	**93**	**22**

[a] These results are for the six months ended 31 August 2017 and the previous period comparison is made with the six months ended 31 August 2016.
[b] Tesco Bank operating profit as per Bank income statement excluding ATM net income segmental adjustment.